



# GAVI, THE VACCINE ALLIANCE 2018 ANNUAL FINANCIAL REPORT

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# DISCUSSION AND ANALYSIS



# STRUCTURE AND GOVERNANCE

## STRUCTURE

Gavi, the Vaccine Alliance (the “**Alliance**”) is a global health partnership representing stakeholders in immunisation from both private and public sectors: developing world and donor governments, private sector philanthropists such as the Bill & Melinda Gates Foundation (the “**Gates Foundation**”), the financial community, developed and developing country vaccine manufacturers, research and technical institutes, civil society organisations and multilateral organisations such as the World Health Organization (the “**WHO**”), the United Nations Children’s Fund (“**UNICEF**”) and the International Bank for Reconstruction and Development (the “**World Bank**”).

Working together, the Alliance members achieve objectives that no single agency or group could achieve. These objectives include accelerating access to new and underused vaccines, strengthening health and immunisation systems in countries and shaping the global vaccine market to the benefit of developing countries. This has prevented millions of deaths worldwide.

In June 2006, the Alliance incorporated the International Finance Facility for Immunisation (“**IFFIm**”), a private company in the United Kingdom and a registered charity in England and Wales. IFFIm is set up to rapidly accelerate the availability, and enhance the predictability of funds for the Gavi **Group’s** immunisation programmes. The Alliance enters into pledge agreements with sovereign government donors and then assigns to IFFIm the right to receive cash payments under those agreements. IFFIm uses long-term pledges from sovereign government donors as collateral to sell Vaccine Bonds in the global capital markets, making large amounts of funds immediately available for the **Alliance’s** programmes. Gavi is the sole member of IFFIm.

In November 2014, August 2015 and March 2019, the IFFIm Sukuk Company Limited (“**IFFImSC**”), the IFFIm Sukuk Company Limited II (“**IFFImSC II**”) and the IFFIm Sukuk Company Limited III (“**IFFImSC III**”), all Cayman Islands companies with limited liability, were established for the sole purpose of issuing Sukuk certificates in support of **IFFIm’s** operations. The **Alliance’s** use of IFFIm as an innovative finance mechanism is discussed further in the *Innovative Finance Mechanisms* section on page 12 of this report. In December 2017, IFFImSC made the final payment to the holders of its certificates and, in April 2018, IFFImSC was dissolved. In September 2018, IFFImSC II made the final payment to the holders of its certificate.

The Alliance prepared consolidated financial statements for Gavi and IFFIm (jointly referred to as the “**Gavi Group**”). These Gavi Group financial statements commence on page 23 of this Annual Financial Report. In addition to the Gavi Group consolidated financial statements, the Alliance prepared consolidated financial statements for IFFIm, which include the financial information of IFFIm SC and IFFIm SC II. These financial statements commence on page 49.

The following table summarises the assets and liabilities of Gavi and IFFIm, on standalone and consolidated bases, as of 31 December 2018.

