



**The International Finance Facility
for Immunisation Company**

**Report of the Trustees and Annual
Financial Statements for the Year
Ended 31 December 2009**

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**.

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Legal and Administrative Information

Trustees

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Dayanath Chandrajith Jayasuriya
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Treasury Manager

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Legal Status

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 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. IFFIm's company registration number is **5857343** and its charity registration number is **1115413**.

Statement of Trustees' Responsibilities in Respect of the Annual Report of the Trustees and the Financial Statements

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

Company law requires the trustees to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the trustees must not approve the financial statements unless they are satisfied that they 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 charitable company will continue its activities.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Annual Report of the Trustees

Structure and Objectives

Structure

The International Finance Facility for Immunisation Company ("IFFIm") is a multilateral development institution incorporated as a private company, with company registration number 5857343, and registered as a charity in England and Wales, with charity registration number 1115413. In order to achieve its objectives, IFFIm works with the following organisations:

- **The GAVI Alliance ("GAVI"):** GAVI is a not-for-profit organisation based in Switzerland and granted privileges and immunities in Switzerland similar to those accorded to international organisations. It uses funds raised by IFFIm to finance immunisation related charitable activities in many of the world's poorest countries. GAVI's charitable activities are described further in the *Programmes Funded by IFFIm* section of this report. GAVI also provides administrative support to IFFIm.
- **The GAVI Fund Affiliate ("GFA"):** GFA is a charity based in the United Kingdom. GFA enters into pledge agreements with donors and then assigns to IFFIm the right to receive cash payments under those agreements. Also, all cash payments from IFFIm to GAVI are channelled through GFA.
- **The International Bank for Reconstruction and Development (the "World Bank"):** The World Bank is a global development organisation based in the United States. It provides treasury management, risk management and accounting services to IFFIm. IFFIm's relationship and interactions with the World Bank are described further in the *Financial Overview* and *Hedging IFFIm's Market Risks* sections of this report.

Objectives

IFFIm was established to bring forward resources to support and enhance the immunisation and vaccine procurement programmes of GAVI through the leveraging of long-term sovereign grants. It promotes the effective use of GAVI's resources for charitable purposes, and for the benefit of the public, by providing services and facilities that assist GAVI in raising funds. Such services and facilities include, but are not limited to, borrowing money or entering into agreements whereby sovereign government donors (the "Grantors") promise funds for charitable purposes.

Every year, in the world's poorest countries, millions of children miss out on vaccinations against common diseases, making them vulnerable to sickness, disability and death. Millions of children die from easily preventable diseases such as diphtheria, pneumonia, diarrhoea, meningitis and yellow fever. IFFIm was created to help avert such deaths by accelerating the availability and increasing the predictability of funds for immunisation, vaccine procurement and health systems strengthening ("HSS") programmes. GAVI uses funds raised by IFFIm to reduce the number of worldwide vaccine-preventable deaths and illnesses. GAVI achieves this by funding the purchase and delivery of vaccines and strengthening health systems in the poorest countries in the world.

IFFIm raises funds by issuing bonds in the international capital market under its Global Debt Issuance Programme. IFFIm then disburses the funds to GFA which, in turn, disburses the funds to GAVI to support various GAVI vaccine procurement, immunisation and HSS programmes. Through its bond issuances, IFFIm converts long-term government pledges into immediately available cash resources. IFFIm uses grant payments from the Grantors to, among other things, pay the principal and interest on its bonds.

The World Health Organization ("WHO") has estimated that use of IFFIm funds for GAVI programmes could lead to the vaccination of more than 500 million people by 2015. This could be achieved by employing new and underutilised vaccines, implementing targeted immunisation campaigns, and strengthening health and immunisation services in poor countries.

Public Benefit

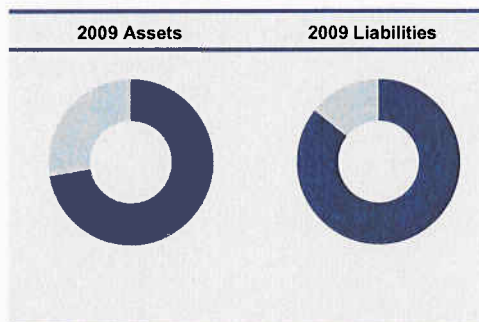
IFFIm's directors have considered the Charity Commission's general guidance on public benefit and have paid due regard to it when planning IFFIm's activities and assessing how IFFIm's activities further its objectives.

