



THE GAVI ALLIANCE

Consolidated Financial Statements and Independent Auditors' Report for the Year Ended 31 December 2009

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Consolidated Statement of Financial Position

In Thousands of USD	Note	As of 31 December 2009
Assets		
Cash		6,863
Receivables, prepaid expenses and other assets		49,649
Net receivable for currency and interest rate swaps	05	21,600
Investments	06	1,002,835
Pooled investments	06	1,360,340
Promises to give	07	4,351,413
Total assets		6,792,700
Liabilities and net assets		
Liabilities		
Accounts payable and other liabilities		11,865
Programme grants payable	08	847,633
Bonds payable	09	2,609,459
Total liabilities		3,468,957
Net assets		
Unrestricted		402,660
Temporarily restricted	10	2,921,083
Total net assets		3,323,743
Total liabilities and net assets		6,792,700

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

Consolidated Statement of Activities

In Thousands of USD	Note	Year Ended 31 December 2009
Unrestricted		
Revenue		
Contributions from government and private donors		49,362
Contributions from the GAVI Campaign	04	728,693
Investment income	11	40,090
Net gains from derivatives	12	65,200
Foreign currency transaction adjustment		253
Other revenue		813
Release of net assets		549,480
Total revenue		1,433,891
Expenses		
Programme		642,799
Management and general		49,892
Financing		332,625
Fundraising		2,026
Total expenses		1,027,342
Change in unrestricted net assets		406,549
Temporarily restricted		
Contributions from government and private donors		1,169,835
Contributions from the GAVI Campaign	04	411,934
Foreign currency transaction adjustment		220,291
Release of net assets		(549,480)
Change in temporarily restricted net assets		1,252,580
Net assets as of the beginning of the year		
Unrestricted	03	(3,889)
Temporarily restricted	03	1,668,503
Total net assets as of the beginning of the year		1,664,614
Net assets as of the end of the year		
Unrestricted		402,660
Temporarily restricted		2,921,083
Net assets as of the end of the year		3,323,743

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

Consolidated Statement of Cash Flows

In Thousands of USD	Year Ended 31 December 2009
Net cash flows from operating activities	
Change in net assets	1,659,129
Adjustments to reconcile change in net assets to net cash from operating activities:	
Contribution from the GAVI Campaign	(1,140,449)
Realised and unrealised foreign exchange transaction adjustment	(177,604)
Increase in fair value of borrowings	243,362
Increase in fair value of promises to give	216,772
Depreciation expense	2,440
Realised and unrealised gains on investments	11,653
Changes in assets and liabilities:	
Receivables, prepaid expenses and other assets	19,705
Receivable for currency and interest rate swaps	(44,820)
Promises to give	(1,238,753)
Accounts payable and accrued liabilities	5,773
Programme grants payable	337,910
Net cash used in operating activities	(104,882)
Cash flows from investing activities	
Purchase of fixed assets	(1,519)
Purchase of investments	(1,546,152)
Sales of investments	453,233
Net cash used in investing activities	(1,094,438)
Cash flows from financing activities	
Proceeds from bond issuances	1,162,930
Net cash from financing activities	1,162,930
Net change in cash	(36,390)
Cash as of the beginning of the year	43,253
Cash as of the end of the year	6,863
Supplemental Disclosures	
Fixed assets received through donation	7,184
Cash paid for interest	86,056

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

Consolidated Statement of Functional Expenses

Year Ended 31 December 2009 In Thousands of USD	Programme Expenses	Management and General Expenses	Financing Expenses	Programme Fundraising Expenses	Total Expenses
Direct programme expenses	595,607	-	-	-	595,607
Programme implementation	47,192	-	-	-	47,192
Total programme expenses	642,799	-	-	-	642,799
Payroll and benefits	-	19,142	-	1,263	20,405
Training and recruitment	-	1,265	-	1	1,266
Professional fees	-	12,711	-	448	13,159
Media production and distribution	-	827	-	1	828
Events and meetings	-	2,154	-	80	2,234
Travel and representation	-	2,919	-	123	3,042
Facility and office costs	-	10,160	-	110	10,270
Supplies and minor equipment	-	714	-	-	714
Other borrowing expenses	-	-	224,778	-	224,778
Interest expense	-	-	107,847	-	107,847
Other operating expenses	-	49,892	332,625	2,026	384,543
Total expenses	642,799	49,892	332,625	2,026	1,027,342

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

Notes to the Consolidated Financial Statements

01 Nature of Operations and Affiliations

These consolidated financial statements include the accounts of the following entities: (1) the GAVI Alliance ("GAVI"), (2) the GAVI Fund Affiliate ("GFA"), and (3) the International Finance Facility for Immunisation Company ("IFFIm"). For the purposes of these consolidated financial statements, GAVI, GFA and IFFIm are collectively referred to as the Alliance. Each of the entities included in these consolidated financial statements is described below:

The GAVI Alliance: GAVI was formerly known as the Global Alliance for Vaccines and Immunisation. It was created in 2000 to respond to and combat declining immunisation rates in developing countries. GAVI was initially created as a non-juridical association of public and private sector organisations, institutions and governments, including the Bill and Melinda Gates Foundation (the "B&MGF"), the United Nations Children's Fund ("UNICEF"), the International Bank for Reconstruction and Development (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.

