The International Finance Facility for Immunisation[1]

Report of the Trustees and Financial Statements

For the year ended 31 December 2008

[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
For the year ended 31 December 2008

The trustees are pleased to present their report with the financial statements of the charity for the financial year 2008.

Legal and Administrative Information

Trustees (appointed on 26 June 2006)

Michèle Boccoz (resigned as of 16 October 2008)
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
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London EC1Y 8YY

Auditors:

KPMG
1 Forest Gate
Brighton Road
Crawley RH11 9 PT

Treasury Manager:

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

Company registration number:

5857343

Charity registration number:

1115413

Table of Contents

STATEMENT OF TRUSTEES RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The trustees are responsible for preparing the Trustees' Annual 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 in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the charitable company and of the excess of expenditure over income for that period.

In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in its activities.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charitable company and to prevent and detect fraud and other irregularities.

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

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 UK Companies Act 1985. IFFIm is governed by its Memorandum and Articles of Association dated 26 June 2006. Amended Articles of Association were adopted on 22 December 2008.

Financial Overview

IFFIm's financial base consists of irrevocable and legally binding grants from its sovereign government sponsors ("**Grantors**"). As at 31 December 2008, 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 bonds 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 bonds and any other borrowings. As at 31 December 2008, IFFIm had raised funds through two bond issues, with an aggregate principal USD equivalent amount of approximately USD 1,255 million (as adjusted for fair value measurement), and had disbursed a total of USD 1,226 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 grantor payments, payment of bond obligations and disbursements to the GFA, through the use of interest and currency swaps. Payments from the Grantors have been swapped into a zero-coupon floating rate U.S. dollar basis, and at issuance, IFFIm's bond issues in November 2006 and March 2008 were swapped into U.S. dollar floating rate liabilities.

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 AAA 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 2008, the prudential minimum was estimated at approximately USD 28.5 million and the value of IFFIm's liquid assets (as defined by the Investment Policy) was USD 146 million. As at 31 December 2007 the minimum was estimated at approximately USD 49 million and the value of IFFIm's liquid assets was USD 98 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 AAA by Standard & Poor's and Fitch Ratings; and Aaa by Moody's Investor Service.

Subsequently, on 20 May 2009, Standard & Poor's Ratings Service (S&P) revised its outlook on IFFIm from stable to negative, while affirming its AAA rating. The revised outlook reflected the deterioration in the credit ratings and outlook on several Grantors: South Africa, Spain and the United Kingdom. S&P lowered Spain's long-term foreign currency sovereign rating to AA+ from AAA; lowered South Africa's BBB+ to negative from stable; and lowered the United Kingdom's AAA long-term foreign currency sovereign rating from stable to negative. S&P noted in affirming IFFIm's AAA ratings that its largest Grantors, the United Kingdom and France, remain rated AAA. In affirming IFFIm's AAA rating, S&P also cited the charity's conservative financial policies, its highly professional financial management and its politically compelling mandate.

IFFIm's Financial Base

As at 31 December 2008, IFFIm's financial base consisted of irrevocable and legally binding grants from the Grantors, and the aggregate net present value of the grants, after year end fair value adjustment (see Financial Statements, Note 3), was USD 2,741 million.

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

Grantor	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	20 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 152 million during 2008 and USD 73 million during 2007. Inception-to-date payments received from Grantors total USD 245 million.

Conditionality of Grant Payment Amount

The grant payments due from each Grantor will be reduced if, on a specified date prior to the date each payment is due, the International Monetary Fund ("**IMF**") declares that any of the countries named in the list below (each, a Specified Country) is in protracted arrears in meeting any financial obligation to the IMF (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;

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:

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

[2] Acting through Agence Française de Devélopment.

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 2008, Somalia, Sudan and Zimbabwe were in protracted arrears to the IMF. In March 2008, the IMF announced that Liberia had cleared its arrears to the IMF. Thus, the Reduction Amount was 4% during January and February 2008, and 3% beginning March through December 2008.

Structure, Governance and Management

During the financial year ending 31 December 2008, IFFIm had no employees and was managed by its Trustees. IFFIm outsourced its principal activities to two organisations, GAVI and the International Bank for Reconstruction and Development ("**IBRD**"), otherwise known as the World Bank. GAVI was responsible for all administrative support and operational functions related to the immunisation, health systems strengthening and vaccine procurement programmes for which IFFIm provides funding. IBRD, in its capacity as IFFIm's Treasury Manager, provided all treasury and related accounting services.

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 2008, the directors of IFFIm, and their principal positions outside of IFFIm, were:

- Alan R. Gillespie: (Chairman of the IFFIm Board): former Group 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) Ms. Boccoz resigned on 16 October 2008 ;
- 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, (Sri Lanka); and
- Arunma Oteh: Vice President, Corporate Management, African Development Bank, Tunis (Tunisia).

All trustees serve on a purely voluntary basis and have a duty to avoid conflicts of interest. With the resignation of Michele Boccoz, the Board immediately began a search for new trustees and appointed two new trustees 1 June 2009, as described in greater detail under subsequent events below.

The GAVI Fund was initially the sole member of the charity. Effective 1 August 2008, the GAVI Alliance became the second member. Both the trustees and the members of the charity have the power to appoint new trustees. 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. Details of trustee expenses are disclosed in Note 11 to the financial statements.

IFFIm 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 was initially created as a non-juridical alliance of public and private sector organisations, institutions and governments, including the Bill & Melinda Gates Foundation, UNICEF, the World Bank, the World Health Organisation ("**WHO**"), developing country governments, grantor country governments, vaccine manufacturers, civil society organisations and research and technical health institutes. A secretariat based in Geneva, ("**GAVI Secretariat**"), coordinates GAVI Alliance activities. During a joint meeting on 29-30 October 2008, the governing bodies of the GAVI Alliance, the GAVI Fund and the GAVI Foundation (a Swiss non-profit foundation organised to assist in coordinating activities of the GAVI Alliance) agreed to centralise governance and operations of the three entities, under the GAVI Alliance brand, using the GAVI Foundation's legal platform.

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 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 grantor promises to IFFIm. The assignment is in consideration of 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 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 organisation 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 GFA; assessing on a periodic basis the funding required by IFFIm to meet its expected obligations in respect of programmes previously approved by it, as well as in respect of outstanding borrowings; providing account administration services; recommending funding, risk management, investment management and liquidity policies for IFFIm and, upon approval of such policies, executing all of IFFIm's financial transactions contemplated thereunder; and advising IFFIm on all aspects of its borrowing transactions. These duties are set out in a *Treasury Management Agreement*, entered into by the World Bank and IFFIm (the "**Treasury Management Agreement**").