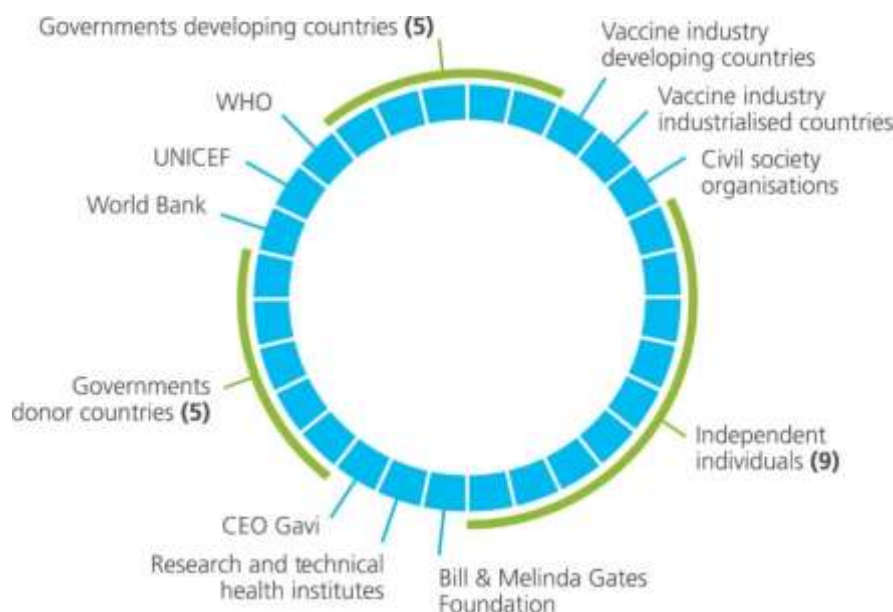
In Millions of US\$	Gavi	IFFIm	Eliminations	Consolidated
<b>Assets</b>				
Cash and investments	2,117	819	-	2,936
Restricted cash	553	-	-	553
Contributions receivable	2,536	2,250	(457)	4,329
Net derivatives and other assets	123	-	-	123
<b>Total assets</b>	<b>5,329</b>	<b>3,069</b>	<b>(457)</b>	<b>7,941</b>
<b>Liabilities</b>				
Programme grants payable	1,413	457	(457)	1,413
Procurement accounts payable	561	-	-	561
Bonds and other borrowings	-	886	-	886
Net derivatives and other liabilities	95	528	-	623
<b>Total liabilities</b>	<b>2,069</b>	<b>1,871</b>	<b>(457)</b>	<b>3,483</b>
<b>Total net assets</b>	<b>3,260</b>	<b>1,198</b>	<b>-</b>	<b>4,458</b>
<b>Total liabilities and net assets</b>	<b>5,329</b>	<b>3,069</b>	<b>(457)</b>	<b>7,941</b>

The following table summarises the income and expenses of Gavi and IFFIm, on standalone and consolidated bases, for the year ended 31 December 2018.

In Millions of US\$	Gavi	IFFIm	Eliminations	Consolidated
<b>Revenue</b>				
Contributions from donors	578	11	-	589
Investment and other income (loss)	(2)	21	-	19
Other revenue	6	1	(1)	6
<b>Total revenue</b>	<b>582</b>	<b>33</b>	<b>(1)</b>	<b>614</b>
<b>Expenses</b>				
Programme	1,852	-	2	1,854
Fair value gains	(30)	(145)	-	(175)
Financing costs	-	19	-	19
Administrative, fundraising and other	52	5	(3)	54
<b>Total expenses</b>	<b>1,874</b>	<b>(121)</b>	<b>(1)</b>	<b>1,752</b>
(Decrease) increase in net assets	(1,292)	154	-	(1,138)

## GOVERNANCE

The **Alliance's** Board of Directors (the "**Board**") establishes the **Alliance's** policies, oversees the operations of the Alliance and monitors programme implementation. The Board brings together experts from both the public and private sectors. Representative Board members from multilateral development agencies, donors, developing country governments, civil society, the pharmaceutical industry, and research and technical health communities help to shape the **Alliance's** strategic vision and policies. Independent Board members, including those with experience in the private sector, bring an innovative perspective to Board discussions and decisions, and assist the Board in fulfilling its role as the **Alliance's** fiduciary.



The Board is supported by a secretariat with offices in Geneva, Switzerland and Washington, DC (the "**Secretariat**"). The Secretariat is responsible and accountable for the day-to-day operations of the Alliance, including mobilising resources to fund programmes, coordinating programme approvals and disbursements, developing policy and implementing strategic initiatives, monitoring and evaluation, legal and financial management, and administration for the Board and its Committees.