During a joint meeting in November 2007, the Global Alliance for Vaccines and Immunisation decided to centralise its governance and operations under the GAVI Alliance brand, using the legal platform of the GAVI Foundation, which was a Swiss not-for-profit foundation incorporated in July 2006 to assist in coordinating activities of the Global Alliance for Vaccines and Immunisation. Pursuant to this decision, certain organisational changes occurred during the year ended 31 December 2009. These changes were as follows:

- In January 2009, the GAVI Foundation changed its name to the GAVI Alliance.
- In January 2009, GAVI received recognition as an international institution under the Swiss Host State Act. Based on this status, GAVI benefits from privileges and immunities in Switzerland similar to those accorded to other international intergovernmental organisations.
- In January 2009, GAVI signed an agreement with the GAVI Campaign (the "Campaign"), formerly known as the GAVI Fund, to transfer substantially all of the Campaign's assets, rights, privileges, liabilities and obligations to GAVI (the "Campaign Grant Agreement"). The transfers under the Campaign Grant Agreement commenced in January 2009 and are expected to be completed in 2010.
- In March 2009, GAVI received tax-exempt status under section 501(c)(3) of the United States Internal Revenue Code.
- In August and December 2009, GAVI became the sole member of GFA and IFFIm, respectively. Prior to these dates, the Campaign was the sole member of GFA and IFFIm. Due to the change in reporting entity, which is described further in Note 03, the effect of this change in membership has been retroactively applied in these financial statements.
- In December 2009, all of the Campaign's rights and obligations under the Finance Framework Agreement, Procedures Memorandum and Administrative Support Agreements among the Campaign, GFA and IFFIm (the "IFFIm Governing Documents") were novated to GAVI. This novation of the Governing Documents resulted in a change in reporting entity as described in Note 03 to the financial statements.

The International Finance Facility for Immunisation Company: IFFIm was incorporated in June 2006 as a private company limited by guarantee under the United Kingdom Companies Act 1985, with company registration number 5857343. It is also registered as a charity with the Charity Commission for England and Wales, with charity registration number 1115413. IFFIm is a multilateral development institution that raises funds by issuing bonds in the international capital markets. It then disburses the funds to GFA which subsequently uses the funds to support various GAVI vaccine procurement, immunisation and health systems strengthening ("HSS") programmes.

The GAVI Fund Affiliate: GFA was incorporated in May 2006 as a private company limited by guarantee under the United Kingdom Companies Act 1985, with company registration number 5830438. It is also registered as a charity with the Charity Commission for England and Wales, with charity registration number 1115297. GFA enters into pledge agreements with sovereign government 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.

02 Significant Accounting Policies

Basis of Accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("US GAAP").

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of GAVI, IFFIm and GFA. All intra-entity balances and transactions have been eliminated on consolidation.

Cash: The Alliance reports all demand deposits as cash. Money market accounts managed by external advisors, with original maturities of three months or less, are reported in the Consolidated Statement of Financial Position as investments. At times, the balances in bank accounts held in the United States may exceed United States federally insured limits. The Alliance has, however, not experienced any losses in these accounts, and does not believe it is exposed to any significant credit risk related to the accounts.

Promises to Give: The Alliance records each unconditional promise to give at fair value on the date the donor signs the grant agreement. The techniques applied in determining the fair values of promises to give are described in the *Fair Value of Financial Instruments* section below.

Due to the nature of promises to give, changes in market and credit risk, vaccine demand and the economic environment may significantly impact the inputs used in the model and, consequently, the fair value of the promises to give. Although a secondary market may not exist for these transactions, it is reasonably possible that if GAVI were to sell these receivables in a secondary market a buyer may require a discount to the reported fair value, and the discount could be significant.

Investments: GAVI, GFA and IFFIm manage and record their investments in different ways as follows:

- **Investments held by GAVI:** These investments are governed by GAVI's investment policy and managed by external investment managers. The investments are recorded at fair value. Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades on individually held securities.
- **Investments held by IFFIm and GFA:** These investments are managed on a pooled basis by the World Bank, which maintains a single investment portfolio (the "Pool") for all of the trust funds it administers. The World Bank commingles GFA's and IFFIm's assets with other trust fund assets it administers. The amounts recorded in the Alliance's Consolidated Statement of Financial Position represent the Alliance's allocated share of the Pool's fair value at year-end. 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.

Gains and losses on investment as well as interest and dividend income are reported as investment income in the Consolidated Statement of Activities.

The Alliance records investments at fair value. The techniques applied in determining the fair values of investments are described in the *Fair Value of Financial Instruments* section below.

Bonds Payable: Bonds payable are recognised at fair value. The techniques applied in determining the fair values of bonds payable are described in the *Fair Value of Financial Instruments* section below.

Changes in the fair values of bonds payable are recognised as a change in unrestricted net assets in the period of change and are reported under financing expenses in the Consolidated Statement of Activities. Bond issuance costs, mark-to-market costs, and discounts are recognised in the period incurred and are reported under financing expenses in the Consolidated Statement of Activities.