Financial Overview

Overview of Assets and Liabilities

The following table summarises IFFIm's assets and liabilities as of 31 December 2009 and 2008:

In Millions of USD	2009	2008	Change
Sovereign pledges	2,882	2,741	141
Funds held in trust	1,082	145	937
Other assets	23	42	(19)
Total assets	3,987	2,928	1,059
Bonds payable	2,609	1,267	1,342
Grants payable	437	147	290
Other liabilities	3	1	2
Total liabilities	3,049	1,415	1,634



Sovereign Pledges: IFFIm's asset base consists primarily of irrevocable and legally binding multi-year sovereign pledges from the Grantors. As of 31 December 2009, the Grantors were the Republic of France, the Republic of Italy, the State of the Netherlands, the Kingdom of Norway, the Republic of South Africa, the Kingdom of Spain, the Kingdom of Sweden and the United Kingdom. The amounts pledged by the Grantors, along with the pledge dates, are listed in Note 02 to the financial statements.

Each Grantor committed to provide scheduled grant payments to the GFA, a United Kingdom charity. GFA then assigned, to IFFIm, the right to receive these grant payments. In turn, IFFIm agreed to review and, if it deems appropriate, approve vaccine procurement, immunisation and HSS programmes submitted by GFA. IFFIm has also agreed to raise funds for the programmes it approves.

During 2009, IFFIm's sovereign pledges increased by USD 141 million due to the following:

- **Weakening of United States Dollar:** During 2009, the United States dollar weakened against the currencies in which many sovereign donor pledges were made. This resulted in a USD 177 million increase in the fair value of IFFIm's sovereign pledges during 2009.
- **Discount Factors and Grant Payment Condition:** Reduced discount factors resulted in a USD 31 million increase in the present value of expected future cash inflows from Grantors. In addition, changes in estimated Grant Payment Condition ("GPC") reductions further increase the present value of such cash flows by USD 11 million. IFFIm's GPC is described in Note 15 to the financial statements.
- **New Sovereign Pledge:** IFFIm received a new sovereign pledge from the State of the Netherlands in December 2009. The initial fair value of this pledge was USD 87 million.
- **Receipts from Grantors:** The abovementioned fair value increases were partially offset by payments received from the Grantors totalling USD 166 million during 2009, bringing the net increase in sovereign pledges to USD 141 million. From its inception to 31 December 2009, IFFIm received cumulative payments from the Grantors totalling USD 411 million.

Funds Held in Trust and Investment Strategy: IFFIm's funds held in trust represent an investment portfolio denominated in United States dollars and managed by the World Bank. IFFIm has established liquidity and investment policies based on recommendations made by the World Bank.

The World Bank 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 Pool's assets are maintained separate from the funds of the World Bank Group.

The Pool is divided into sub-portfolios to which allocations were 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 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 discussed in the *Bonds Payable* section below, IFFIm raised USD 1.4 billion through bond issuances in 2009. While a portion of the funds raised were used to finance GAVI's 2009 programmes, the majority were invested in

the Pool. As a result, IFFIm's funds held in trust increased by USD 937 million during 2009 to USD 1.1 billion as of 31 December 2009.



Bonds Payable: IFFIm has continued to raise funds on the global capital market. From its inception to 31 December 2009, IFFIm had raised USD 2.6 billion through bond issuances and had disbursed a total of USD 1.6 billion to GFA.

During 2009, IFFIm's bonds payable increased by USD 1.3 billion due to the following:

- **New Bond Issuances:** IFFIm issued ten new bonds during 2009. Details of these issuances are included in Note 10 to the financial statements. In addition, since most of these bond issuances were made in currencies other than the United States dollar, the bonds payable balance further increased due to foreign exchange losses as the United States dollar weakened during the year.
- **Improvement of IFFIm's Credit:** IFFIm's credit improved during 2009 as overall global capital market stabilised. This improvement in credit resulted in an increase to the fair value of IFFIm's bonds payable as the bonds became more attractive to investors on the global capital markets.

