The GAVI Fund

Consolidated Financial Statements as of and for the
Years Ended December 31, 2007 and 2006 (As Restated),
and Independent Auditors' Report

THE GAVI FUND

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The GAVI Fund
Washington, DC

We have audited the accompanying consolidated statements of financial position of The GAVI Fund (the "Fund") as of December 31, 2007 and 2006, and the related consolidated statements of activities, changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Fund'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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17, the accompanying 2006 consolidated financial statements have been restated.

Deloitte & Touche LLP

December 1, 2008

THE GAVI FUND
Consolidated Statements of Financial Position
As of December 31, 2007 and 2006

	2007	*2006 (As restated)*
Assets		
Cash	$ 1,651,500	$ 30,693,855
Receivables, prepaids, and other assets	197,592,687	224,267,303
Investment sales receivable	3,533,638	25,596,202
Investments (Note 5)	1,055,553,790	924,445,005
Pooled investments (Note 5)	202,202,608	796,440,630
Restricted cash – procurement account (Note 3)	272,924,114	264,859,224
Promises to give (Note 4)	3,613,871,643	2,825,175,263
Total Assets	**$ 5,347,329,980**	**$ 5,091,477,482**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	$ 11,571,331	$ 9,806,210
Payable for securities purchased	66,095,757	117,682,958
Payable for currency and interest rate swaps, net (Note 10)	106,762,836	71,965,237
Accrued bond interest (Note 8)	6,527,778	6,527,778
Program grants payable (Note 7)	864,619,134	608,968,458
Commitment to fund future procurement (Note 3)	-	8,981,464
Procurement account payable (Note 3)	272,924,114	264,859,224
Bonds payable (Note 8)	998,398,612	998,063,758
Total Liabilities	**2,326,899,562**	**2,086,855,087**
Net Assets:		
Unrestricted	248,435,304	645,185,908
Temporarily restricted (Note 9)	2,772,146,618	2,359,574,263
Total Net Assets Before Foreign Currency Translation Adjustment	**3,020,581,922**	**3,004,760,171**
Foreign currency translation adjustment	(151,504)	(137,776)
Total Net Assets	**3,020,430,418**	**3,004,622,395**
Total Liabilities and Net Assets	**$ 5,347,329,980**	**$ 5,091,477,482**

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

THE GAVI FUND
Consolidated Statements of Activities
For the years ended December 31, 2007 and 2006

	2007	2006 (As restated)
Unrestricted:		
Revenue:		
Contributions	$ 112,032,522	$ 84,555,170
Federal award	69,300,000	69,300,000
Net investment income (Note 5)	61,561,831	63,158,465
Net losses from derivatives (Note 10)	(41,867,652)	(70,209,486)
Foreign currency transaction adjustment	2,106,119	253,482
Other revenue	7,675,451	-
Release of net assets	599,868,802	465,993,943
Total Revenue	**810,677,073**	**613,051,574**
Expenses:		
Program	1,141,864,919	765,477,297
Management and general	21,069,184	18,291,474
Financing	50,580,148	7,044,495
Fundraising	2,894,890	2,024,807
Total Expenses	**1,216,409,141**	**792,838,073**
Change in Unrestricted Net Assets Before Release of Commitment to Fund Future Procurement	**(405,732,068)**	**(179,786,499)**
Release of commitment to fund future procurement (Note 3)	8,981,464	54,850,696
Change in Unrestricted Net Assets	**(396,750,604)**	**(124,935,803)**
Temporarily Restricted:		
Contributions	906,204,163	2,225,316,145
Foreign currency transaction adjustment	106,236,994	88,994,968
Release of net assets	(599,868,802)	(465,993,943)
Change in Temporarily Restricted Net Assets	**412,572,355**	**1,848,317,170**
Change in Net Assets	**$ 15,821,751**	**$ 1,723,381,367**

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

THE GAVI FUND
Consolidated Statements of Changes in Net Assets
For the years ended December 31, 2007 and 2006

	2007		
	Unrestricted	*Temporarily Restricted*	*Total*
Net Assets, Beginning of Year	$ 645,185,908	$ 2,359,574,263	$ 3,004,760,171
Change in net assets	(396,750,604)	412,572,355	15,821,751
Net Assets, End of Year, Before Foreign Currency Translation Adjustment	**248,435,304**	**2,772,146,618**	**3,020,581,922**
Foreign currency translation adjustment	(151,504)	-	(151,504)
Total Net Assets, End of Year	**$ 248,283,800**	**$ 2,772,146,618**	**$ 3,020,430,418**

	2006 (As Restated)		
	Unrestricted	*Temporarily Restricted*	*Total*
Net Assets, Beginning of Year	$ 770,121,711	$ 511,257,093	$ 1,281,378,804
Change in net assets	(124,935,803)	1,848,317,170	1,723,381,367
Net Assets, End of Year, Before Foreign Currency Translation Adjustment	**645,185,908**	**2,359,574,263**	**3,004,760,171**
Foreign currency translation adjustment	(137,776)	-	(137,776)
Total Net Assets, End of Year	**$ 645,048,132**	**$ 2,359,574,263**	**$ 3,004,622,395**