The *Finance Framework Agreement*, entered into by IFFIm, the Grantors, the GAVI Fund, the GAVI Fund Affiliate and the Treasury Manager, (the "**Finance Framework Agreement**"), 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

During financial year 2008, IFFIm followed a comprehensive procedure for approving programmes for funding, which included the following:

- Specified Countries, or for non-country-specific programmes, the GAVI Alliance, in conjunction with implementing partners, applied for financial support for immunisation, health systems strengthening and/or vaccine procurement programmes;

- The GAVI Alliance Secretariat screened each application for basic completeness and eligibility for support prior to submission for review to an independent review committee ("**IRC**") made up of experts in the field of vaccines and immunisation;

- The IRC either recommended that an application be approved (conditionally or unconditionally) or rejected. Next, the GAVI Alliance board considered the application in light of the IRC's recommendation and report, and determined whether to issue an approval and application for funding to the GAVI Fund;

- The GAVI Fund Board considered each application for funding and reviewed 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 should 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 decided to make a request to the GFA for funding through disbursements from IFFIm, the GFA Board considered such request and, if it approved, issued a request for funding to IFFIm;

- IFFIm's Board considered each request for funding in light of, among other things, its charitable status and the provisions of its Memorandum and Articles of Association. It also considered, in consultation with the Treasury Manager, various parameters upon its borrowing, including the maximum cumulative amount of programmes it agrees 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 AAA by at least two of Fitch Ratings, Moody's Investors Service and Standard & Poor's.

- Once IFFIm approves the funding request, the programme becomes an Approved Programme.

Objectives and principal activities for the public benefit

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"*

Every year in poorer countries, some 24 million children miss out on vaccinations against the most common diseases, making them vulnerable to sickness, disability and death. Approximately 2.3 million children die from easily-preventable diseases such as diphtheria, pneumonia, diarrhoea and yellow fever. IFFIm exists to accelerate the availability and increase the predictability of funds for immunisation, vaccine procurement and health systems strengthening programmes.

Using the international capital markets, IFFIm borrows funds against legally-binding long-term pledges made by the Grantors. The funds raised by IFFIm are used by the GAVI Alliance to reduce the number of vaccine-preventable deaths and illness among children under 5. The GAVI Alliance provides funds to purchase and deliver vaccines and strengthen health systems in over 70 of the poorest countries in the world.

By 31 December 2008, the Grantors had committed USD 2,986 million after adjustments for value measurement, of which USD 245 million had been paid pursuant to the Grantor grant agreements. Approved programmes as of 31 December 2008 were USD 1,372 million for which IFFIm had raised financing of USD 1,255 million, as adjusted for fair value, of which USD 1,226 million had been disbursed to GFA.

The resources raised by IFFIm allow GAVI to mitigate the timing gap between the receipt of Grantor payments and the disbursement by GFA for programmes. In doing so, IFFIm helps to save lives over the long term by providing a reliable and predictable flow of funding closely matching that of programme commitments.

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.

Reference has been made to the Charity Commission's general guidance on public benefit when planning IFFIm's future activities and how these activities further the objectives of the charity.

Principal Activities of IFFIm in 2008

Funding

After IFFIm's inaugural issuance of bonds under its Global Debt Issuance Programme in 2006 with the principal amount of USD 1 billion, IFFIm issued its second series of bonds on 18 March 2008 to the Japanese retail investor market in a principal amount of ZAR 1.7 billion (equivalent to USD 214 million before currency swap gains/losses, bringing the total to USD

223 million). Net proceeds from the second bond issuance were USD 210 million, for total IFFIm financing of USD 1,208 million from inception to 31 December 2008.

The net proceeds from both bond issuances are summarised below:

	Total Borrowing as of 31 Dec 2008	Inaugral Issuance in 2006	ZAR Issuance in 2008
Bond proceeds (unadjusted for fair value)	$ 1,214,348,750	$ 1,000,000,000	$ 214,348,750
Less: Discount on bond	(904,305)	(840,000)	(64,305)
Net bond proceeds	1,213,444,445	999,160,000	214,284,445
Less: Bond issuance costs	(4,483,167)	(1,000,000)	(3,483,167)
Less: Other financing costs	(942,167)	(612,959)	(329,208)
Cash inflows from bonds	1,208,019,111	**$ 997,547,041**	**$ 210,472,070**
Grantor payments received	244,944,630		
Less: Cash required for minimum liquidity	(28,500,000)		
Total cash available for operations and programmes	**$ 1,424,463,741**		
Total approved programmes	$ 1,372,262,772		
Disbursements for approved programmes	(1,225,656,284)		
Balance due on remaining programmes to GFA to be paid in 2009	**$ 146,606,488**		

Disbursements to the GAVI Fund Affiliate

From 2006 to 2008, IFFIm has approved total aggregate disbursements to GFA in the amount of USD 1,372 million and actually disbursed USD 1,226 million. At 31 December 2007, IFFIm-approved disbursements to GFA were USD 1,047 million, of which USD 953 million had been disbursed. The following table sets out the immunisation, health systems strengthening and vaccine procurement programmes approved by IFFIm during 2006 through 2008 and the corresponding disbursements that took place during the same timeframe. Page 19, 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/Refunds made by GFA (USD)		
	2006-2007	2008	Total	2006-2007	2008	Total	2006-2007	2008	Total
Yellow fever stockpile	57,140,000	-	57,140,000	57,137,000	-	57,137,000	48,266,322	5,813,316	54,079,638
Polio vaccine eradication	191,280,000	-	191,280,000	191,280,000	-	191,280,000	191,280,000	-	191,280,000
Measles mortality reduction	139,000,000	-	139,000,000	139,000,000	-	139,000,000	139,000,000	-	139,000,000
Maternal & neonatal tetanus elimination	61,620,000	-	61,620,000	52,862,285	8,762,687	61,624,972	49,990,083	11,480,446	61,470,529
Country specific programmes	303,440,159	244,832,560	548,272,719	218,137,063	172,862,630	390,999,693	164,273,174	106,821,139	271,094,313
Pentavalent procurement guarantee	181,050,000	-	181,050,000	181,050,000	-	181,050,000	181,050,000	(3,632,000)	177,418,000
Health system strengthening	113,612,553	80,287,500	193,900,053	113,551,803	91,012,816	204,564,619	88,284,303	105,554,500	193,838,803
Total (USD)	1,047,142,712	325,120,060	1,372,262,772	953,018,151	272,638,133	1,225,656,284	862,143,882	226,037,401	1,088,181,283

Funded Programmes

Country Specific Programmes:

National governments apply for immunisation, related health system strengthening and vaccine procurement programmes by submitting applications to GAVI. During 2008, IFFIm funds supported the following GAVI programmes:

New and Underused 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. During 2008, IFFIm funds supported vaccines against the following diseases (The following information is found on the WHO web site at http://www.who.int/mediacentre/factsheets):

Hepatitis B

- A viral infection that attacks the liver and can cause both acute and chronic disease.
- About 2 billion people worldwide have been infected with the virus and about 350 million live with chronic infection. An estimated 600,000 persons die each year due to the acute or chronic consequences of hepatitis B.
- About 25% of adults who become chronically infected during childhood later die from liver cancer or cirrhosis (scarring of the liver) caused by the chronic infection.