Derivative Financial Instruments: IFFIm uses currency and interest swaps for asset and liability management purposes. These derivative financial instruments are carried at fair value in the Consolidated Statement of Financial Position. Receivables from currency and interest rate swaps are offset against payables on currency and interest rate swaps in the Consolidated Statement of Financial Position. Changes in the fair values of derivatives are recognised as a change in the Consolidated Statement of Activities in the period of change and included in net gains and losses from derivatives. The techniques applied in determining the fair values of derivative financial instruments are described in the *Fair Value of Financial Instruments* section below.

All of IFFIm's currency and interest rate swap contracts are with the World Bank. IFFIm has both: (1) a master netting agreement with the World Bank that legally provides for net settlement of receivables and payables on IFFIm's currency and interest rate swaps, and (2) the intention to settle such receivables and payables on a net

basis. As such, IFFIm is only exposed to the net settlement amounts and offsets derivative assets against derivative liabilities and presents the net amounts in the Statement of Financial Position.

Programme Grants Payable: Programme grants payable are recorded upon board or executive committee approval of the related vaccine and cash programme commitments. Programme grants payable are recorded at fair value. The techniques applied in determining the fair values of programme grants payable are described in the *Fair Value of Financial Instruments* below.

Payments to programme implementing partners or procurement agents in advance of any service delivery are accounted for as prepayment for procurement, which is included in receivables, prepaid expenses and other assets in the Consolidated Statement of Financial Position.

Fair Values of Financial Instruments: US GAAP establishes a framework for measuring fair value and prescribes disclosures about fair value measurements. It emphasises that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participants' assumptions in fair value measurements, US GAAP establishes a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The Alliance has elected to report its promises to give, programme grants payable and borrowings at fair value, with changes in fair value reported in the Consolidated Statement of Activities. The objective of this election was to better align the carrying values of promises to give and borrowings with the carrying values of currency and interest rate swap contracts that economically hedge them. The Alliance elects to report all new promises to give, programme grants payable and borrowings at fair value as these assets and liabilities are acquired or incurred.

US GAAP establishes a three-level fair value hierarchy under which financial assets and financial liabilities are categorised based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities, the next-highest priority to observable market-based inputs or inputs that are corroborated by market data and the lowest priority to unobservable inputs that are not corroborated by market data. US GAAP requires that the valuation techniques used to measure fair value maximise the use of observable inputs and minimise the use of unobservable inputs.

The Alliance's financial assets and financial liabilities recorded at fair value are categorised based on the inputs to the valuation techniques as follows:

- **Level 1:** Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.
- **Level 2:** Financial assets and liabilities whose values are based on: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in non-active markets, or (3) pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level 3:** Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorised is based on the lowest-level input that is significant to the fair value measurement of the asset or liability in its entirety.

The techniques applied in determining the fair values of assets and liabilities are summarised below:

- **Cash:** The carrying amount approximates the fair value.
- **Investments Managed by GAVI:** The fair values of investments are calculated based on either quoted market prices per share, or net asset values per share provided by GAVI's investment managers.
- **Pooled Investments Managed by the World Bank:** Pooled Investments managed by the World Bank are included in investments in the Consolidated Statement of Financial Position. The World Bank maintains a single, commingled investment portfolio (the "Pool") for GFA, 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.

GFA's and IFFIm's shares of the Pool are not traded in any market. However, the Pool is a trading portfolio and is reported at fair value. Shares in the Pool represent GFA's and IFFIm's allocated share of the Pool's fair value at the end of the reporting period. If an active market exists, the market or quoted price is applied. If an active market does not exist, generally accepted valuation techniques, based on observable market data as of the reporting date, are used instead.

Under board approved investment strategies, IFFIm is invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding its investment portfolio and GFA is invested in highly rated liquid short-term money market instruments. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally generated or vendor-supplied, including the standard discounted cash flow method using market observable inputs, such as yield curves, credit spreads and prepayment speeds. Unless quoted prices are available, money market instruments are reported at face value, which approximates fair value.

- **Promises to Give from IFFIm Donors:** The Alliance's promises to give include pledges to GFA from the following eight sovereign government donors: (1) the Republic of France, (2) the Republic of Italy, (3) the Kingdom of Norway, (4) the State of the Netherlands, (5) the Kingdom of Spain, (6) the Kingdom of Sweden, (7) the United Kingdom, and (8) the Republic of South Africa (together the "IFFIm Donors"). These pledges are legally binding payment obligations to GFA, which were assigned to IFFIm. The pledges are irrevocable and are payable by the IFFIm Donors in several instalments in accordance with predetermined fixed payment schedules over the next 20 years. The total amount paid by the IFFIm Donors over these 20 years will be impacted a grant payment condition ("GPC") that allows the donors to reduce their payment amounts.

The GPC allows the IFFIm Donors to reduce their payments in the event that an eligible recipient country, as defined by the transactional documents, enters into protracted arrears on its obligations to the International Monetary Fund ("IMF"). Each recipient country has been ascribed a weight within a reference portfolio, which represents the IMF's estimate of how likely the country will be to enter into protracted arrears. These weights remain static for the life of IFFIm, and are 1%, 3%, or 5%. The amounts are aggregated, and the IFFIm Donors reduce the amounts they pay 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 the IFFIm Donors are increased by the respective weights of those clearing countries. The final determination of each IFFIm Donor payment amount, as measured by the World Bank, is made 25 business days prior to the due date of the payment.