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

THE GAVI FUND

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

		2007		***2006 (As restated)***
Cash Flows from Operating Activities:				
Change in net assets	**$**	15,821,751	**$**	1,723,381,367
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:				
Unrealized foreign currency transaction adjustment		(17,097,674)		(89,476,888)
Depreciation		572,006		263,575
Loss on fixed asset disposals and impairments		230,511		1,028,002
Realized and unrealized gains on investments		(28,891,642)		(24,988,991)
Amortization of bond issuance costs		181,920		22,477
Amortization of bond discount		152,934		(118,719)
Release of commitment to fund future procurement		(8,981,464)		(54,850,696)
Changes in assets and liabilities				
Receivables, prepaids, and other assets		30,989,996		(210,211,420)
Promises to give		(771,598,706)		(2,224,441,282)
Accounts payable and accrued liabilities		1,751,394		4,197,421
Payable for currency and interest rate swaps		34,797,599		71,965,237
Accrued bond interest		-		6,527,778
Program grants payable		255,650,676		585,159,676
Commitment to fund future procurement		-		(3,910,940)
Procurement account payable		8,064,890		264,859,224
Net Cash (Used in) Provided by Operating Activities		**(478,355,809)**		**49,405,821**
Cash Flows from Investing Activities:				
Restricted cash utilized for long-term purposes		(8,064,890)		(264,859,224)
Purchase of fixed assets		(5,117,898)		(300,449)
Purchase of investments		(5,862,821,122)		(9,932,913,867)
Sales of investments		6,325,317,364		9,180,505,449
Net Cash Provided by (Used in) Investing Activities		**449,313,454**		**(1,017,568,091)**
Cash Flows from Financing Activities:				
Proceeds from bonds issuance		-		999,160,000
Capitalized bonds issuance costs		-		(1,000,000)
Net Cash (Used in) Provided by Financing Activities		**-**		**998,160,000**
Net Change in Cash		**(29,042,355)**		**29,997,730**
Cash, Beginning of Year		30,693,855		696,125
Cash, End of Year	**$**	**1,651,500**	**$**	**30,693,855**

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

THE GAVI FUND
Consolidated Statement of Functional Expenses
For the year ended December 31, 2007

	Program	*Management and General*	*Financing*	*Program Fundraising*	*2007 Total*
Direct program expenses	$ 1,085,782,452	$ -	$ -	$ -	$ 1,085,782,452
Program implementation	56,082,467	-	-	-	56,082,467
Grants	-	-	-	-	-
Total Program Expenses	**1,141,864,919**	**-**	**-**	**-**	**1,141,864,919**
Payroll and benefits	-	4,096,890	-	1,990,846	6,087,736
Training and recruitment	-	207,878	-	73,841	281,719
Professional fees	-	11,093,337	-	279,421	11,372,758
Media production and distribution	-	303,336	-	171,956	475,292
Events and meetings	-	307,121	-	80,076	387,197
Travel and representation	-	1,305,217	-	283,144	1,588,361
Facility and office costs	-	3,718,536	-	7,379	3,725,915
Supplies and minor equipment	-	258,879	-	8,227	267,106
Other borrowing expenses	-	-	580,148	-	580,148
Interest expense	-	-	50,000,000	-	50,000,000
Other Operating Expenses	**-**	**21,291,194**	**50,580,148**	**2,894,890**	**74,766,232**
Total Operating Expenses before Convergence Recoveries	1,141,864,919	21,291,194	50,580,148	2,894,890	1,216,631,151
Convergence recoveries	-	(222,010)	-	-	(222,010)
Total Expenses	$ **1,141,864,919**	$ **21,069,184**	$ **50,580,148**	$ **2,894,890**	$ **1,216,409,141**

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

THE GAVI FUND
Consolidated Statement of Functional Expenses
For the year ended December 31, 2006

	2006 (As restated)				
	Program	***Management and General***	***Financing***	***Program Fundraising***	***2006 Total***
Direct program expenses	$ 740,030,248	$ -	$ -	$ -	$ 740,030,248
Program implementation	24,775,831	-	-	-	24,775,831
Grants	671,218	-	-	-	671,218
Total Program Expenses	**765,477,297**	**-**	**-**	**-**	**765,477,297**
Payroll and benefits	-	3,993,317	-	920,933	4,914,250
Training and recruitment	-	712,723	-	87,454	800,177
Professional fees	-	10,969,432	-	734,684	11,704,116
Media production and distribution	-	391,157	-	2,330	393,487
Events and meetings	-	167,004	-	212	167,216
Travel and representation	-	664,532	-	271,344	935,876
Facility and office costs	-	2,684,348	-	7,850	2,692,198
Supplies and minor equipment	-	400,142	-	-	400,142
Other borrowing expenses	-	-	516,717	-	516,717
Interest expense	-	-	6,527,778	-	6,527,778
Other Operating Expenses	**-**	**19,982,655**	**7,044,495**	**2,024,807**	**29,051,957**
Total Operating Expenses before Convergence Recoveries	765,477,297	19,982,655	7,044,495	2,024,807	794,529,254
Convergence recoveries	-	(1,691,181)	-	-	(1,691,181)
Total Expenses	**$ 765,477,297**	**$ 18,291,474**	**$ 7,044,495**	**$ 2,024,807**	**$ 792,838,073**

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

Note 1 - Nature of Operations and Affiliations

The Global Alliance for Vaccines and Immunisation (the "Alliance") is a partnership that combines public and private sector resources to strengthen health systems, bring the benefits of immunization to those in greatest need, and ultimately save millions of lives worldwide. These consolidated financial statements include the following members of the Alliance: GAVI Fund (the "Fund"); Le Fonds pour les Vaccins de l'Enfance (The Fund for Children's Vaccines, referred to as the "Association"); International Finance Facility for Immunisation (IFFIm); GAVI Fund Affiliate (GFA); and the GAVI Foundation (the "Foundation") (collectively, GAVI).

The Fund is a charitable, nonprofit organization incorporated in October 1999. The Fund serves to provide new and underused vaccines and the means to deliver these vaccines to the children of the world. The activities of the Fund are funded primarily through contributions. The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of the United States.