In November 2009, the Alliance established an independent internal audit function to evaluate and strengthen risk management, internal control and governance processes in the organisation. The work of the internal audit function extends not only to the Secretariat but also to the programmes and activities of the Alliance's grant recipients and partners. The **Alliance's** internal audit function is led by a managing director who reports to the Board, which is effected through routine reporting to the Audit and Finance Committee and the Chief Executive Officer.

In June 2015, the Board approved the structure for the **Partners' Engagement Framework ("PEF")**, which came into force in 2016. Through PEF, Gavi provides funding to partners and allows the partners to support **countries'** immunisation programmes. Support under PEF is divided into three areas: targeted country assistance, strategic focus areas, and foundational support. Most PEF funding is allocated to targeted country assistance. PEF gives priority to the 22 countries that face the most severe immunisation challenges and aims to meet the specific needs of each country. In 2017 and 2018, the priority countries were the Islamic Republic of Afghanistan, Republic of Chad, Federal Republic of Nigeria, Republic of Uganda, Islamic Republic of Pakistan, Republic of Indonesia, Democratic Republic of the Congo, Republic of India, Republic of Kenya, Federal Democratic Republic of Ethiopia, Republic of the Niger, Central African Republic, Republic of the Union of Myanmar, Republic of Haiti, Federal Republic of Somalia, Republic of Yemen, Republic of Mozambique, Independent State of Papua New Guinea, Republic of Madagascar, Republic of South Sudan, Republic of the Sudan, and the Republic of Mali.

The IFFIm board, working with the World Bank, oversees bond issuances and develops funding, liquidity and other strategies to safeguard and maximise the value of IFFIm bond proceeds. The IFFIm board is comprised of experts in finance and investments.

## MISSION AND STRATEGIC GOALS

The Alliance's mission is to save children's lives and protect people's health by increasing equitable use of vaccines in lower-income countries. Pursuant to this mission, in June 2014, the Board approved the strategy for 2016 to 2020. This strategy defines **the Alliance's mission, operating principles, strategic goals, objectives and progress indicators.**

The Gavi Engagement Framework for 2016 to 2020 describes the actions to be undertaken to achieve the 2016-2020 strategy. It also lays out the context and challenges for the coming years.

The Alliance's mission is supported by four strategic goals:

- **Strategic Goal 1 – the Vaccine Goal: Accelerate the uptake and coverage of vaccines:** Accelerating the uptake of new and underused vaccines is the Alliance's core business and represents the majority of its expenditure. The Vaccines Goal is achieved through three strategic objectives: (1) increasing coverage and equity of immunisation, (2) supporting countries in introducing and scaling up new vaccines, and (3) responding flexibly to the special needs of children in fragile countries.

The first ten years of the Alliance's work focused mainly on catalysing adoption of vaccines against yellow fever, hepatitis B and Haemophilus influenzae type b. In the next five years, the Alliance maintained momentum on these antigens but also targeted new vaccines, which held potential to achieve progress on the Millennium Development Goals ("MDG"), in particular MDG 4: Reduce Child Mortality. The Alliance aims to continue to accelerate the introduction of routine meningitis, pneumococcal and rotavirus vaccines and support campaigns against yellow fever and meningitis.

Under the 2016-2020 strategy, the Alliance will continue to support developing countries to introduce and increase access to vaccines so that they are able to protect every child with a full package of WHO-recommended life-saving vaccines. This will include introducing new vaccines into the routine schedules of national immunisation programmes and working to protect every child, including those who are hardest to reach, such as children in poor urban areas and remote rural locations. The Alliance will also support global stockpiles and immunisation campaigns, so the world's lowest income countries can be assured of ready access to quality vaccines to protect against disease outbreaks. The Alliance will work to ensure that wealth, geography and gender are not obstacles to immunisation and that children, even in the most fragile settings, benefit from the protection that a complete schedule of vaccines provides.