The reference portfolio is as follows:

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 Cote 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, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria, Pakistan	5%	35%

The fair values of promises to give from IFFIm Donors are estimated using a discounted cash flow method. Each expected future cash flow is reduced by an estimated reduction amount due to the GPC and the reduced cash flows are discounted to present value using observable donor-specific risk-adjusted interest rates. These GPC reduction amounts are calculated using a probabilistic model that estimates the likelihood and duration that any recipient member country might fall into arrears with the IMF. This model yielded a reduction in expected future cash flows of 16.3% as of 31 December 2009. The probabilistic model uses inputs that are both unobservable and significant to the overall fair value of the promises to give.

Each IFFIm Donor's promise to give is discounted using the donor's sovereign government borrowing rate, which considers both market risk and the donor's credit risk.

The fair value of future cash flows from IFFIm Donors was USD 2.9 billion as of 31 December. This fair value was estimated using observable donor-specific risk adjusted annual discounts rates ranging from 0.1% to 5.6%.

- **Promises to Give from AMC Donors:** Advance Market Commitments (each an “AMC”) are a new approach to public health funding and are designed to stimulate the development and manufacture of vaccines specifically for developing countries. Under AMC arrangements, donors pledge funds to guarantee the price of vaccines once they have been developed, thus creating the potential for a viable future market.

On June 12, 2009, and the following sovereign government donors, government agencies and private donors: (1) the Canadian International Development Agency (“CIDA”), (2) the Republic of Italy, (3) the Kingdom of Norway, (4) the Russian Federation, and (54) the United Kingdom, and (6) the B&MGF (together the “AMC Donors”), along with the World Bank, UNICEF and the WHO, formally activated the AMC pilot project against pneumococcal disease. Pursuant to the launch of this AMC, the AMC Donors entered into grant agreements of which GAVI is the beneficiary. The AMC Donor pledges made in these grant agreements are legally binding and guaranteed by the World Bank. They are irrevocable and are payable by the AMC Donors over the next ten years.

The fair values of promises to give from AMC Donors are estimated using a discounted cash flow method. The timing and amounts of payment by AMC Donors are dictated by terms included in the various agreements entered into among GAVI, the World Bank and the AMC Donors that govern the operation of the pneumococcal AMC (the “AMC Governing Documents”). Therefore, these terms are taken into account when estimating future cash flows.

The AMC Governing Documents terms that most significantly impact the timing and amounts of future cash flows are summarised below:

- (1) GAVI and the AMC Donors both contribute to the purchase of each pneumococcal vaccine dose. AMC Donor funds are not available to GA if it does not, or cannot, fund its portion of the purchases at the time that the funding is required.
- (2) The aggregate amount funded by AMC Donors is limited to the total vaccine demand over the next ten years. This vaccine demand is estimated through the strategic demand forecasts that are compiled by the Program for Appropriate Technologies for Health, and published semi-annually by GAVI.
- (3) Payments by B&MGF, the Republic of Italy and the Russian Federation are made in accordance with fixed payment schedules included in the AMC Governing Documents. Payments by CIDA, the Kingdom of Norway and the United Kingdom are made only when GAVI submits funding requests. These funding requests are based on projected future vaccine demand.

Each AMC Donor’s promise to give is discounted using rates determined by either adjusting the donor’s sovereign government Biovail (“BVF”) yield curve to reflect the increased credit risk of the donor, if any, or identifying securities with similar risk profiles and using the yield curves for those securities.

The fair value of future cash flows from AMC Donors was USD 1.1 billion as of 31 December 2009. This fair value was estimated using observable and unobservable risk adjusted annual discounts rates ranging from 0.5% to 5.2%.

Other Promises to Give: Promises to give other than those from IFFIm Donors or AMC Donors are estimated using a discounted cash flow method. The fair value of future cash flows as of 31 December 2009 was USD 401 million. This fair value was estimated using observable donor-specific risk adjusted annual discounts rates ranging from 0.6% to 3.0%.

- **Programme Grants Payable:** The fair value of each programme grant payable is the estimated cost of the vaccine and supplies to be procured plus shipping, or the actual cash value to be paid to the country at the time the approval is made by the board.
- **Bonds Payable:** The fair value of IFFIm’s borrowings is determined using a discounted cash flow method, which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.
- **Derivatives:** The fair values of derivatives are estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on the measurement date. All model inputs are based on readily observable market parameters such as yield curves, foreign exchange rates, and basis spreads.

Fixed Assets: Furniture, equipment and leasehold improvements that were purchased by the Alliance are stated at cost. Depreciation for furniture and equipment is calculated using the straight-line method over their estimated useful lives of three to five years. Depreciation for leasehold improvements is calculated using the straight-line method over the shorter of the asset's useful life or the term of the lease. Net fixed assets of USD 6.5 million are included in receivables, prepaid expenses and other assets in the Consolidated Statement of Financial Position as of 31 December 2009.

On 1 January 2009, GAVI received contributions of fixed assets of USD 5.6 million and USD 1.6 million from the Campaign and UNICEF, respectively. Contributed fixed assets are recorded at fair value at the time of the contribution as determined by a valuation expert and reviewed and agreed to by management.