The Association was registered in Lyon, France in 2001 as an affiliate of the Fund. The purpose of the Association is to contribute to the improvement of the vaccination of children in developing countries using all possible means to promote the research and development of vaccines in all fields and to contribute to the achievement of the Fund. Convergence and liquidation of the Association was completed on June 30, 2008.

IFFIm was incorporated as a private company limited by guarantee under the UK Companies Act 1985 on June 26, 2006. IFFIm is registered with the UK Charity Commission as a charity. The primary purpose is to provide funding for immunization and vaccine procurement programs of the Alliance by making grants to GFA, a charity registered with the Charity Commission for England and Wales. The sole member of IFFIm is the Fund.

GFA was incorporated as a private company limited by guarantee under the UK Companies Act 1985 on May 26, 2006. The sole member of GFA is the Fund. GFA is registered with the UK Charity Commission as a charity. Pursuant to an agreement with IFFIm, GFA's funding policy is to assign all grant agreements that govern sovereign donor promises to give to IFFIm. The assignment is in consideration for IFFIm's undertaking to raise funds for GAVI immunization and vaccine procurement programs that are presented to IFFIm by GFA. GFA disburses funds received by it from IFFIm, either directly or through an account of the Fund to support GAVI programs.

The Foundation was incorporated on July 19, 2006. The GAVI Foundation works to support GAVI's mission in Switzerland. In 2007 and 2006, it was fully supported by the Fund.

In early 2008, the Boards of the Alliance and the Fund decided to merge and centralize GAVI's governance activities in Switzerland and to reorganize the Alliance into the Foundation under Swiss law. The Foundation will change its name to the GAVI Alliance. The GAVI Alliance is applying for recognition as an "international institution" under the Swiss Host State Act, which will enter into force on January 1, 2009. If so recognized, the GAVI Alliance would benefit from broad privileges and immunities within Switzerland. Upon completion, the sole member of IFFIm and the GFA would change from the GAVI Fund to the GAVI Alliance, a charitable entity organized under the laws of Switzerland. Also, this reorganization will require an amendment to

Note 1 - Nature of Operations and Affiliations - continued

the IFFIm governing documents (the *Finance Framework Agreement* and the *Procedures Memorandum*) because the process for approving programs within GAVI and requesting funding from IFFIm will change modestly, with the process being streamlined into the GAVI Alliance. The GAVI Alliance has applied for 501(c)(3) status in the U.S. as a foreign owned charity and will maintain a branch office in Washington, D.C. The Fund will maintain a U.S. presence, focusing on U.S. private fundraising and related outreach.

Note 2 - 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 of America ("GAAP").

Basis of Consolidation - The accompanying consolidated financial statements include the accounts of the Fund, the Association, IFFIm, GFA, and the Foundation. All inter-entity balances and transactions have been eliminated in consolidation.

Cash – GAVI reports all demand deposits as cash. Money market accounts managed by external advisors, with maturities of three months or less, are reported in the consolidated statements of financial position as investments. At times, the balances in these accounts may exceed federally insured limits. GAVI has not experienced any losses in these accounts, and does not believe it is exposed to any significant credit risk.

Promises to Give - Unconditional promises to give and to be collected within one year are recorded at net realizable value. Unconditional promises to give and to be collected in more than one year are recorded at the present value of their estimated future cash flows, using discount rates approximating the risk-free rate of return on U.S. government or the donor government's securities with similar maturities. Conditional promises to give are recorded when the conditions are met.

GAVI's promises to give include grants from sovereign governments. Many of these pledges are legally binding payment obligations that are irrevocable by the donors and paid in several installments in accordance with predetermined fixed payment schedules over the next 20 years. The total amount payable by the donors over these 20 years will depend on a grant payment condition that allows donors to reduce their payment amounts. Such amounts are recorded initially net of discounts for the time value of money and an estimate of the ultimate payment reductions as a result of the arrearages described below.

The grant payment condition allows donors to reduce their payments in the event that an eligible (as defined by the transactional documents) country enters into protracted arrears on its obligations to the International Monetary Fund (IMF). Each recipient country has been ascribed a weight of 1%, 3%, or 5% in a reference portfolio that will remain static for the life of GAVI. Donors will 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 donors are increased by the respective weights of those clearing countries.

Note 2 - Significant Accounting Policies - continued

The final determination of each payment amount (as measured by International Bank for Reconstruction and Development (IBRD)) is made 25 business days prior to the due date of each donor payment.

Investments – As a consolidation of several entities, GAVI manages its investment activities in different ways, reflecting the underlying environments and needs present at the Fund, IFFIm, and GFA. The Fund's investments are governed by its investment policy, and management is handled by external investment managers. The Fund's investments are recorded at fair market 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. The Fund participated in a securities lending program through July 2006 as further described in Note 6.

GAVI's investments, as held in the IFFIm and GFA, are managed on a pooled basis by IBRD, which maintains a single investment portfolio (the "Pool") for all of the trust funds it administers. IBRD commingles GAVI's assets with other trust fund assets administered by the World Bank Group. Shares in pooled cash represents GAVI'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.

Realized and unrealized gains/losses and interest/dividend income are reported as net investment income in the consolidated statements of activities.

Fair Value of Financial Instruments – The fair values of financial instruments are estimated using available market information and other valuation methodologies in accordance with GAAP. The estimates presented are not necessarily indicative of the amounts that GAVI may ultimately realize in a current market exchange.

Fixed Assets - Furniture, equipment, and leasehold improvements 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. GAVI's threshold for capitalization of furniture, equipment, and leasehold improvements is $5,000. Net fixed assets of $5,291,215 and $975,834 are included in receivables, prepaids, and other assets in the consolidated statements of financial position as of December 31, 2007 and 2006, respectively.