Haemophilus influenza type b or Hib

- A bacterium estimated to be responsible for some three million serious illnesses and an estimated 386,000 deaths per year, mainly through meningitis and pneumonia. Almost all victims are children under the age of five, with those between four and 18 months of age especially vulnerable.
- In developing countries, where the vast majority of Hib deaths occur, pneumonia accounts for a larger number of deaths than meningitis. However, Hib meningitis is also a serious problem in such countries with mortality rates several times higher than seen in developed countries; it leaves 15 to 35% of survivors with permanent disabilities such as mental retardation or deafness.

Yellow Fever

- A viral disease that has caused large epidemics in Africa and the Americas. Infection causes a wide spectrum of disease, from mild symptoms to severe illness and death. Although an effective vaccine has been available for 60 years, the number of people infected over the last two decades has increased and yellow fever is now a serious public health issue again.

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

Immunisation 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

Health System Strengthening ("**HSS**"). The objective of GAVI HSS 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 HSS 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

Tactical Investments

For the years 2006 through 2008, IFFIm disbursements were allocated to a number of one-time tactical investments in disease prevention and control through GAVI partners (such as UNICEF and WHO). Each investment targets a disease which is constraining progress towards the Millennium Development global goals of improved child and maternal health. The aim is to provide immediate acceleration to partners' efforts to combat mortality and illness. IFFIm funding has benefitted the Measles Initiative, the Yellow Fever Initiative, the Global Polio Eradication Campaign, and the Maternal and Neonatal Tetanus Elimination Campaign.

Yellow Fever: GAVI Alliance-supported stockpiles, such as the yellow fever vaccine 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. IFFIm-derived funds were awarded to the programme division of UNICEF for programme management, risk assessment and implementation of preventative campaigns in selected countries, to UNICEF Supply Division for the purchase of bundled yellow fever vaccine and to WHO for risk assessment and surveillance.

IFFIm funds have been used in both outbreak response and preventative campaigns. Preventive campaigns are being carried out in the 12 west African countries most at risk. WHO predicts that this work will prevent approximately 687,000 deaths by 2050 in these high-risk countries. Additionally, more than 6 million doses of bundled vaccines have been dispatched from the global emergency stockpile to 8 GAVI eligible countries to fight yellow fever outbreaks.

Polio: The IFFIm 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. As of 31 December 2008, IFFIm-derived funds have been used to fund SIAs in 16 countries across three endemic regions and helped to immunise more than 148 million children under the age of five. Funds were also used to support surveillance activities and technical assistance in GAVI eligible countries.

Measles: Measles kills nearly 200,000 people globally, and of those, many are children under the age of five. The Measles Initiative is a partnership between global health and development agencies to address this major childhood disease. Acting on evidence that early robust action is most effective, USD 139 million of IFFIm support has gone to the Measles Initiative to strengthen measles campaigns. This allowed rapid scale-up, helping the measles initiative to reach more than 135 million children in 37 countries in 2007 and 157 million children in 26 countries in 2008 with life-saving measles vaccine. 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: Maternal and neonatal tetanus (MNT) kills the poorest of the poor in the developing world. However, global MNT elimination is possible through vaccination. IFFIm provided USD 11.5 million in 2008 and 50 million for maternal and neonatal tetanus elimination. These resources constitute a 60% increase over funds raised for the initiative from other sources between 1999 and 2006. The effect has been a doubling, to more than 24 million, of the number of women targeted with tetanus vaccine in 2007 and 37 million in 2008.

Pentavalent Payment Guarantee: A single shot of Pentavalent vaccine immunises against five infectious diseases, – diphtheria, tetanus, pertussis, Hib and hepatitis B. The easy-to-administer liquid formulation pentavalent vaccine has played a significant part in the increase in uptake of the Hib and hepatitis B vaccines. There are also beneficial impacts on ease of delivery of vaccines to children, as well as savings in the cost of equipment, delivery, and disposal programmes. A deposit payment for pentavalent vaccine was approved and funded in 2006. This provided for the pre-funding of a procurement account that will be used by UNICEF to purchase pentavalent liquid vaccine over a three year period (2007–2009). As pentavalent vaccine is purchased over that period, UNICEF will draw down on these funds pursuant to its procurement arrangements with GAVI. The deposit payment is being used to stimulate increased demand for such combination vaccines which are not currently produced in sufficient quantities, specifically the new "5–in–1" (pentavalent) vaccine. Availability of IFFIm funding over the next decade will secure and stabilise the GAVI Alliance's access and capacity to supply pentavalent vaccine in the future. In doing so, new manufacturers will be incentivised to enter the market in the coming years and to further reduce the price.

Further details may be found at:
http://www.gavialliance.org/vision/policies/new_vaccines/index.php

Risk Management

The major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage these risks as required by the Charities SORP.

Programme risk management

Programme risks may include: i) lack of compliance by grant recipients with Grantor grant agreements, the Finance Framework Agreement, or the Procedures Memorandum (contained in the Finance Framework Agreement); ii) the misuse of funds; or iii) unmet programme objectives. Compliance with grant conditions and use of funds criteria are assured by management controls put in place by GAVI, and by financial and management controls put in place at IBRD and the GAVI Fund, which control the IFFIm funds disbursement process.

Programme performance 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 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 below.

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 IRC 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: (i) market risk; (ii) credit risk; and (iii) 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, Grantor pledges and borrowings not denominated in U.S. dollars are hedged into U.S. dollars on a floating-rate basis. On 2 October 2006, on 13 March 2007 and on 7 December 2007, upon the assignment of the relevant 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 stayed at its current level, and that there were no Grantor defaults. Also, at issuance, IFFIm's bond issues in November 2006 and March 2008 were swapped simultaneously on a back-to-back basis into U.S. dollar 3-month average LIBOR floating-rate liabilities.

The notional amounts and fair values of interest rate and currency swaps as at 31 December 2008 and 31 December 2007 were as follows:

	2008		2007	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency and interest rate swaps related to contribution receivable	$ 4,357,709,929	$ (20,897,030)	$ 5,285,337,817	$ (143,933,988)
Currency and interest rate swaps related to borrowings	1,180,217,000	61,563,623	1,000,000,000	37,171,152
Total receivable (payable) for derivatives		**$ 40,666,593**		**$ (106,762,836)**

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, the IFFIm's Trustees, 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 2008, IFFIm's Gearing Ratio stood at approximately 33%, as against a Gearing Ratio Limit of 67%. 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 2008, 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 one month.
- 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-.
- Asset-backed securities and corporate securities require a minimum rating of AAA.

Credit risk ratings as at 31 December 2008 and 2007 for pooled cash and investments were:

Credit Rating	**2008**	**2007**
A	$ 1,653,356	$ -
A+	28,548,418	4,342,106
AA	45,595,634	24,821,304
AA-	42,151,259	36,091,137
AA+	15,729,549	6,812,359
AAA	11,683,457	24,453,593
Total	**$ 145,361,673**	**$ 96,520,499**

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 AAA 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 2008, the prudential minimum was estimated at approximately USD 28.5 million and the value of IFFIm's liquid assets was USD 145 million (see "Investments" below).