Income Taxes: US GAAP requires that financial statements reflect the expected future tax consequences of uncertain tax positions that an entity has taken or expects to take on a tax return, presuming the tax authorities' full knowledge of the position and all relevant facts. US GAAP also requires that an entity recognise the benefit of tax positions when it is more likely than not that the provision will be sustainable based on the merits of the position. The Alliance performed an evaluation of uncertain tax positions for the year ended 31 December 2009 and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of 31 December 2009, the statutes of limitations for tax years 2006 through 2008 remain open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the Alliance files tax returns. It is the Alliance's policy to recognise interest or penalties related to uncertain tax positions, if any, in income tax expense. As of 31 December 2009, the Alliance had no accrued interest or penalties.

Contingencies: The Alliance's programmes include investment cases. An investment case is a proposal that is prepared jointly by GAVI and on one or more partners to fund a special vaccine related programme, such as rapid response to outbreaks through stockpiling vaccines or prevention campaigns. Due to uncertainty around when or where outbreaks will occur and how much GAVI will be required to fund, it is difficult to estimate the costs involved with such programmes. Therefore, such costs are recorded at the time they are incurred, and there will be future costs associated with investment case programmes.

Foreign Currency Transactions: These financial statements are presented in United States dollars, which is the reporting currency of the Alliance. The assets and liabilities held in foreign currency are converted to United States dollars at the prevailing average interbank exchange rate as of 31 December 2009. Foreign currency transactions are translated at the prevailing average interbank exchange rates on the date of the transaction. The resulting foreign exchange gains and losses are recognised in the Consolidated Statement of Activities.

Classification of Net Assets: Net assets are reported as follows:

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed stipulations that are expected to be met by actions of the Alliance or the passage of time.
- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed stipulations that must be maintained permanently by the Alliance. As of 31 December 2009, the Alliance did not have any permanently restricted net assets.

Revenue Recognition: Contributions and grants are reported as revenue in the year in which payments are received or unconditional promises are made. GAVI reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets for specific purposes or use in future periods. When a donor restriction expires, that is, when the time or purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year are reported as unrestricted support.

Revenue from cost-reimbursable contracts and grants is recognised as costs are incurred or activities have occurred on the basis of direct costs, plus allowable indirect costs.

Expenses: The Alliance records expenses in the periods to which the transactions, events and circumstances relate.

Allocation of Functional Expenses: The cost of programmes and supporting activities is summarised by their functional classification in the Consolidated Statement of Activities and by their natural classification in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among programme activities and supporting services, as shown in the Consolidated Statement of Functional Expenses.

Use of Estimates: The preparation of the consolidated financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that established its Accounting Standards Codification (the "Codification") as the source of authoritative US GAAP recognised by the FASB to be applied to nongovernmental entities. The Codification supersedes all existing nongovernmental accounting and reporting standards upon its effective date, and subsequently, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. The guidance is not intended to change or alter existing US GAAP. The guidance became effective for the Alliance in the fourth quarter of 2009. The guidance did not have an impact on the Alliance's Consolidated Statements of Financial Position, Activities, Cash Flows, and Functional Expenses. All references to previous numbering of FASB Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts have been removed from the consolidated financial statements and accompanying footnotes.

In May 2009, the FASB issued authoritative guidance for subsequent events. The guidance provides authoritative accounting literature related to evaluating subsequent events that was previously addressed in auditing literature alone. The guidance is similar to the current guidance, with some exceptions that are not intended to result in a significant change to current practice. The guidance defines subsequent events and also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Alliance adopted the disclosure provisions of the guidance as of 31 May 2009. The adoption did not have an impact on GAVI's statement of financial position, statement of activities or statement of cash flows.

In September 2009, the FASB issued Accounting Standards Update Number 2009-12 ("ASU 2009-12") *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009 and permits, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent ("NAVPS") for which fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment. ASU 2009-12 amends the Codification and provides that if the reporting entity has the ability to redeem its investment in another fund at net asset value at the measurement date, the investment shall be categorized as a Level 2 fair value measurement, and if the reporting entity cannot redeem its investment in another fund at net asset value at the measurement date but the investment may be redeemable at a future date, the reporting entity shall consider the length of time until the investment will be redeemable in determining whether it will be categorized as a Level 2 or Level 3 fair value measurement. The Alliance adopted the provisions of ASU 2009-12 as of 30 September 2009.

03 Change in Reporting Entity

The novation to GAVI of the Campaign's rights, privileges and obligations under the IFFIm Governing Documents resulted in a change in reporting entity. For the year ended 31 December 2008, the Alliance presented consolidated financial statements that included the accounts of the Campaign, GAVI, GFA and IFFIm. For the year ended 31 December 2009, due to this change in reporting entity, the Alliance presented consolidated financial statements that retrospectively include the accounts of GAVI, GFA and IFFIm.