Program Grants Payable – Program grants payable that are determined to be contributions are recognized when an unconditional commitment is made and approved by GAVI. Grants payable within one year are recorded at the full expected payment value. Grants payable in future years are recorded at the present value of their estimated future cash flows, using discount rates that approximate the risk free rate of return on U.S. government securities with

Note 2 - Significant Accounting Policies - continued

similar maturities. Grants payable that are determined to be exchange transactions are recorded when expenses are incurred and/or when services are provided. Transfers to program implementing partners or procurement agents in advance of any service delivery are accounted for as prepayment for procurement, which is included in receivables, prepaids, and other assets.

Bonds Payable - Initially, bonds payable are recognized at carrying value, net of bond issuance costs and the related premium or discount. Bond discounts or premiums and bond issuance costs are accounted for under the effective interest rate method, under which they are amortized over the life of the bond.

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 GAVI and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by GAVI. As of December 31, 2007 and 2006, GAVI 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 and/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 and/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 accompanying consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year, are reported as unrestricted support.

Donated goods and services are reflected in the accompanying consolidated statements of activities at their estimated fair market values at the date of their receipt. For the years ended December 31, 2007 and 2006, GAVI received $93,263 and $384,313, respectively, of donated goods and services.

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

Costs Associated with Exit or Disposal Activities - GAVI records expenses associated with the disposal of activities and/or the termination of contracts in accordance with Financial Accounting Standards Board (FASB) Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Termination benefits provided to employees were recorded when management committed to a termination plan with specific details and communicated it to

Note 2 - Significant Accounting Policies - continued

employees. Costs under remaining terms of outstanding contracts and leases are recorded at fair value when they are terminated. Other operating costs, including those to consolidate facilities or to relocate employees, are recorded when the liability is determined.

Allocation of Functional Expenses - The cost of programs and supporting activities is summarized by their functional classification in the consolidated statements of activities and by their natural classification in the accompanying consolidated statements of functional expenses. Accordingly, certain costs have been allocated among program activities and supporting services, as shown in the consolidated statements of functional expenses.

Derivative Financial Instruments – GAVI uses derivatives in its borrowing activities and asset/liability management purposes. Derivative financial instruments are carried at fair value in the accompanying consolidated statements of financial position. Receivables from currency and interest rate swaps are offset against payables on currency and interest rate swaps in the accompanying consolidated statements of financial position. Changes in the fair values of derivatives are recognized as a change in the accompanying consolidated statements of activities in the period of change and included in net gains/losses from 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.

Foreign Currency Remeasurement – These financial statements are presented in U.S. dollars, which is the reporting currency of GAVI. The assets and liabilities held in foreign currency are remeasured at year-end exchange rates. Foreign currency transactions are translated at exchange rates prevailing during the year. The resulting foreign exchange gains and losses are recognized in the accompanying consolidated statements of activities. For any GAVI affiliates, whose functional currency is the local currency in which the office is located, assets and liabilities are translated at year-end exchange rates, and revenue and expenses are translated at average exchange rates throughout the year. These adjustments are recognized as foreign currency translation adjustments in the accompanying consolidated statements of financial position.

Use of Estimates - The preparation of the consolidated financial statements, in conformity with 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.

Accounting and Reporting Developments and New FASB Pronouncements*:* In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 defines fair value, establishes a fair value hierarchy, and expands disclosures about fair value measurements. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007, which would be the year ending December 31, 2008, for GAVI. Early adoption is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within the fiscal year of adoption. After careful analysis of operational impact, it was determined that a delay in adoption was prudent and that there were no statutory or GAAP requirements necessitating early adoption.

Note 2 - Significant Accounting Policies - continued

In February 2007, the FASB issued FASB Statement No. 159, *the Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, which allows an entity the irrevocable option to elect fair value measurement for certain financial assets and financial liabilities on a contract-by-contract basis. FASB Statement No. 159 is effective for fiscal years beginning after November 15, 2007, which would be the year ending December 31, 2008, for GAVI.

Early adoption is permitted subject to certain conditions, including:

- The choice to adopt early must be made after the issuance of the statement (February 2007) but within 120 days of the beginning of the fiscal year of adoption (for GAVI, by April 30).

- The entity must also early adopt all of the requirements of FASB Statement No. 157 as of the early adoption date.

- The entity has not yet issued financial statements in the current fiscal year.

GAVI meets all these conditions; however, after careful analysis of operational impact, it was determined that a delay in adoption was prudent and that there were no statutory or GAAP requirements necessitating early adoption. GAVI is currently assessing the impact, if any, of FASB Statement No. 157 on its consolidated financial statements.

Note 3 – Vaccine Procurement

Restricted Cash – Procurement Account

Beginning in 2006, GAVI established a separate account, the procurement account, in which the Fund and GFA transfer money on an as-needed basis for the benefit of United Nation's Children's Fund ("UNICEF") to procure vaccines and other supplies on their behalf. All monies deposited into the account are irrevocable and may only be withdrawn by UNICEF, with the exception of investment income, which is to be remitted to GAVI. GAVI has granted to UNICEF a security interest in all of GAVI's rights, title, and interest in, and proceeds of, the accounts and all financial assets credited thereto, as collateral security for the prompt payment and performance when due of GAVI's obligations. As of December 31, 2007 and 2006, $272,924,114 and $264,859,224, respectively, are available to UNICEF in the procurement account in the accompanying consolidated statements of financial position, with an offsetting liability of the same amount in procurement accounts payable for funds committed to UNICEF.