Investments

IFFIm's investment 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 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 World Bank. Under IFFIm's investment strategy approved by the IFFIm Trustees, IFFIm's liquid assets are invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding IFFIm's investment portfolio. As at 31 December 2008, the value of IFFIm's liquid assets was USD 145 million, which represents IFFIm's allocated share of the Pool's fair value as at such date.

Recent Developments

In February 2009 IFFIm made a second issuance of bonds under its Global Debt Issuance Programme to the Japanese retail investor market. The bonds were denominated in three tranches (ZAR 3,170 million, NZD 179 million and AUD 45 million) and raised the USD equivalent net proceeds of USD 429 million. The bonds carry fixed coupons of 6.26% for the ZAR denominated bonds, 2.65% for the NZD denominated bonds and 2.60% for the AUD denominated bonds. All bonds issued in February 2009 are due for redemption on 21 February 2012.

On 15 May 2009, IFFIm launched its first bond issuance in the Sterling market. The issuance raised GBP 266 million in five-year funds from retail and institutional investors. The bonds raised USD equivalent 400 million and are split into fixed rate and zero coupon bonds, paying 116.2 percent on maturity. Fixed-rate and zero-coupon bonds are due for redemption on 15 May 2014 and 13 June 2014 respectively.

In the second quarter of 2009, IFFIm completed its third Uridashi offering in Japan with Mitsubishi. The total amount of the offering was USD 142.9 million made up of two tranches, one in USD and the second in AUD. All bonds are due 26 May 2012.

IFFIm appointed two new directors on 1 June 2009: Sean Carney, former Chief Operating Officer of Investment Banking, HSBC Investment and Global Banking (London); and Didier J. Cherpitel, former Managing Director, JP Morgan (London and Paris) and former Secretary General and Chief Executive Officer, International Federation of Red Cross and Red Crescent Societies (Geneva, Switzerland).

Declarations

1) In accordance with section 234ZA of the Companies Act 1985, each person who is a director of IFFIm 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 or she ought to have taken as a director in order to make himself or herself 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 section 234ZA of the Companies Act 1985.

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

Auditors

In July 2008, KPMG was appointed as IFFIm's auditor for the financial year ending 31 December 2008.

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 24 June 2009 and signed on their behalf by:
/s/ Alan R. Gillespie
Alan R. Gillespie (Chairman)
24 June 2009

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 INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION

We have audited the financial statements of The International Finance Facility for Immunisation for the year ended 31 December 2008 which comprise Statement of Income and Expenditure, Statement of Financial Activities, the Balance Sheet and the Cash Flow Statement and the related notes. 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 auditor's 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 its 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 charitable company's trustees, who are also the directors of The International Finance Facility for Immunisation for the purposes of company law, for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Trustees Responsibilities on page 4.

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' Annual 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' Annual 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 UK Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 31 December 2008 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' Annual Report is consistent with the financial statements.

/s/ KPMG LLP

KPMG LLP
Chartered Accountants, London
Registered Auditor
24 June 2009

IFFIm
Statement of Income & Expenditure
For the Year ended 31 December 2008

In U.S. dollars	Notes	Year Ended 31 December 2008 Restricted Funds	Year Ended 31 December 2007 Restricted Funds
Turnover			
Contribution revenue	3	$ 34,769,262	$ 679,708,567
		34,769,262	**679,708,567**
Operating expenses			
Programme grants to the GAVI Fund Affiliate	5	325,120,060	186,052,712
Treasury manager's fees	5	1,779,248	1,297,763
Governance costs	5	2,785,826	2,160,388
Operating expenses		**329,685,134**	**189,510,863**
Other operating income			
Donated services	3	171,327	104,584
Operating profit (loss)		(294,744,545)	490,302,288
Other interest receivable and payable			
Investment and interest income	4	13,179,542	16,674,914
Interest on bonds	5	(65,344,260)	(50,000,428)
		(52,164,718)	(33,325,514)
Fair value gains/(losses) and other financing charges			
Net fair value (losses)/gains on pledges & pledge swaps	6	(19,881,175)	140,321,837
Net fair value gains/(losses) on bonds & bond swaps	6	55,071,683	83,305
Other unrealised foreign exchange gains	6	1,105,957	462,548
Other financing charges	5	(3,876,681)	(244,865)
		32,419,784	**140,622,825**
Surplus (deficit) for year		**$ (314,489,479)**	**$ 597,599,599**

IFFIm

Statement of Financial Activities (including Income & Expenditure Account)
For the Year ended 31 December 2008

In U.S. dollars	Notes	Year Ended 31 December 2008 Restricted Funds	Year Ended 31 December 2007 Restricted Funds
Incoming resources			
Incoming resources from generated funds:			
Voluntary income:			
Contribution revenue	3	$ 34,769,262	$ 679,708,567
Donated services	3	171,327	104,584
		34,940,589	679,813,151
Investment and other similar income	4	13,179,542	16,674,914
Total incoming resources		**48,120,131**	**696,488,065**
Resources expended			
Cost of generating funds			
Treasury manager's fees	5	1,779,248	1,297,763
Finance charges	5	69,220,941	50,245,293
Charitable activities	5	325,120,060	186,052,712
Governance costs	5	2,785,826	2,160,388
Total resources expended		**398,906,075**	**239,756,156**
Net (outgoing)/incoming resources		**(350,785,944)**	**456,731,909**
Other recognised gains/(losses)	6	36,296,465	140,867,690
Net movement in funds		**(314,489,479)**	**597,599,599**
Reconciliation of funds			
Total Funds brought forward		1,827,751,408	1,230,151,809
Total funds carried forward		**$ 1,513,261,929**	**$ 1,827,751,408**

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 2008

In U.S. dollars	**Notes**	**At 31 December 2008 Restricted Funds**	**At 31 December 2007 Restricted Funds**
Current Assets			
Sovereign pledges due within one year	3	$ 130,706,325	$ 127,048,491
Sovereign pledges due after more than one year	3	2,610,476,713	2,849,779,702
Total sovereign pledges		**2,741,183,038**	**2,976,828,193**
Funds held in trust	4	145,361,673	96,520,499
Prepayments		442,776	469,441
Cash		391,725	667,334
Derivative financial instruments	9	40,666,593	-
		2,928,045,805	**3,074,485,467**
Liabilities			
Creditors falling due within one year	7	1,124,907	109,531,720
Grants payable to GAVI Fund Affiliate	7	146,606,488	94,124,561
Net Current Assets		**147,731,395**	**203,656,281**
Total assets less current liabilities		**2,780,314,410**	**2,870,829,186**
Creditors falling due after more than one year	8	1,267,052,481	1,043,077,778
Net Assets		**1,513,261,929**	**1,827,751,408**
Restricted Funds			
Restricted funds	11	1,513,261,929	1,827,751,408
Total Funds		**$ 1,513,261,929**	**$ 1,827,751,408**