- **Strategic Goal 2 – the Systems Goal: Increase effectiveness and efficiency of immunisation delivery as an integrated part of strengthened health systems:** While countries are responsible for their health systems, the Alliance's role is to help ensure that their health systems are effective in delivering vaccines. The Systems Goal is achieved through three strategic objectives: (1) contributing to improving integrated and comprehensive immunisation programmes, including fixed, outreach and supplementary components, (2) supporting improvements in supply chains, health information systems, demand generation and gender sensitive approaches, and (3) strengthening the engagement of civil society, the private sector and other partners in immunisation.

Without the people and equipment to deliver vaccines, no immunisation programme will be sustainable over the long-term. The Alliance has boosted the capacity of health and immunisation services through health system strengthening support, funding to support civil society involvement in immunisation planning and delivery, and immunisation services support, which has used reward payments to encourage developing countries to increase the number of children immunised with three doses of the diphtheria, tetanus and pertussis vaccine.

Under the 2016-2020 strategy, effective and efficient immunisation delivery systems, drawing on modern technologies and approaches, will be critical to ensure that the Alliance sustainably reaches more children, and in more places. Recognising the importance of integration, the Alliance will support developing countries to build comprehensive immunisation programmes and to do this in a way that strengthens their broader health systems. While the Alliance will develop and propose solutions in critical areas of immunisation delivery such as vaccine supply chains and data quality, the support that is delivered will be driven by national and local situations and priorities.

- Strategic Goal 3 – the Sustainability Goal: Improve sustainability of national immunisation programmes: **One of the cornerstones of the Alliance’s development model is that support is time-limited and catalytic, and that Alliance support for countries diminishes and ultimately ends as their economies grow.** The Sustainability Goal recognises that **widening the Alliance’s donor base to secure long-term, predictable funding is critical to meeting increased demand for new vaccines.** The Sustainability Goal is achieved through three strategic objectives: (1) enhancing national and sub-national political commitments to immunisation, (2) ensuring appropriate allocation and management of national human and financial resources to immunisation through legislative and budgetary means, and (3) preparing for sustained performance in immunisation after graduation.

Under the 2016-2020 strategy, the Alliance will work with developing countries to ensure that they successfully **transition, or “graduate”, from Alliance financial support and can sustain and continue to improve the performance of their immunisation programmes.** In doing so, the Alliance will focus on sustainability from the outset of each country grant to support and sustain gains in immunisation. **The Alliance’s approach to sustainability will be mindful of the simultaneous transitions that countries undergo from other development funding instruments.**

- Strategic Goal 4 – the Market Shaping Goal: Shape markets for vaccines and other immunisation products: **The Alliance’s success depends upon the vaccine markets providing appropriate and affordable vaccines.** With plans to introduce a larger portfolio of vaccines in the **world’s poorest countries,** it is imperative that the Alliance continues to innovate and shape a larger number of markets. The Market Shaping Goal is achieved through four strategic objectives: (1) ensuring adequate and secure supply of quality vaccines, (2) reducing prices of vaccines and other immunisation products to an appropriate and sustainable level, (3) continuing to build a healthy vaccine market, including by working to increase the number of suppliers, and (4) incentivising the development of suitable and quality vaccines and other immunisation products.

The Alliance has already dramatically improved markets to ensure that lower income countries can access vaccines at affordable prices. Under the 2016-2020 strategy, the Alliance will continue to play an active role in promoting innovation, affordability and supply continuity in the global market for vaccines and immunisation-related products. The Alliance aims to address the needs of lower income countries for appropriate products at affordable prices. The Alliance will also work to ensure that governments have access to appropriate vaccine prices after Alliance support ends.

Further information on the strategic goals, including the Alliance’s future plans and performance indicators related to these goals, may be found in the Gavi Progress Report 2018 and online at <http://www.gavi.org/results/gavi-progress-reports>.