Commitment to Fund Future Procurement

GAVI had an agreement with UNICEF to pledge as collateral up to $8,981,464 of its investment assets to UNICEF as of December 31, 2006. The pledge is in connection with UNICEF's contracted commitment to purchase vaccines from a pharmaceutical company during the period 2004 through 2006. Under the agreement, UNICEF issued purchase orders periodically to

Note 3 – Vaccine Procurement - continued

initiate approved vaccine shipments. This agreement was terminated on December 31, 2006, and the balance of the commitment was dissolved during 2007. This agreement was replaced by the arrangement discussed above.

During 2006, contributions to UNICEF from donors other than GAVI fulfilled a portion of the commitment. Accordingly, a corresponding amount was recorded as a “release of commitment to fund future procurement” in the consolidated statements of activities.

		2007		*2006*
Commitment balance as of the beginning of the year	$	8,981,464	$	67,743,100
Commitment fulfilled by GAVI		-		(3,910,940)
Release of commitment (commitment fulfilled by other donors)		(8,981,464)		(54,850,696)
Commitment to Fund Future Procurement	**$**	**-**	**$**	**8,981,464**

Note 4 - Promises to Give

GAVI’s unconditional promises to give as of December 31, 2007 and 2006, consisted of the following:

		2007		*2006*
Contributions due in less than one year	$	300,181,821	$	195,620,200
Contributions due in two to five years		1,123,829,549		920,901,889
Contributions due thereafter		4,757,597,490		3,706,222,047
Unconditional promises to give before unamortized discount and reduction due to grant payment condition		6,181,608,860		4,822,744,136
Less unamortized discount		(1,616,223,197)		(1,273,334,953)
Less reduction due to grant payment condition		(951,514,020)		(724,233,920)
Net Promises to Give	**$**	**3,613,871,643**	**$**	**2,825,175,263**

For the promises to give as of December 31, 2007 and 2006, discount rates ranging from 2.95% to 6.2% were applied commensurate with the pledge period.

The fair values of GAVI’s promises to give from sovereign governments were initially reduced by an estimated reduction amount due to the grant payment condition and then discounted to present value at donor-specific risk-free interest rates.

Note 5 – Investments

This note and the table below summarize GAVI's investment activity as handled for the Fund, GFA, and IFFIm. In the table below, the pooled investments line item refers to those investments handled by the IBRD for GFA and IFFIm. Investments as of December 31, 2007 and 2006, consisted of the following:

	2007	*2006*
Money market funds	$ 218,527,923	$ 78,339,626
Registered investment companies	38,275,770	35,044,140
Real estate investment trusts	-	16,912,859
Other fixed-income securities	-	2,976,440
Corporate bonds	128,228,958	113,281,565
Asset-backed securities	324,716,391	286,638,584
Limited partnerships and limited liability companies	249,149,022	246,785,051
U.S. Government and agency obligations	91,584,702	144,466,740
Other securities	5,071,024	-
Investments	1,055,553,790	924,445,005
Pooled investments	202,202,608	796,440,630
Total Investments	**$ 1,257,756,398**	**$ 1,720,885,635**

GAVI invests a portion of its assets in limited partnerships and limited liability companies (the "Underlying Funds"). An interest in an Underlying Fund generally is valued based on the value of the Underlying Fund's portfolio adjusted for applicable manager fees, charges, and carried interests as reported by the Underlying Fund. At December 31, 2007 and 2006, investments in Underlying Funds carried at fair value, as determined by management, are equal to $249,149,022 and $246,785,051, respectively. Due to the inherent uncertainty of valuations of the Underlying Funds, the fair values may differ significantly from the values that would have been used had a ready market for the Underlying Funds existed, and the differences could be material.

Note 5 – Investments - continued

Through its investment activity at the Fund, GAVI uses futures, options, and swaps to manage its investment portfolio's exposure to market price, currency, and interest rate risks, and to enhance investment returns as an alternative to owning the underlying assets. The futures contracts are marked-to-market daily with the gain or loss adjusted on a cash basis on the following day through the margin account. The margin variation adjustment that is included in investment income for the years ended December 31, 2007 and 2006, was $2,557,975 and $23,156, respectively. The fair values of the options, together with futures and forwards, are included in other securities. GAVI purchases and sells forward foreign currency contracts (currency forwards) whereby GAVI agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to minimize the exposure of certain of its investments to adverse fluctuations in currency markets. Such contracts involve, to varying degrees, the possible inability of counterparties to meet the terms of their contracts. Changes in the value of forward foreign currency contracts are recognized as unrealized gains or losses until such contracts are closed.

The notional par and fair values of futures, options, pending purchases, and sales on forwards at December 31, 2007 and 2006, are as follows:

	2007		*2006*	
	Notional par value	Fair value	Notional par value	Fair value
Options	$ (8,716,838)	$ (122,532)	$ (46,056,700)	$ (64,645)
Futures	171,615,260	117,160	77,496,827	382,503
Currency forwards purchases	5,871,934	226,484	6,550,089	(7,048)
Currency forwards sales	1,634,829	(9,640)	4,152,467	73,511
Swap contracts	74,305,849	237,667	79,589,243	(10,857)
		$ 449,139		$ 373,464

Investment income for the years ended December 31, 2007 and 2006, was as follows:

	2007	*2006*
Interest	$ 53,035,543	$ 43,196,451
Realized gains (losses)	17,728,310	(5,696,242)
Unrealized (losses) gains	(7,176,580)	30,685,233
Investment fees and borrower rebates	(2,025,442)	(5,026,977)
Total Investment Income	**$ 61,561,831**	**$ 63,158,465**

Note 6 – Securities Lending

GAVI engaged in a securities lending program through July 2006, whereby it loaned certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis. Concurrently with the delivery of its securities to a borrower, the borrower exchanged cash collateral equal to 102% of the market value of loaned U.S. securities and/or 105% of the market value of non-U.S. securities. This exchange was facilitated by GAVI's lending agent and custodian.