The change in reporting entity had the following impacts on consolidated net assets as of 1 January 2009 and the consolidated change in net assets for the year ended 31 December 2009:

In Thousands of USD	Consolidated Net Assets as of 1 January 2009	Consolidated Change in Net Assets for the Year Ended 31 December 2009
Before the impact of the change in reporting entity		
Unrestricted	18,171	454,835
Temporarily restricted	2,204,356	712,313
Before the impact of the change in reporting entity	2,222,527	1,167,148
Impact of the change in reporting entity		
Unrestricted	(22,060)	(48,286)
Temporarily restricted	(535,853)	540,267
Total impact of the change in reporting entity	(557,913)	491,981
After the impact of the change in reporting entity		
Unrestricted	(3,889)	406,549
Temporarily restricted	1,668,503	1,252,580
After the impact of the change in reporting entity	1,664,614	1,659,129

04 Contributions from the GAVI Campaign

In January 2009, GAVI signed a grant agreement with the Campaign to transfer substantially all of the Campaign's assets, rights, privileges, liabilities and obligations to GAVI. During the year ended 31 December 2009, and pursuant to this agreement, the Campaign began the process of transferring assets and liabilities to GAVI in a series of tranches. The Campaign expects to complete the transfers by 31 December 2010.

The transfer of the Campaign's assets, net of liabilities assumed, was recorded by GAVI as contribution revenue and presented accordingly in the Alliance's Consolidated Statement of Activities. The aggregate value of the recorded contributions was USD 1.1 billion.

Assets transferred from the Campaign included certain promises to give that were classified by the Campaign, prior to transfer, as temporarily restricted due to donor-imposed restrictions. These restrictions were still attached to the promises to give after they were transferred to GAVI. Therefore, the promises to give and related contributions from the Campaign are classified as temporarily restricted in the Consolidated Statement of Financial Position and Consolidated Statement of Activities, respectively. The contributions from the Campaign were comprised of the following:

In Thousands of USD	2009
Unrestricted contributions from the GAVI Campaign	728,693
Temporarily restricted contributions from the GAVI Campaign	411,934
Total contributions from the GAVI Campaign	1,140,627

05 Derivative Financial Instruments

Through IFFIm, the Alliance is exposed to the market risk that its net assets or its ability to meet its objectives may be adversely affected by changes in the level of, or volatility in, market rates or prices. IFFIm's market risk is comprised primarily of foreign exchange rate risk and interest rate risk. Each of these is described further below.

Foreign Exchange Rate Risk: During the year ended 31 December 2009, IFFIm was exposed to foreign exchange risks from currency mismatches as well as timing differences between receipt of donor payments, payment of bond obligations, disbursements to GFA and issuance of IFFIm bonds. To mitigate these risks, donor

pledges were swapped into United States dollar zero-coupon floating rate assets and, at issuance, IFFIm's bonds payable were swapped into United States dollar floating rate liabilities.

Interest Rate Risk: IFFIm was exposed to interest rate risk from differences in the interest rate bases of the bonds payable and funds held in trust. IFFIm used interest rate swaps to mitigate this exposure.

The notional amounts and fair values of interest rate and currency swaps as of 31 December 2009 are as follows:

In Thousands of USD	31 December 2009	
	Notional Amount	Fair Value
Swaps related to promises to give		
Interest rate swaps	21,504	(1,874)
Currency swaps	4,553,714	(252,014)
Payable on swaps related to promises to give		(253,888)
Swaps related to bonds payable		
Interest rate swaps	2,414,055	73,437
Currency swaps	1,221,226	202,051
Receivable on swaps related to bonds payable		275,488
Net receivable for currency and interest rate swaps		21,600

06 Investments

The fair values of the Alliance's investments as of 31 December 2009 were:

In Thousands of USD	2009
Money market funds	282,618
Collective investment trusts	296,668
Registered investment companies	259,997
Limited liability companies	54,740
Limited partnerships	108,812
Pooled investments	1,360,340
Total investments	2,363,175

The Alliance invests a portion of its assets in limited partnerships and limited liability companies that calculate NAVPS amounts and do not have readily determinable fair values (the "Underlying Funds"). As a practical expedient, the Alliance measures the fair values of the Underlying Funds on the basis of their calculated NAVPS amounts. Investments in the abovementioned Underlying Funds are redeemable at their current net asset value upon written notice by the Alliance.

As of 31 December 2009, the redemption frequencies, redemption notice periods and fair values of the Alliance's investments in Underlying Funds were:

In Thousands of USD	Redemption Frequency	Redemption Notice Period	Fair Value
Collective investment trusts ¹	Daily	2 days	296,668
Limited liability companies ²	Daily	5 days	54,740
Limited partnerships ³	Monthly	5 days	108,812
Total investments			460,220

¹ This category is comprised of several Underlying Funds that invest primarily in fixed income debt securities. Effective 1 January 2010, the investment objectives of the Underlying Funds were to approximate as closely as practicable, before expenses, the performances of various Barclays Capital United States Bond Indices over the

long term. Prior to 1 January 2010, the investment objectives of the Underlying Funds were to match the return of various Lehman Brothers Bond Indices.

² This category is comprised of one Underlying Fund that invests primarily in fixed income debt securities. The investment objectives of this Underlying Fund is to maximize long-term total return, primarily by investing at least fifty percent of its assets in investment grade debt and fixed income securities rated at least Baa3 or BBB- at the time of purchase by a rating agency recognised nationally in the United States.

³ This category is comprised of one Underlying Fund that invests primarily in global inflation-linked bonds and commodities. However, on a small portion of its portfolio, this Underlying Fund also seeks to enhance returns by taking long, short and spread positions on fixed income securities, equity securities, currencies and commodities.