## KEY FINANCIAL PERFORMANCE INDICATORS

This section lays out the key performance indicators that are used by the Secretariat to review, assess and manage the Gavi **Group’s** overall financial position, activities, results and cash flows. In addition to these Key Financial Performance Indicators, the Secretariat has developed several indicators focused on specifically measuring performance against the **Alliance’s** four Strategic Goals. These additional performance indicators are defined and described in **Gavi’s** 2016 to 2020 Strategy Indicator Definitions, and progress against these indicators is described in Gavi Progress Report 2018.



Indicator	Definition	Five-Year History												
Cash proceeds from donors and IFFIm investors <b>2018: US\$ 1.6 billion</b> 2017: US\$ 1.5 billion 2016: US\$ 1.7 billion 2015: US\$ 1.4 billion 2014: US\$ 1.4 billion	Cash receipts from Gavi's direct donors plus cash receipts through IFFIm. Direct cash receipts include cash received pursuant to the AMC innovative finance mechanism.	<table border="1"> <caption>Five-Year History of Cash Receipts</caption> <thead> <tr> <th>Year</th> <th>Cash Receipts (US\$ billion)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>1.4</td> </tr> <tr> <td>2015</td> <td>1.4</td> </tr> <tr> <td>2016</td> <td>1.7</td> </tr> <tr> <td>2017</td> <td>1.5</td> </tr> <tr> <td>2018</td> <td>1.6</td> </tr> </tbody> </table>	Year	Cash Receipts (US\$ billion)	2014	1.4	2015	1.4	2016	1.7	2017	1.5	2018	1.6
Year	Cash Receipts (US\$ billion)													
2014	1.4													
2015	1.4													
2016	1.7													
2017	1.5													
2018	1.6													

Continued support from donors and IFFIm investors is fundamental to the achievement of all of the **Alliance's** strategic goals. Cash receipts from these donors and IFFIm investors indicate that the Alliance has received a strong and consistent level of support. Cash receipts increased from US\$ 1.4 billion in 2014 to a high of US\$ 1.7 billion in 2016 and were US\$ 1.5 billion and US\$ 1.6 billion in 2017 and 2018, respectively. Fluctuations in the level of cash receipts was primarily due to the timing of IFFIm drawdowns based on **Gavi's** funding needs.

Indicator	Definition	Five-Year History												
Percentage of funds received from innovative finance mechanisms <b>2018: 8 percent</b> 2017: 4 percent 2016: 13 percent 2015: 22 percent 2014: 21 percent	Total cash receipts through IFFIm, the AMC and the Gavi Matching Fund as a percentage of total cash receipts in each year from all of Gavi's donors and investors.	<table border="1"> <caption>Five-Year History of Percentage of Funds from Innovative Finance</caption> <thead> <tr> <th>Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>21</td> </tr> <tr> <td>2015</td> <td>22</td> </tr> <tr> <td>2016</td> <td>13</td> </tr> <tr> <td>2017</td> <td>4</td> </tr> <tr> <td>2018</td> <td>8</td> </tr> </tbody> </table>	Year	Percentage (%)	2014	21	2015	22	2016	13	2017	4	2018	8
Year	Percentage (%)													
2014	21													
2015	22													
2016	13													
2017	4													
2018	8													

As described in the *Innovative Finance Mechanisms* section on page 12 of this report, the **Alliance's** innovative finance mechanisms are an integral part of its strategy for achieving all four of its strategic goals. Over the past five years, innovative finance mechanisms have generated 13% of the **Alliance's** cash receipts. This reflects the **Alliance's** strong commitment to developing and maintaining mechanisms that tap new sources of capital and bring specific characteristics that advance the Alliance and its mission.