Throughout the duration of the loan, the collateral was marked-to-market on a daily basis and the lending agent received and released collateral to maintain the value of the collateral equal to the requisite margin percentage of the market value of the loaned securities.

On the termination date of the loan, the borrower returned to the lending agent the same, or substantially the same, securities that were borrowed.

The lending agent, in its agreement with GAVI, guaranteed the repayment of the loan in the event the borrower defaulted. GAVI retained all the benefits of ownership, including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. GAVI also retained the right to redeem the loaned securities prior to their stipulated redemption date.

There is no balance as of December 31, 2007, as the program was terminated in July 2006.

The net income earned from securities lending, included in investment income in the consolidated statements of activities, net of rebates and lending agent fees, for the years ended December 31, 2007 and 2006, was as follows:

	2007	*2006*
Interest income from securities lending	$ -	$ 2,710,143
Rebates under securities lending agreement	-	(2,632,160)
Lending agent fees	-	(19,500)
Net Income from Securities Lending	**$ -**	**$ 58,483**

Note 7 – Program Grants Payable

GAVI's grants committed, but unpaid as of December 31, 2007 and 2006, consisted of the following:

		2007		*2006 (As restated)*
Grants payable due in less than one year	$	864,619,134	$	608,968,458
Grants payable due in one to five years		-		-
Total Grants Payable	**$**	**864,619,134**	**$**	**608,968,458**

In 2007, GAVI introduced a co-financing program whereby GAVI's payment obligations on country programs are conditional on the country providing a co-payment. GAVI's payment obligations under this set of programs have been treated as conditional because of the potential that the co-finance repayment by countries will not be met. As of December 31, 2007, GAVI's conditional liabilities in this regard are $46,325,500. These liabilities are not recorded in the financial statements because of the conditional nature of the liability.

Note 8 – Bonds Payable

Through IFFIm, GAVI borrows in the worldwide capital markets by offering its bonds to fund GAVI programs. IFFIm's inaugural bond of $1 billion was issued in November 2006, and IFFIm's outstanding borrowings as of December 31, 2007 and 2006, were as follows:

		2007		*2006*
Principal amount	$	1,000,000,000	$	1,000,000,000
Less unamortized discount and issuance costs		(1,601,388)		(1,936,242)
Bonds Payable	**$**	**998,398,612**	**$**	**998,063,758**
Short-term Interest Payable Related to Borrowings	**$**	**6,527,778**	**$**	**6,527,778**

Bonds payable as of December 31, 2007 and 2006, consisted of the following:

	Effective Interest Rate	**Principal**
5% Notes, Maturing on November 14, 2011	5.04%	$1,000,000,000

Note 9 - Temporarily Restricted Net Assets

GAVI's temporarily restricted net assets as of December 31, 2007 and 2006, consisted of the following:

	2007	2006 (As restated)
Due to time restriction	$ 2,563,820,444	$ 1,964,085,263
Due to program restriction for specific recipient country	174,120,674	171,289,000
Due to program restriction for non-country specific recipient country	34,205,500	224,200,000
Total Temporarily Restricted Net Assets	**$ 2,772,146,618**	**$ 2,359,574,263**

Note 10 – Derivative Financial Instruments

Starting in 2006, through IFFIm, GAVI is exposed to currency and interest rate risks due to currency mismatches and timing differences between receipt of donor payments, payment of bond obligations, and disbursements to GFA. To mitigate these risks, donor payments are swapped into zero-coupon floating U.S. dollar basis, and at issuance, IFFIm bonds are swapped on a back-to-back basis into U.S. dollars.

For the years ended December 31, 2007 and 2006, net losses in the fair values of derivatives totaled $41,867,652 and $70,209,486, respectively, which have been recognized in the consolidated statements of activities as net losses from derivatives, and includes the following:

	2007	2006
Losses from swaps related to promises to give		
Realized losses	$ (4,050,813)	$ (84,249)
Unrealized losses	(74,020,144)	(69,913,844)
Net losses from swaps related to promises to give	(78,070,957)	(69,998,093)
Losses from swaps related to borrowings		
Realized (losses) gains	(2,576,122)	1,840,000
Unrealized gains (losses)	38,779,427	(2,051,393)
Net gains/(losses) from swaps related to borrowings	36,203,305	(211,393)
Losses from Derivatives – net	**$ (41,867,652)**	**$ (70,209,486)**

In addition, at December 31, 2007 and 2006, IFFIm had unrealized foreign currency transaction gains of $91,573,687 and $83,758,064, respectively, related to the promises to give that offset the net losses of $41,867,652 and $70,209,486, respectively, from derivatives.

Note 10 – Derivative Financial Instruments - continued

The notional amounts and fair values of interest rate and currency swaps as of December 31, 2007, are as follows:

	Notional Amount		Fair Value
Currency and interest rate swaps related to promises to give	$5,285,337,817	$	143,933,988
Interest rate swaps related to bonds payable	$1,000,000,000		(37,171,152)
Payable for Currency and Interest Rate Swaps		**$**	**106,762,836**

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

	Notional Amount		Fair Value
Currency and interest rate swaps related to promises to give	$3,945,182,842	$	69,913,844
Interest rate swaps related to bonds payable	$1,000,000,000		2,051,393
Payable for Currency and Interest Rate Swaps		**$**	**71,965,237**

Note 11- Retirement Plan

GAVI sponsors a 401(k) defined contribution plan 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 plan, subject to Internal Revenue Service limitations.