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
24 June 2009

IFFIm
Cash Flow Statement for the Year ended 31 December 2008

In U.S. dollars	**Notes**	**Year Ended 31 December 2008 Restricted Funds**	**Year Ended 31 December 2007 Restricted Funds**
Net Cash Outflows from Operating Activities	16	$ (175,086,047)	$ (418,667,463)
Returns on Investments and Servicing of Financing			
Interest and other similar income	4	13,179,542	16,674,914
Management of Liquid Resources			
Funds held in trust:			
Sale (purchase) of investments	16	(48,841,174)	402,161,173
Net Cash Inflow (Outflow) before financing		**(210,747,679)**	**168,624**
Financing			
Proceeds from bond issuance	16	210,472,070	-
Net Cash Inflow		**210,472,070**	**-**
Net change in cash		(275,609)	168,624
Cash at the beginning		667,334	498,710
Cash at the end of the year		**$ 391,725**	**$ 667,334**

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 and is registered as a charity with the Charity Commission for England and Wales. IFFIm's members comprise the GAVI Fund, a non-profit 501(c)(3) public charity incorporated in the state of Washington, United States of America; and the GAVI Alliance, a Swiss non-profit foundation. IFFIm's primary purpose is to provide funding for immunisation, vaccine procurement and health systems strengthening programmes of the GAVI Alliance ("**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 Trustees. 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 for immunisation, vaccine procurement, and health systems strengthening, 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 IFFIm's Grantors, 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

Fair Value: Financial assets and liabilities are recorded at fair value based on the methodologies described in Note 10.

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;
- In accordance with FRS26, financial assets and liabilities are measured at fair value with movements recognised through the income statement.

Note 2 – Significant Accounting Policies*- continued*

Funds Structure: Funds, revenues, gains and losses are classified based on the existence of grantor-imposed restrictions. The charity receives its funding from the Grantors 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.

Foreign Currency Re-measurement: The financial statements are presented in U.S. dollars which is IFFIm's functional and reporting currency. All financial assets are monetary assets. As such 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 initial recognition, 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 a contractual obligation, 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 during the period in which it is earned on a fair value 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 rate swaps are offset against payables on currency and interest rate 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.

Note 2 – Significant Accounting Policies*- continued*

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

Bonds Payable: The liability for bonds payable is recognised at the time of issuance at fair value and 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.

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 and expensed through the statement of activities in the period in which they are incurred. IFFIm is allocated a percentage of the fundraising costs with the assignment of the pledges from GFA to IFFIm. Consequently, costs of generating funds comprise solely of the Treasurer Manager's fees for managing IFFIm's liquid funds that generate its investment income and for managing IFFIm's borrowings that generate the funds that IFFIm grants to the GFA for GAVI's immunisation and vaccine procurement programmes.

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

Charitable Activities: Charitable expenditure comprises the direct costs of the immunisation and vaccine procurement grants that IFFIm makes to GFA. Grants payable are recognised when an indicative funding confirmation to GFA has been signed by a member of IFFIm's Trustees 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 its asset-backed and money market instruments as liquid resources in accordance with IFFIm's investment 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 "**Initial Grantors**") entered into legally binding obligations to make scheduled grant payments to GFA over periods of up to 20 years. In 2007, the Republic of

Note 3 – Contribution Revenue & Sovereign Pledges Due - continued

France authorised an additional €867,160,000 legally binding contribution to GFA over 19 years. The Republic of South Africa, together with the Initial Grantors, entered into a legally binding grant agreement to contribute USD 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 Grantors are as follows:

				Initial Value		Initial Value	
Grantor		Obligations	Period of Payments	2008 [3]	Cumulative 2006-2007	2007	2006
Republic of France [1]	€	372,800,000	15 years	$ -	$ 474,052,480	$ -	$ 474,052,480
Republic of France [2]	€	867,160,000	19 years	-	1,276,242,730	1,276,242,730	-
Republic of Italy	€	473,450,000	20 years	-	602,039,020	-	602,039,020
Kingdom of Norway	$	27,000,000	5 years	-	27,000,000	-	27,000,000
Republic of South Africa	$	20,000,000	20 years	-	20,000,000	20,000,000	-
Kingdom of Spain	€	189,500,000	20 years	-	240,968,200	-	240,968,200
Kingdom of Sweden	SEK	276,150,000	15 years	-	37,899,894	-	37,899,894
United Kingdom	£	1,380,000,000	20 years	-	2,594,538,000	-	2,594,538,000
				-	5,272,740,324	1,296,242,730	3,976,497,594
Less: Fair value adjustments (see methodology				-	(1,586,072,327)	(416,589,642)	(1,169,482,685)
Present value discount of pledges due in more				-	(912,494,384)	(212,630,808)	(699,863,576)
Grant payment condition (see note below)				$ -	$ 2,774,173,613	$ 667,022,280	$ 2,107,151,333

[1] *Acting through Agence Française de Devélopment.*

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

[3] *There were no new grantor pledges in 2008.*

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 grantor specific risk-free interest rates. Finally, foreign currency pledges were converted 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 Grantors 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 Grantors to IFFIm are

Note 3 – Contribution Revenue & Sovereign Pledges Due - *continued*

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 initial 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 and 2008, the rate fell to 16.3% and 16.1% respectively. Actual grantor payments made in 2007 and 2006 included an actual deduction of 4% based on the actual protracted arrears to the IMF for 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. In March, 2008, the IMF announced that Liberia had cleared its arrears to the IMF. Thus, the Reduction Amount was 4% during January and February 2008 and 3% for the remainder of 2008. At 31 December 2008, Somalia, Sudan and Zimbabwe remained in protracted arrears to the IMF.

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 grantor 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 a result of the above, the contribution revenue recognised was:

	2008	2007
Contribution revenue:		
Initial fair value of pledges	$ -	$ 667,022,280
Realised gain on GPC and foreign exchange	34,769,262	12,686,287
	$ 34,769,262	$ 679,708,567

***Note 3 – Contribution Revenue & Sovereign Pledges Due -** continued*

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

	2008	2007
Donated services:		
Trustees meeting and travel expenses	$ 20,117	$ 17,156
Publicity expense	151,210	87,428
	$ 171,327	$ 104,584

Sovereign Pledges Due: IFFIm's sovereign pledges receivable of USD 2,741.2 million in 2008 and USD 2,976.8 million in 2007 represent grants from sovereign governments. These legally binding payment obligations are irrevocable by the Grantors and will be paid in several instalments in accordance with predetermined fixed payment schedules over 20 years.