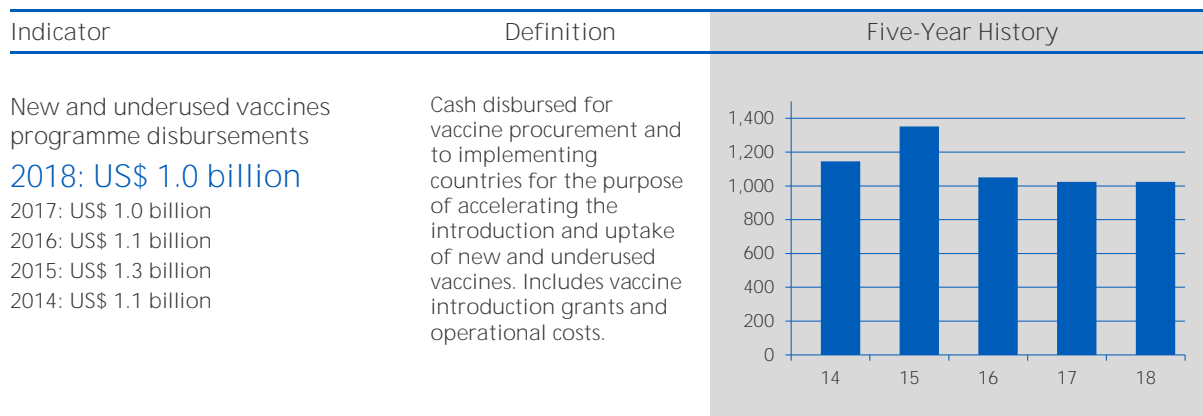
The percentage of funds received from innovative finance mechanisms decreased from a high of 21% in 2014 to 8% in 2018. This decrease was primarily due to a decrease in AMC cash proceeds and the deferral of a portion of IFFIm proceeds into the next funding cycle. See the *Future Plans* section on page 21 of this report for a summary of estimated future cash inflows from innovative finance mechanisms from 2019 to 2020.

Indicator	Definition	Five-Year History												
Total multi-year pledges <b>2018: US\$ 4.3 billion</b> 2017: US\$ 5.8 billion 2016: US\$ 6.3 billion 2015: US\$ 7.1 billion 2014: US\$ 4.9 billion	Year-end fair value of multi-year pledges as presented on the Gavi Group's Consolidated Statements of Financial Position.	<table border="1"> <caption>Five-Year History of Total Multi-Year Pledges</caption> <thead> <tr> <th>Year</th> <th>Pledges (US\$ billion)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>4.9</td> </tr> <tr> <td>2015</td> <td>7.1</td> </tr> <tr> <td>2016</td> <td>6.3</td> </tr> <tr> <td>2017</td> <td>5.8</td> </tr> <tr> <td>2018</td> <td>4.3</td> </tr> </tbody> </table>	Year	Pledges (US\$ billion)	2014	4.9	2015	7.1	2016	6.3	2017	5.8	2018	4.3
Year	Pledges (US\$ billion)													
2014	4.9													
2015	7.1													
2016	6.3													
2017	5.8													
2018	4.3													

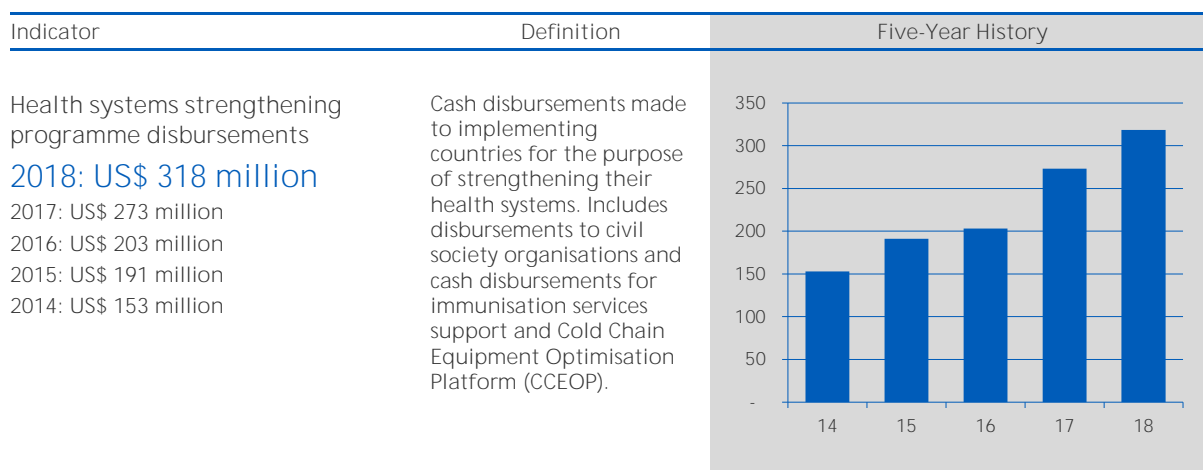
In order to achieve its Sustainability Goal, the Alliance requires sufficient long-term multi-year pledges to provide implementing countries with a predictable and stable funding environment.