GAVI's annual matching contribution equals 2% of each vested participant's compensation and a 3% contribution due to a safe harbor provision. The participants are fully vested after 1,000 hours of employment in a plan year. An additional discretionary amount for 2007 and 2006, equaling 10% of the participant's compensation, was provided. As of December 31, 2007 and 2006, the amount expensed for GAVI's contributions totaled $451,927 and $256,892, respectively.

Note 12 - Leases

GAVI has a ten-year lease agreement for office space in the District of Columbia, which commenced on November 15, 2003. In September 2007, GAVI moved out of this space and has sublet the space for the remainder of the lease term. GAVI entered into a new ten-year lease agreement with a five-year option to renew, which commenced on June 1, 2007.

Note 12 – Leases - continued

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

Years Ending December 31		Expense		Income		Net Expense
2008	$	1,402,481	$	507,967	$	894,514
2009		1,436,802		544,479		892,323
2010		1,471,964		351,843		1,120,121
2011		1,507,988		369,435		1,138,553
2012		1,568,229		387,907		1,180,322
Thereafter		6,494,005		372,103		6,121,902
Total	**$**	**13,881,469**	**$**	**2,533,734**	**$**	**11,347,735**

GAAP requires GAVI to recognize rent expense for these leases on a straight-line basis over the term of the leases. Rental expense totaled $1,623,390 and $254,714 for the years ended December 31, 2007 and 2006, respectively.

In addition, GAVI has a commitment to pay for UNICEF's office space in Geneva, which it leased at GAVI's request. UNICEF's lease is for five years and began in January 2007. During 2007, UNICEF expanded the lease terms for additional space. The total amount to be paid out evenly over the remaining years is approximately $5,050,000.

Note 13 - Convergence

In 2004, the board of directors of GAVI approved convergence, whereby the Association's Lyon-based staff has been relocated to new offices in Geneva, Switzerland. During the years ended December 31, 2007 and 2006, GAVI recognized recoveries of ($222,010) and ($1,691,181), respectively, in estimated staffing, consulting, and facility costs associated with convergence, which are included in management and general expenses in the accompanying consolidated statements of activities. Remaining accruals as of December 31, 2007 and 2006, totaled $54,497 and $264,265, respectively.Convergence and liquidation occurred on June 30, 2008.

Note 14 – Concentration of Credit Risk

The Fund's financial instruments that potentially subject GAVI to concentrations of credit risk consist of deposits in banks and investments in excess of the Federal Deposit Insurance Corporation and other privately insured limits. GAVI 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. The portions of cash uninsured as of December 31, 2007 and 2006, approximated $462,000,000 and $348,000,000, respectively. GAVI has not experienced any credit losses on these financial instruments in the past. In addition, the money market accounts included in these balances are liquid accounts in support of programs. In general, balances are transferred within six months of receipt. On October 3, 2008, the U.S. Government increased the FDIC deposit insurance limit from $100,000 to $250,000.

Note 14 – Concentration of Credit Risk – continued

The approximate uninsured cash balances are as follows:

	2007	*2006*
Checking accounts – cash	$ 1,000,000	$ 30,000,000
Deposit accounts - restricted cash	273,000,000	265,000,000
Money market - investment accounts	188,000,000	53,000,000
Total Uninsured Cash Balances	**$ 462,000,000**	**$ 348,000,000**

IBRD manages GAVI's credit risk related to its derivative contracts by serving as the counterparty for all GAVI's swaps. To manage credit risk related to investments, IBRD invests the pooled assets in liquid instruments, such as money market deposits, government, and agency obligations. IBRD is limited to investments with minimum credit ratings as follows:

- Money market deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.

- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization, or any other official entity require a minimum credit rating of AA-.

Note 15 – Fair Value of Financial Instruments

The following methods and assumptions were used by GAVI in estimating the fair value of its financial instruments:

Cash - The carrying amount reported approximates fair value.

Promises to Give - The carrying amount reported approximates fair value because the receivable has been reflected net of a reduction due to the high-level financing condition and net of a discount based on a risk-free rate.

Investments - The fair value of investments in marketable equity and debt securities is based on quoted market prices. Fair value of investments in limited partnerships and limited liability companies are based on the value of the Underlying Fund's portfolio adjusted for applicable manager fees, charges, and carried interests as reported by the Underlying Fund.

Note 15 – Fair Value of Financial Instruments - continued

Payable for Currency and Interest Rate Swaps, Net – The carrying amount reported approximates fair value, which is estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date.

Program Grants Payable - The carrying amount reported approximates fair value because the payable has been reflected net of a discount based on a risk-free rate.

Bonds Payable – The carrying amount reported is the principal balance less the unamortized discount and issuance costs and fair value is based on market quotations.

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

The estimated fair values of GAVI's financial instruments as of December 31, 2007 and 2006, are as follows:

	2007		2006 (As restated)	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash	$ 1,651,500	$ 1,651,500	$ 30,693,855	$ 30,693,855
Investments	1,257,756,398	1,257,756,398	1,720,885,635	1,720,885,635
Promises to Give	3,613,871,643	3,601,662,146	2,825,175,263	2,779,216,474
Other assets	474,050,439	474,050,439	514,722,729	514,722,729
	$5,347,329,980	$5,335,120,483	$5,091,477,482	$5,045,518,693
Bonds Payable	998,398,612	1,036,550,000	998,063,758	1,006,957,778
Payable for currency and interest rate swaps	106,762,836	106,762,836	71,965,237	71,965,237
Program grants payable	864,619,134	864,619,134	608,968,458	608,968,458
Other liabilities	357,118,980	356,469,153	407,857,634	407,857,634
	2,326,899,562	2,364,401,123	2,086,855,087	2,095,749,107
Net assets	3,020,430,418	2,970,719,360	3,004,622,395	2,949,769,586
	$5,347,329,980	$5,335,120,483	$5,091,477,482	$5,045,518,693

Note 16 – Subsequent Event

On March 18, 2008, IFFIm made its debut offering in the Japanese retail market. A bond with a principal value of ZAR 1.7 billion was issued, raising a total of $214.3 million for IFFIm.