The total amount payable by the Grantors 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 grantor 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:

	2008	2007
Sovereign pledges due:		
Beginning balance	**$ 2,976,828,193**	**$ 2,149,261,742**
Initial fair value of pledges	-	667,022,280
Realised gain on GPC and foreign exchange	34,769,262	12,686,287
	34,769,262	**679,708,567**
Donor payments	(151,812,095)	(72,792,665)
Foreign exchange movement	(434,025,727)	86,178,631
Unrealized fair value gains	315,423,405	134,471,918
	2,741,183,038	**2,976,828,193**
Due within one year	130,706,325	127,048,491
Due after more than one year	2,610,476,713	2,849,779,702
Total pledges due	**$ 2,741,183,038**	**$ 2,976,828,193**

For the above sovereign pledges due as at 31 December 2008 and 2007, discount rates ranging from 0.2% to 9.0% in 2008 and 3.6% to 6.5% in 2007 were applied (as appropriate) to the Grantors' payments depending on each grantor'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 3 – Contribution Revenue & Sovereign Pledges Due - *continued*

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 Trustees, IFFIm's liquid assets are invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding the portfolio.

Funds in Trust, totalling USD 145.4 million in 2008 and USD 96.5 million in 2007, are comprised of a pool of investments such as money market instruments and asset backed securities, all rated prime AAA and maturing within the next 5 years. These amounts represent IFFIm's allocated share of the Pool's fair value at 31 December 2008 and 2007.

The Pool's fair value is based on market quotations. The corresponding proportionate realised gains/losses and investment income are recognised in the period in which they occur and are allocated to IFFIm on a daily basis. Such net gains totalled USD 4.5 million in 2008 and USD 14.3 million in 2007 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:

	2008	**2007**
Bank account interest	$ 25,510	$ 114,585
Income from Funds in Trust	4,474,588	14,302,575
Interest income realised from pledge swaps	8,679,444	2,257,754
Total investment and other similar income	$ 13,179,542	$ 16,674,914

Note 5 – Total Resources Expended

	Cost of generating funds	Finance costs	Charitable activities	Governance	Total 2008
Treasury Manager's fees					
Financial operations management	$ 1,779,248			-	$ 1,779,248
Donor pledges and IFFIm project	-	-	-	-	-
	-	-	-	-	-
Non-Country specific grants to the GFA:					
Yellow fever stockpile	-	-	-	-	-
Measles mortality reduction	-	-	-	-	-
Polio stockpile	-	-	-	-	-
Maternal & neonatal tetanus elimination	-	-	-	-	-
Country specific grants to GFA:					
Health systems strengthening/					
Immunisation services support	-	-	82,281,000	-	82,281,000
Injection safety supplies	-	-	(78,428)	-	(78,428)
New vaccine supplies	-	-	242,917,488	-	242,917,488
UNICEF pentavalent vaccine multi-year	-	-	-	-	-
Consultancy fees	-	-	-	87,956	87,956
Legal fees	-	-	-	1,381,016	1,381,016
Trustees indemnity insurance premiums	-	-	-	584,087	584,087
Auditors remuneration:					
Audit Fees: Statutory audit	-	-	-	200,236	200,236
Other services pursuant to legislation:					
Overseas audit	-	-	-	154,058	154,058
Trustees meeting and travel expenses	-	-	-	152,263	152,263
Administrative support fee - The GAVI Fund	-	-	-	75,000	75,000
Publicity expenses	-	-	-	151,210	151,210
Finance charges:					
Bond issuance costs	-	3,876,681	-	-	3,876,681
Bond interest expense	-	65,344,260	-	-	65,344,260
	$ 1,779,248	$ 69,220,941	$ 325,120,060	$ 2,785,826	$ 398,906,075

Note 5 – Total Resources Expended – continued

	Cost of generating funds	Finance costs	Charitable activities	Governance	Total 2007
Treasury Manager's fees					
Financial operations management	$ 1,142,615				$ 1,142,615
Donor pledges and IFFIm project	155,148	-	-	-	155,148
	-	-	-	-	-
Non-Country specific grants to the GFA:					
Yellow fever stockpile	-	-	-	-	-
Measles mortality reduction	-	-	-	-	-
Polio stockpile	-	-	-	-	-
Maternal & neonatal tetanus elimination	-	-	-	-	-
Country specific grants to GFA:					
Health systems strengthening/					
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	-	-	-	-	-
Consultancy fees	-	-	-	76,686	76,686
Legal fees	-	-	-	970,933	970,933
Trustees indemnity insurance premiums	-	-	-	504,293	504,293
Auditors remuneration:					
Audit Fees: Statutory audit	-	-	-	220,085	220,085
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
Finance charges:					
Bond issuance costs	-	244,865	-	-	244,865
Bond interest expense	-	50,000,428	-	-	50,000,428
	$ 1,297,763	$ 50,245,293	$ 186,052,712	$ 2,160,388	$ 239,756,156

Administrative and Financial Management Support: Pursuant to the Finance Framework Agreement entered into by IFFIm with the Grantors, 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 USD 152,263 in 2008 and USD 129,674 in 2007 respectively for travel, hotel expenses and subsistence. The charity also incurred trustee's professional indemnity insurance premium expenses amounting to USD 584,087 in 2008 and USD 504,293 in 2007.

Note 6 – Fair value gains (losses)

	2008	2007
Fair value gains/(losses) on pledges		
Unrealised fair value gains/(losses) on pledges	$ 315,423,405	$ 134,471,918
Foreign exchange movement on pledges	(434,025,726)	86,178,631
Net fair value gain/(losses) on pledge swaps	98,721,146	(80,328,712)
	(19,881,175)	**140,321,837**
Fair value gains (losses) on bonds		
Unrealised fair value gains/(losses) on bonds	(4,587,763)	(36,120,000)
Net fair value gain/(losses) on bond swaps	59,659,446	36,203,305
	55,071,683	**83,305**
Other unrealised foreign exchange gains/(losses)	**1,105,957**	**462,548**
Total fair value gains/(losses) for bonds and pledges	**$ 36,296,465**	**$ 140,867,690**

There are no other gains and losses other than those in the income statement.

Note 7 – Creditors Falling Due Within One Year

	2008	2007
Trade creditors	$ 1,070,745	$ 2,082,879
Advances received on pledges	-	549,986
Amounts due for currency and interest rate swaps	-	106,762,836
Amounts due to the GAVI Fund	54,162	136,019
Grants payable to GAVI Fund Affiliate	146,606,488	94,124,561
	$ 147,731,395	**$ 203,656,281**

Note 8 – Creditors 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. At 31 December 2008 IFFIm's outstanding bonds were as follows:

	Effective Interest rate	*Nominal*	*Fair value* 2008	*Fair value* 2007
5% Notes maturing on November 14, 2011	5.04%	$ 1,000,000,000	$ 1,077,359,600	$1,036,550,000
9.9% Notes maturing on March 18, 2010	10.80%	$ 214,348,750	178,126,913	-
Accrued Interest Payable			11,565,968	6,527,778
			$ 1,267,052,481	**$1,043,077,778**

Note 9 – Derivative Financial Instruments

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 gains for the fair values of derivatives totalling USD 158.4 million in 2008 and losses of USD 44.1 million in 2007 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 Trustees. 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 grantor 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 (3%), that there are no grantor defaults.