07 Promises to Give

Unconditional Promises to Give: The Alliance's unconditional promises to give as of 31 December 2009 consisted of the following:

In Thousands of USD	2009
Contributions due in less than one year	358,859
Contributions due in two to five years	1,830,858
Contributions due thereafter	4,258,279
Promises to give before unamortised discount and reduction due to grant payment condition	6,447,996
Unamortised discount	(1,321,938)
Reduction due to grant payment condition	(774,645)
Total promises to give	4,351,413

Conditional Promises to Give: In December 2009, GAVI entered into a grant agreement with the European Commission. Under this agreement the European Commission undertook to contribute up to EUR 9.5 million to GAVI. This contribution is contingent upon GAVI implementing a programme for the introduction of pneumococcal vaccines in the least developed African, Caribbean and Pacific countries. The above conditions were not met which would allow for the contribution to be recognised in the statement of financial position.

08 Programme Grants Payable

The Alliance's grants committed, but unpaid, as of 31 December 2009 consists of the following:

In Thousands of USD	2009
Grants payable due in less than one year	840,464
Grants payable due in two to five years	7,347
Grants payable before unamortised discount	847,811
Less unamortised discount	(178)
Total programme grants payable	847,633

09 Bonds Payable

IFFIm borrows in the worldwide capital markets by offering its bonds to fund the Alliance's programmes. IFFIm's outstanding bonds payable as of 31 December 2009 were:

Issue Date	Maturity Date	Coupon Interest Rate	Nominal Amount, in Thousands of USD	Fair Value as of 31 December 2009, in Thousands of USD
14 November 2006	14 November 2011	5.00%	1,000,000	1,073,886
18 March 2008	18 March 2010	9.90%	229,683	237,348
19 February 2009	21 February 2012	6.26%	428,292	422,546
19 February 2009	21 February 2012	2.65%	129,927	125,083
19 February 2009	21 February 2012	2.60%	40,478	38,493
15 May 2009	15 May 2014	3.38%	404,862	416,519
15 May 2009	13 June 2014	0.00%	26,740	26,458
27 May 2009	25 May 2012	1.00%	105,000	103,335
27 May 2009	25 May 2012	3.51%	44,975	43,020
24 June 2009	24 June 2013	6.85%	32,291	30,551
24 June 2009	24 June 2024	0.50%	108,086	32,060
24 June 2009	24 June 2013	4.36%	63,498	60,160
Total bonds payable				2,609,459

10 Temporarily Restricted Net Assets

The Alliance's temporarily restricted net assets as of 31 December 2009 consisted of the following:

In Thousands of USD	2009
Due to time restriction	1,850,998
Due to programme restriction	1,070,085
Total temporarily restricted net assets	2,921,083

11 Investment Income

Investment income for the year ended 31 December 2009 was as follows:

In Thousands of USD	2009
Interest	566
Realised gains	12,305
Unrealised gains	22,367
Dividend	6,068
Investment fees	(1,216)
Total investment income	40,090

12 Net Gains from Derivatives

For the year ended 31 December 2009, net gains in the fair values of derivatives, which have been recognised in the Consolidated Statement of Activities, includes the following:

In Thousands of USD	2009
Net losses from swaps related to promises to give	(228,967)
Net gains from swaps related to borrowings	294,167
Net gains from derivatives	65,200

13 Retirement Plans

The Alliance sponsors the following retirement plans:

Employees Based in Geneva, Switzerland: GAVI sponsors a defined contribution Term Savings Plan with Zurich International Life Limited ("the Geneva Plan"). Membership in the Geneva Plan is mandatory for all employees with GAVI employment contracts of four or more months. The Geneva Plan is funded by both GAVI and employees' contributions that are based on the employees' gross annual salaries. GAVI makes monthly employer contributions to the Geneva Plan at 16% of the employee gross salary. Each employee has a compulsory 5% contribution. The total amount expensed for the GAVI's contributions was USD 2 million for the year ended 31 December 2009.

Employees Based in Washington, DC: GAVI sponsors a 401(k) defined contribution plan (the "Washington Plan"), which is a United States retirement savings plan under the United States Internal Revenue Code, for all eligible employees. Employees become eligible upon being hired and may participate starting on the first day of any month. Employees may contribute voluntary salary deferrals to the Washington Plan, subject to United States Internal Revenue Service limitations. GAVI's annual matching contribution equals 1% of each vested participant's compensation and a 3% contribution due to a safe harbour provision. The participants are fully vested after one thousand hours of employment in a plan year. In addition, GAVI's board approved discretionary spending equalling 12% of each participant's compensation in order to better align the Washington Plan with the Geneva Plan. The amount expensed for GAVI's contributions is USD 461 thousand for the year ended 31 December 2009.

14 Leases

GAVI has a ten-year lease agreement for office space in Washington, DC, which commenced in November 2003 and a five-year lease agreement for office space in Geneva, Switzerland, which commenced on in January 2007. In September 2007, the Campaign moved out of its then-leased office space in Washington, DC and has sublet the space for the remainder of the lease term. GAVI then entered into a new ten-year lease agreement with a five-year option to renew at its current branch address, which commenced in June 2007.