Overview of Income and Expenses

The following table summarises IFFIm's income and expenses for the years ended 31 December 2009 and 2008:

In Millions of USD	2009	2008	Change	2009 Income	2009 Expenses
Contribution revenue	88	-	88		
Net fair value gains	72	80	(8)		
Investment income	11	5	6		
Total income	171	85	86		
Programme grants	620	325	295		
Financing costs	121	69	52		
Other expenses	5	5	-		
Total expenses	746	399	347		

Contribution Revenue: Contribution revenue is comprised of new sovereign pledges received from Grantors. In December 2009, the State of the Netherlands pledged EUR 80 million to GFA. GFA assigned the pledge to IFFIm in the same month and IFFIm recorded the USD 87 million fair value of the pledge as contribution revenue for the year ended 31 December 2009. No other new pledges from Grantors were received during 2009 or 2008.

Programme Grants: GAVI continued to experience strong and increasing demand for vaccines and vaccine related support. In response to this strong demand, IFFIm increased its grants to GFA by USD 295 million during 2009. Since its inception to 31 December 2009, IFFIm has disbursed USD 1.6 billion to GFA. The *Programmes Funded by IFFIm* section below describes the various GAVI programmes that IFFIm has helped to fund.

Net Fair Value Gains: As described in the *Sovereign Pledges* and *Bonds Payable* sections above, IFFIm incurred significant fair value adjustments on its sovereign pledges and bonds payable. These adjustments were, however, hedged through currency and interest rate swaps. The *Hedging IFFIm's Market Risks* section below describes these hedges and summarises their impact on IFFIm income.

Investment Income: As described in the *Funds Held in Trust and Investment Strategy* above, IFFIm had more liquid investment balances during 2009 compared to 2008. As a result, its investment income on these balances increased by USD 6 million during 2009.

Financing Costs: As described in the *Bonds Payable* section above, IFFIm issued USD 1.4 billion in bonds during 2009. As a result of these bond issuances, IFFIm incurred USD 8 million in issuance costs and additional interest expense on the new bonds. These two factors increased financing costs by an aggregate of USD 52 million in 2009. The significant increase in financing costs was, however, partially mitigated using currency and interest rate swaps. IFFIm's use of swaps is described in the *Hedging IFFIm's Market Risks* section below.

Other Expenses: IFFIm outsources its principal activities to GAVI and the World Bank. GAVI is responsible for all administrative support and operational functions related to vaccine procurement, immunisation and HSS programmes for which IFFIm provides funding. The World Bank provides IFFIm with treasury management and certain accounting services.

IFFIm's other expenses are comprised primarily of treasury management fees billed by the World Bank and administrative support services donated to IFFIm by GAVI.

Hedging IFFIm's Market Risks

Several of IFFIm sovereign pledges and bonds payable are denominated in currencies other than the United States dollar. Therefore, IFFIm is exposed to the risk of financial loss or unpredictable cash flows resulting from fluctuations in foreign exchange rates. Since all of IFFIm's programme expenses are incurred in United States dollars and predictability of funding is essential to GAVI's mission, IFFIm has entered into currency swap contracts with the World Bank to mitigate the aforementioned risks. Under these contracts, IFFIm has effectively swapped foreign currency receipts from Grantors and payments to bond holders with United States dollar receipts from, and payments to, the World Bank.

In addition to the abovementioned foreign exchange risks, IFFIm is also exposed to potential adverse changes in the value of its sovereign pledges and bonds payable resulting from fluctuation in interest rates. In order to mitigate this risk, IFFIm has entered into interest rate swap contracts with the World Bank. Under these contracts, IFFIm has effectively swapped sovereign pledges into dollar zero-coupon floating rate receivables from the World Bank and bonds payable into floating rate payables to the World Bank.