At issuance, IFFIm's fixed rate bond obligations have been 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:

	2008	2007
Gains (losses) due to fair value changes:		
Bond swaps	$ 59,659,446	$ 36,203,305
Pledge swaps	98,721,146	(80,328,712)
	$ 158,380,592	**$ (44,125,407)**

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

	2008		2007	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Currency and interest rate swaps related to pledge receivable	$ 4,357,709,929	$ (20,897,030)	$ 5,285,337,817	$ (143,933,988)
Currency and interest rate swaps related to bonds payable	$ 1,180,217,000	61,563,623	$ 1,000,000,000	37,171,152
Total		**$ 40,666,593** [4]		**$ (106,762,836)** [5]

[4] *Net interest rate swaps receivable are classified as current assets on the balance sheet.*

[5] *Net interest rate swaps payable are included in "creditors falling due within one year". See note 7.*

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:

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

	2008	Fair Value Measurement as of 31 December 2008 using: prices or estimated using a valuation technique supported by	a valuation technique not supported by observable market prices
Financial Assets			
Funds in trust	$ 145,361,673	$ 145,361,673	$ -
Sovereign pledges	2,741,183,038	-	2,741,183,038
Receivable for derivatives	40,666,593	-	40,666,593
Total	**$ 2,927,211,304**	**$ 145,361,673**	**$ 2,781,849,631**

	2007	Fair Value Measurement as of 31 December 2007 using: prices or estimated using a valuation technique supported by	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
Receivable for derivatives	-	-	-
Total	**$ 3,073,348,692**	**$ 96,520,499**	**$ 2,976,828,193**

See Note 3 for further details for sovereign pledges.

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 Measurement as of 31 December 2008 using:		Fair Value Measurement as of 31 December 2007 using:	
	2008	active market prices or estimated using a valuation technique supported by observable market prices	**2007**	active market prices or estimated using a valuation technique supported by observable market prices
Financial Liabilities				
Bonds payable	$ 1,255,486,513	$ 1,255,486,513	$ 1,043,077,778	$ 1,043,077,778
Payable for currency & interest swaps	-	-	106,762,836	106,762,836
Total	**$ 1,255,486,513**	**$ 1,255,486,513**	**$ 1,149,840,614**	**$ 1,149,840,614**

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

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 recognised 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 grantor specific risk free interest rates. The reduction amount is estimated by a probabilistic model yielding a reduction of 16.1% as at 31 December 2008 and 16.3 % as at 31 December 2007. For more details please refer to Note 3.

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

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

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

Note 11 - Movement of Funds

	At 31 December 2007	Incoming resources	Outgoing resources	At 31 December 2008
Restricted Funds				
Donor grants assigned from GFA	$ 2,782,298,692	$ 34,769,262	$ (4,393,747)	$ 2,812,674,207
Investment and other similar income	20,276,648	13,179,542	-	33,456,190
Other gains, losses and other income/expenses	72,318,780	36,296,465	(69,220,941)	39,394,304
Dontated services:				
Trustee board meeting costs	-	20,117	(20,117)	-
Legal fees	-	151,210	(151,210)	-
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	(417,052,712)	-	(325,120,060)	(742,172,772)
Pentavalent vaccine	(181,050,000)	-	-	(181,050,000)
Total Restricted Funds	**$ 1,827,751,408**	**$ 84,416,596**	**$ (398,906,075)**	**$ 1,513,261,929**

Note 11 - Movement of Funds *- continued*

Restricted Funds	At 31 December 2006	Incoming resources	Outgoing resources	At 31 December 2007
Donor grants assigned to GFA	$ 2,105,943,692	$ 679,708,567	$ (3,353,567)	$ 2,782,298,692
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)
Total Restricted Funds	**$ 1,230,151,809**	**$ 837,355,755**	**$ (239,756,156)**	**$ 1,827,751,408**

Note 12 – Risk Management

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

Currency risk - IFFIm is exposed to currency risks and currency mismatches and timing differences between receipt of grantor payments, payment of bond obligations, disbursements to GFA and issuance of IFFIm bonds. To mitigate these risks, grantor 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 fair value movement attributable to IFFIm's own credit spreads on the bonds designated at fair value through profit and loss is calculated using a flat credit curve compared to the market value of the bonds. For the year ended 31 December 2008, the amount attributable to IFFIm's own credit spreads was a decrease of USD 17.6 million.

The carrying amounts of foreign currency assets and liabilities as at 31 December 2008 and 2007 are as follows:

Note 12 – Risk Management *- continued*

	Assets		Liabilities	
	2008 USD '000	2007 USD '000	2008 USD '000	2007 USD '000
Euro	$ 1,524,232	$ 1,494,029	$ (1,772,294)	$ (1,690,836)
GBP	1,176,733	1,434,287	(1,359,146)	(1,577,583)
SKr	22,627	25,259	(25,001)	(28,095)
Rand	-	-	1,411	-
Total	$ 2,723,592	$ 2,953,575	$ (3,155,030)	$ (3,296,514)

Currency swaps are used to mitigate exposure to currency risk. As at 31 December 2008, a 10% positive change in the US dollar against respective foreign currencies would increase net income by USD 39.8 million while a 10% negative change would reduce net income by USD 48.7 million. As at 31 December 2007, a 10% positive change in the US dollar against respective foreign currencies would increase net income by USD 31.0 million while a 10% negative change would reduce net income by USD 38.0 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 2008, a 25 basis point increase in interest rates would increase net income USD 10.8 million while a 25 basis point decrease would decrease net income USD 11.2 million.

As at 31 December 2007, a 25 basis point increase in interest rates would reduce net income USD 24.8 million while a 25 basis point decrease would increase net income USD 25.5 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 grantor 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). With the exception of South Africa, all Grantors' credit ratings were between AA to AAA as at 31 December 2008.

***Note 12 – Risk Management** - continued*

Grantor	Grantor Currency	2008 [6]	2007
Republic of France	EUR	AAA	AAA
South Africa	USD	BBB+	BBB+
Republic of Italy	EUR	A+	A+
Kingdom of Norway	USD	AAA	AAA
Kingdom of Spain [7]	EUR	AAA	AAA
Kingdom of Sweden	SEK	AAA	AAA
United Kingdom [8]	GBP	AAA	AAA

[6] *Per S&P as at 31 December 2008 and 2007.*

[7] *Currently AA+; downgraded on 19 January 2009.*

[8] *S&P changed the outlook from 'stable to negative' while affirming AAA rating on 20 May 2009.*

Along with liquidity risk, these risks are managed through a Gearing Ratio Limit. IFFIm's Trustees, 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 Grantors after amount due on the swaps held (the Gearing Ratio). IBRD, a AAA credit institution, manages IFFIm's credit risk related to its derivative contracts by serving as the counterparty for all IFFIm's swaps.

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 one month.
- 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-.
- Asset-backed securities and corporate securities: minimum rating must be AAA.