GAVI has approved an additional $214,368,160 in program grants payable of which $2,919,000 is contingent under the co-financing program since the beginning of 2008.

The stock market declined significantly in September and October 2008. As of December 31, 2007, the investment portfolio was valued at $1,257,756,398. As of September 30, 2008, the most recent, reconciled market values available from our custodian and financial institutions, the Fund portfolio was valued at $850,315,935. This change in the Fund's portfolio's market value was the result of net distributions of ($198,377,137), $21,592,490, of interest income and ($27,172,144) of unrealized and realized losses. The pooled investments handled by IBRD for GFA and IFFIM, valued at $202,202,608 as of December 31, 2007, were not impaired by market conditions as the financial assets were held in cash and short-term money market instruments.

On October 29th, 2008, the Fund Board approved a grant agreement to the GAVI Alliance of substantially all the assets and liabilities of the Fund in furtherance of the charitable purposes of the Fund. The assets and liabilities as provided in the grant agreement will be transferred to the GAVI Alliance in tranches during 2009 with each tranche valued for accounting purposes on the transfer date for the applicable assets and liabilities. Such approval meets the requirements of Section 4.20.1.(e) of the Fund Bylaws. The Fund Board delegated a Committee of up to any two board members (or one Board member and the Secretary) the authority to make the changes to and refinements of the Grant Agreement as it deems necessary or appropriate upon advice of counsel to reflect the tranche transfer process and procedures as presented to the Board and to execute the Grant Agreement on behalf of the Fund. Many of the directors of the Fund Board resigned as part of the GAVI governance transition process which had been considered by the Board over the course of time. Subsequently, some of these persons were elected to the GAVI Alliance Board.

Note 17 – Restatement

Based upon analysis by GAVI's management, the accounting for certain grants has been corrected. Previously, these grants were accounted for as a prepaid balance by GAVI, and charged to expense upon subsequent reporting by the grantee of amounts subsequently disbursed. Given the nature and terms of the grant agreements, GFA management has determined these grants should have been accounted for as contributions and expense when GAVI enters into contractual arrangements with the grantees. In addition, GAVI's management identified an error in the presentation of restricted cash in the 2006 statement of cash flows in which $264,903,456 was presented as a financing activity when it should have been presented as an investing activity.

Note 17 – Restatement - continued

As a result, the 2006 financial statements have been restated from the amounts previously reported to correct the error and change the accounting as described above. The correction results in a decrease to 2006 receivables, prepaids, and other assets of $2,183,336; an increase to 2006 program grants payable of $227,606,664 and an increase to 2006 program grants expenses of $229,790,000 as of December 31, 2006. In addition, the correction results in a decrease in cash flows from investing activities and an increase in cash flows from financing activities.

		As Restated		As Previously Reported
At December 31, 2006				
Statement of Financial Position				
Assets:				
Receivables, prepaids and other assets	$	224,267,303	$	226,450,639
Total assets	$	5,091,477,482	$	5,093,660,818
Liabilities:				
Program grants payable	$	608,968,458	$	381,361,794
Total liabilities	$	2,086,855,087	$	1,859,248,423
Net assets:				
Unrestricted	$	645,185,908	$	650,135,908
Temporarily restricted	$	2,359,574,263	$	2,584,414,263
Total net assets, before foreign currency translation adjustment	$	3,004,760,171	$	3,234,550,171
Total net assets, end of the year	$	3,004,622,395	$	3,234,412,395
Total liabilities and net assets	$	5,091,477,482	$	5,093,660,818
For the year ended December 31, 2006				
Statement of Activities				
Unrestricted:				
Revenues:				
Release of net assets	$	465,993,943	$	241,153,943
Total revenues	$	613,051,574	$	388,211,574
Expenses:				
Program	$	765,477,297	$	535,687,297
Total expenses	$	792,838,073	$	563,048,073
Change in unrestricted net assets	$	(124,935,803)	$	(119,985,803)
Temporarily Restricted:				
Release of net assets	$	(465,993,943)	$	(241,153,943)
Change in temporarily restricted net assets	$	1,848,317,170	$	2,073,157,170
Total change in net assets	$	1,723,381,367	$	1,953,171,367

Note 17 – Restatement - continued

		As Restated		As Previously Reported
For the year ended December 31, 2006				
Statement of Cash Flows				
Cash Flows from Operating Activities:				
Change in net assets	$	1,723,381,367	$	1,953,171,367
Adjustment to reconcile change in net assets:				
Receivables, prepaids and other assets	$	(210,211,420)	$	(212,394,756)
Program grants payable	$	585,159,676	$	357,553,012
Cash Flows from Investing Activities:				
Restricted cash utilized for long-term purposes	$	(264,859,224)	$	44,232
Net cash provided by (used in) investing activities	$	(1,017,568,091)	$	(752,664,635)
Cash Flows from Financing Activities:				
Cash restricted for long-term purposes	$	-	$	(264,903,456)
Net cash (used in) provided by financing activities	$	998,160,000	$	733,256,544