The following table shows how IFFIm's use of currency and interest rate swaps hedged against the significant impacts that changes in interest and foreign exchange rates would otherwise have had on IFFIm's income for the years ended 31 December 2009 and 2008:

In Millions of USD	2009		2008	
	Pledges	Bonds	Pledges	Bonds
Interest and fair value adjustments before impact of swaps	219	(333)	(84)	(74)
Impact of currency and interest rate swaps	(229)	294	107	60
Net interest and fair value adjustments after impact of swaps	(10)	(39)	23	(14)
Interest expense on bonds before impact of swaps		113		65
Impact of currency and interest rate swaps		(99)		(32)
Net interest expense on bonds after impact of swaps		14		33

Credit Rating and Reserves Policy

IFFIm seeks to maintain an adequate level of liquidity to meet its operational requirements, provide predictability of programme funding and support its AAA credit rating. Taking these factors into account, IFFIm maintains a minimum 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. Based on factors such as the strength of its financial base, its conservative financial policies and the strong support of the Grantors, IFFIm's Global Debt Issuance Programme is rated AAA by Standard & Poor's Ratings Service ("S&P") and Fitch Ratings, and Aaa by Moody's Investor Service.

In May 2009, 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 South Africa, Spain and the United Kingdom. S&P lowered Spain's long-term foreign currency sovereign rating from AAA to AA+, lowered South Africa's BBB+ from stable to negative, and lowered the United Kingdom's AAA long-term foreign currency sovereign rating outlook from stable to negative. In affirming IFFIm's AAA rating, S&P noted that IFFIm's largest Grantors, the United Kingdom and France, remained rated AAA. S&P also cited IFFIm's conservative financial policies, its highly professional financial management and its politically compelling mandate.

In April 2010, S&P downgraded Spain's credit rating from AA+ to AA. This downgrade is described further in the *Recent Developments* section below.

Programmes Funded by IFFIm

GAVI programmes funded by IFFIm are categorised into Country-Specific Programmes and Investment Cases. Each of these categories is described below.

Country-Specific Programmes

Governments of eligible developing countries apply for vaccine procurement, immunisation and HSS support by submitting applications to GAVI. Once it has reviewed and approved the applications, GAVI requests funding from IFFIm. IFFIm funds have supported the following GAVI Country-Specific programmes:

New and Underused Vaccine Support (“NVS”) programmes: GAVI supported developing countries in introducing vaccines and associated vaccine technology. GAVI's support was aimed at accelerating the countries' vaccine uptake and improving their vaccine supply security. NVS programmes funded by IFFIm related primarily to the following diseases:

- **Hepatitis B:** This is a viral infection that attacks the liver and can cause both acute and chronic disease. Approximately two billion people worldwide have been infected with the virus and more than 350 million live with chronic infection. Approximately 600 thousand people die each year due to the acute or chronic consequences of hepatitis B.
- **Haemophilus Influenzae Type B (“Hib”):** This is a bacterial infection estimated to be responsible for approximately three million serious illnesses and an estimated 386 thousand deaths per year, mainly through meningitis and pneumonia. Almost all victims are children under the age of five.
- **Yellow Fever:** This is 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 again a serious public health issue.
- **Pneumococcal Disease:** This is a bacterial infection. Each year, pneumococcal disease takes the lives of up to one million children under five years of age, making it the leading vaccine-preventable cause of death among young children. The most effective way to prevent these deaths is to ensure access to effective, safe and affordable vaccines. Approximately 800 thousand children under five years of age die each year from this disease.

Health Systems Strengthening (“HSS”) programmes: The objective of HSS programmes is to achieve and sustain increased immunisation coverage, through strengthening the capacity of countries' systems to provide immunisation and other health services. Countries are encouraged to use HSS funding to target the bottlenecks or barriers in their health systems.

Immunisation Services Support (“ISS”) programmes: GAVI provides developing countries with flexible reward payments for strengthening their immunisation systems. These payments are subject to strict performance requirements and GAVI works with governments and inter-agency coordinating committees to set goals and monitor progress.

Injection Safety Support (“INS”) programmes: GAVI contributes to the provision of auto-disable syringes, reconstitution syringes and safety boxes. These syringes and safety boxes facilitated the administering of vaccines in developing countries.

From its inception to 31 December 2009, IFFIm disbursed the following amounts to help fund GAVI's Country-Specific Programmes:

In Millions of USD	Amount
New and underutilised vaccines	936
Health system strengthening and other	315
Total Country-Specific Programme disbursements	1,251



Investment Cases

From time to time, IFFIm funds one-time tactical investments in disease prevention and control. These investments are made through GAVI partners such as the United Nations Children's Fund (“UNICEF”) and WHO. Each investment targeted a disease that constrains progress towards the United Nations Millennium