GAVI's future minimum lease payments and related sublessor income are as follows:

In Thousands of USD	Expense	Income	Net Expense
Year Ending 31 December 2010	3,254	699	2,555
Year Ending 31 December 2011	3,311	770	2,541
Year Ending 31 December 2012	1,568	807	761
Year Ending 31 December 2013	1,595	682	913
Thereafter	4,899	960	3,939
Total	14,627	3,918	10,709

Rent expense for these leases is recognised on a straight-line basis over the term of the leases. Rental expense was USD 3.2 million for the year ended 31 December 2009.

15 Concentration of Credit Risk

Financial instruments that potentially subject the Alliance to concentrations of credit risk consist of deposits in banks and investments in excess of the United States Federal Deposit Insurance Corporation ("FDIC") and other privately insured limits. The Alliance invests its excess cash in money market and debt instruments and has established guidelines relative to diversification and maturities aimed at maintaining safety and liquidity.

While amounts in demand deposit accounts at times exceed the amount guaranteed by United States federal agencies and therefore bear some risk, the Group has not experienced, nor does it anticipate, any credit losses on these financial instruments. In addition, the money market accounts included in these balances are liquid accounts in support of programmes. In general, balances are transferred within six months of receipt. The maximum limit insured by the FDIC was USD 100 thousand per depositor at a financial institution until 3 October 2008 when the FDIC temporarily increased the limit from USD 100 thousand to USD 250 thousand. The increased FDIC coverage expires on 31 December 2013 at which time the level of coverage will return to USD 100 thousand.

The approximate uninsured cash balances as of 31 December 2009 are as follows:

In Thousands of USD	2009
Cash in current accounts	600
Money market investments	283,000
Total uninsured cash balance	283,600

The World Bank manages IFFIm's credit risk related to its derivative contracts by serving as the counterparty for all IFFIm's swaps. No collateral or other security is held in support of IFFIm's financial assets or liabilities. To manage credit risk related to investments, the World Bank invests the pooled assets in liquid instruments such as money market deposits, government and agency obligations. The World Bank is limited to investments with minimum credit ratings as follows:

- Money market deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organisation or any other official entity require a minimum credit rating of AA-.
- Mortgage-backed securities, asset-backed securities and corporate securities: minimum rating must be AAA.

16 Fair Value of Financial Instruments

The following table summarises the Alliance's assets measured at fair value along with their valuation hierarchy as of 31 December 2009:

As of 31 December 2009, in Thousands of USD	Level 1	Level 2	Level 3	Total
Pooled investments	45,780	1,314,462	98	1,360,340
Money market funds	282,618	-	-	282,618
Registered investment companies	259,997	296,668	-	556,665
Limited partnerships and limited liability companies	-	54,740	108,812	163,552
Promises to give	-	1,028,163	3,323,250	4,351,413
Receivable for currency and interest swaps	-	21,600	-	21,600
Total assets at fair value	588,395	2,715,633	3,432,160	6,736,188

The following table summarises the Alliance's liabilities measured at fair value along with their valuation hierarchy as of 31 December 2009:

As of 31 December 2009, in Thousands of USD	Level 1	Level 2	Level 3	Total
Programme grants payable	-	847,633	-	847,633
Bonds payable	-	2,576,102	-	2,576,102
Total liabilities at fair value	-	3,423,735	-	3,423,735

The table below provides a summary of changes in the fair value of Level 3 financial assets for the year ended 31 December 2009:

As of 31 December 2009, in Thousands of USD	Assets			
	Pooled Investments	Limited Partnerships and Limited Liability Companies	Promises to Give	Total
Fair value as of 1 January 2009	-	-	2,741,183	2,741,183
Net realised and unrealised losses	-	8,654	-	8,654
Unrealised fair value gains	-	-	219,444	219,444
Purchases and sales	98	100,158	-	100,256
New contributions	-	-	528,284	528,284
Contributions received	-	-	(165,661)	(165,661)
Total assets at fair value	98	108,812	3,323,250	3,432,160

17 Subsequent Events

In preparing of these consolidated financial statements, the Alliance evaluated subsequent events through 21 September 2010, which represents the date that the consolidated financial statements were available to be issued. The Alliance identified the following significant subsequent events:

- During 2010, under the terms of the Grant agreement between the Campaign and GAVI, the Campaign will complete its transfer of additional assets and liabilities to GAVI. This transfer of assets and liabilities will be treated as a contribution by GAVI, the estimated value of the contribution is USD 752 thousand.
- In April 2010, S&P downgraded the Kingdom of Spain's credit rating from AA+ to AA. No reductions to estimated cash inflows have been made to reflect IFFIm Donors' credit risk when determining the fair value of promises to give. This is due to the legally binding agreements in place for future funding and the continued commitment to development funding made by the Grantors.



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Independent Auditors' Report

The Board of Directors

The GAVI Alliance, Geneva

We have audited the accompanying consolidated statement of financial position of the GAVI Alliance as of 31 December 2009, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended. These consolidated financial statements are the responsibility of the GAVI Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GAVI Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the GAVI Alliance as of 31 December 2009, and the change in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG SA

Pierre-Henri Pingeon

Licensed Audit Expert
Auditor in Charge

Karina Vartanova

Licensed Audit Expert

Geneva, 21 September 2010