As at 31 December 2008 and 2007, IFFIm had USD 145.4 million and USD 96.5 respectively invested in Money Market Instruments and Asset-backed Securities with the following minimum credit ratings shown below.

Note 12 – Risk Management *- continued*

Credit Rating	**2008**	**2007**
A	$ 1,653,356	$ -
A+	28,548,418	4,342,106
AA	45,595,634	24,821,304
AA-	42,151,259	36,091,137
AA+	15,729,549	6,812,359
AAA	11,683,457	24,453,593
Total	**$ 145,361,673**	**$ 96,520,499**

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 maximising 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.

Value at Risk (VaR) for Funds in Trust: VaR measures the potential loss in terms of fair value changes due to adverse market movements over a given interval at a given confidence level. VaR as a concept is applicable for all financial risk types with valid regular price histories.

The 95% annualised VaR for the Funds in Trust for IFFIm was USD 0.5 million for the year ended 31 December 2008 compared to USD 0.3 million at 31 December 2007.

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 undiscounted cash flows of the Company's financial liabilities including interest and principal as at 31 December 2008 and 2007:

Note 12 – Risk Management – continued

At 31 December 2008	Less than 1 year (2009)	2010	2011	2012	2013 to 2026
IFFIm Bonds	(67,609,207)	(236,675,383)	(1,050,000,000)		
Derivative financial instruments net settled	37,888,354	(24,003,477)	564,385	(34,120,717)	(1,052,074,360)
Grants Payable	146,606,488				

At 31 December 2007	Less than 1 year	2009	2010	2011	2012	2013 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)	(19,656,928)	(147,117,308)
Grants Payable	94,124,561					

Note 13 – Commitment and Contingencies

The Board of Trustees believe there are no known commitments or contingencies as at 31 December 2008 and 31 December 2007.

Note 14 – Related Party Transactions

The related party transactions are as follows:

	2008	2007
Assignment of donor pledges	-	667,022,280
Program grants approved	325,120,060	193,685,261
Program grants payable to GFA	146,606,488	94,124,561
Accounts payable to the GAVI Fund	54,162	136,019
In-kind contributions received from the GAVI Fund	171,327	104,584
Administrative support fee to the GAVI Fund	75,000	21,429

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 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 2008 or 2007.

Note 16 – Notes to the Cash Flow Statement

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

	2008	2007
Net Income for the period	**$ (314,489,479)**	**$ 597,599,599**
Increase in Sovereign Pledges	-	(667,022,280)
Net fair value of (gains) losses	118,602,322	(90,867,690)
Other realised gains	-	462,548
Forex & swap gains/(losses) realised	1,936,665	(7,946,776)
Interest and investment income	(13,179,542)	(16,674,914)
Increase in donors payment	151,812,095	72,792,665
Increase in realised gain on GPC	(34,769,262)	(12,686,287)
Increase in foreign exchange movement on receivables	-	(86,178,631)
Increase (decrease) in Prepaid Expenses	26,665	28,534
Increase (decrease) in Creditors	(1,012,134)	(933,642)
Increase in accrued bond interest	11,565,968	-
Increase (decrease) in advances received on pledges	(549,986)	51,203
Increase(decrease) in amounts due for swaps	(147,429,429)	34,797,599
Due to GAVI Fund	(81,857)	126,763
Funding commitment to GAVI Fund Affiliate	52,481,927	(242,216,154)
Net cash outflow from operating activities	**$ (175,086,047)**	**$ (418,667,463)**

Analysis of changes in net debt:

	Fair Value at 31 December 2007	Cash Flows	Foreign Exchange Movements	Fair Value Movements	Fair Value 31 December 2008
Cash at bank	$ 667,334	$ (275,609)	$ -	$ -	$ 391,725
Bonds payable	(1,043,077,778)	(210,472,070)	-	(1,936,665)	(1,255,486,513)
Funds held in trust	96,520,499	48,841,174	-	-	145,361,673
Total	**$ (945,889,945)**	**$ (161,906,505)**	**$ -**	**$ (1,936,665)**	**$ (1,109,733,115)**

	Fair Value at 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)**

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

Reconciliation of net cash flow to movement in net debt:

	2008	2007
Balance at beginning	**$ (945,889,945)**	**$ (507,777,396)**
Increase in cash	(275,609)	168,624
Cash inflow from debt issuance	(171,270,972)	-
Cash outflow (inflows) from Funds held in trust	48,841,174	(402,161,173)
Change in net debt resulting from cash flows	(122,705,407)	(401,992,549)
Fair value movement in the period	(41,137,763)	(36,120,000)
Net debt at 31 December	**$ (1,109,733,115)**	**$ (945,889,945)**

Note 17 – Subsequent Events

In February 2009 IFFIm made a second issuance of bonds under its Global Debt Issuance Programme to the Japanese retail investor market. The bonds were denominated in three tranches (ZAR 3,170 million, NZD 179 million and AUD 45 million) and raised the USD equivalent net proceeds of USD 429 million. The bonds carry fixed coupons of 6.26% for the ZAR denominated bonds, 2.65% for the NZD denominated bonds and 2.60% for the AUD denominated bonds. All bonds issued in February 2009 are due for redemption on 21 February 2012.

On 15 May 2009, IFFIm launched its first bond issuance in the Sterling market. The issuance raised GBP 266 million in five-year funds from retail and institutional investors. The bonds raised USD equivalent 400 million and are split into fixed rate and zero coupon bonds, paying 116.2 percent on maturity. Fixed-rate and zero-coupon bonds are due for redemption on 15 May 2014 and 13 June 2014 respectively.

On 20 May 2009, Standard & Poor's Ratings Service (S&P) revised its outlook on IFFIm from stable to negative, while affirming its AAA rating. The revised outlook reflected the deterioration in the credit ratings and outlook on several Grantors: South Africa, Spain and the United Kingdom. S&P lowered Spain's long-term foreign currency sovereign rating to AA+ from AAA; lowered South Africa's BBB+ to negative from stable; and lowered the United Kingdom's AAA long-term foreign currency sovereign rating to negative from stable. S&P noted in affirming IFFIm's AAA ratings that its largest Grantors, the United Kingdom and France, remain rated AAA. In affirming IFFIm's AAA rating, S&P also cited the charity's conservative financial policies, its highly professional financial management and its politically compelling mandate. In management's view, these events have no impact on IFFIm's financial statements as presented.

In the second quarter of 2009, IFFIm completed its third Uridashi offering in Japan with Mitsubishi. The total amount of the offering was USD 142.9 million made up of two tranches, one in USD and the second in AUD. All bonds are due 26 May 2012.

IFFIm appointed two new directors on 1 June 2009: Sean Carney, former Chief Operating Officer of Investment Banking, HSBC Investment and Global Banking (London); and Didier J. Cherpitel, former Managing Director, JP Morgan (London and Paris) and former Secretary General and Chief Executive Officer, International Federation of Red Cross and Red Crescent Societies (Geneva, Switzerland).