The total value of multi-year commitments increased during the period from 2014 to 2015 due to new multi-year commitments that were made by direct donors during the **Alliance's** second pledging conference in January 2015. These new multi-year commitments were made to help fund the **Alliance's** programmatic activities until 2020. The total value of multi-year commitments decreased in 2016, 2017 and 2018 as direct donors paid down their pledges.

At the second pledging conference in January 2015, new multi-year commitments made by direct donors totalled US\$ 7.5 billion for the period 2016 to 2020. As of 31 December 2018, 96% of these multi-year commitments had been converted into grant agreements signed by donors. See the *Gavi Foreign Currency and Hedging Activity* section on page 18 of this report for further information on the valuation of the multi-year commitments made by direct donors at the second pledging conference.



Under its Vaccine Goal, the Alliance aims to accelerate the uptake and use of underused and new vaccines (“NVS”). The level of NVS programme disbursements is directly correlated with the rate of uptake of these vaccines and, therefore, provides an indication of the **Alliance's** progress toward achieving its goal. NVS programme disbursements have decreased by 10% from 2014 to 2018. The decrease in NVS programme disbursements during the period from 2015 to 2018 was primarily due to a decrease in support to a number of implementing countries as they transition from receiving Gavi funding, a reduction in the funding of the pneumococcal conjugate vaccine under the AMC innovative finance mechanism, and a decrease in disbursements for the inactivated polio vaccine due to supply shortages of the vaccine.

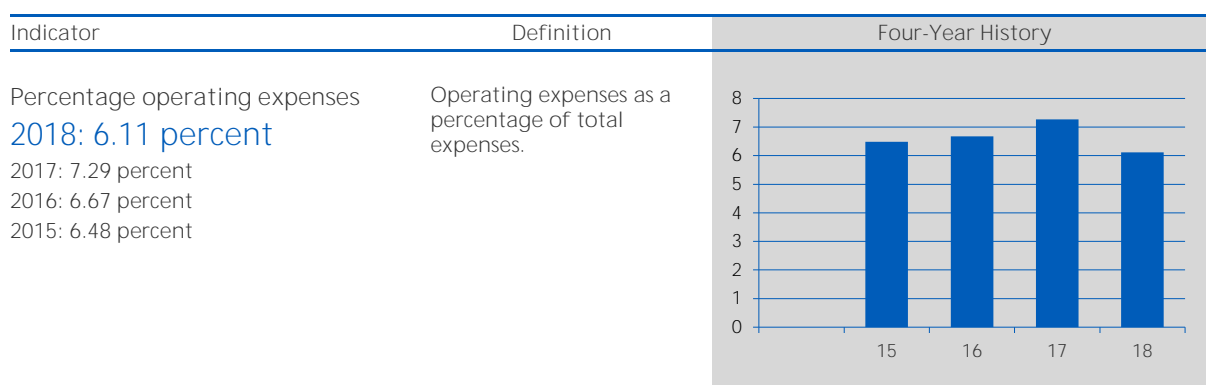
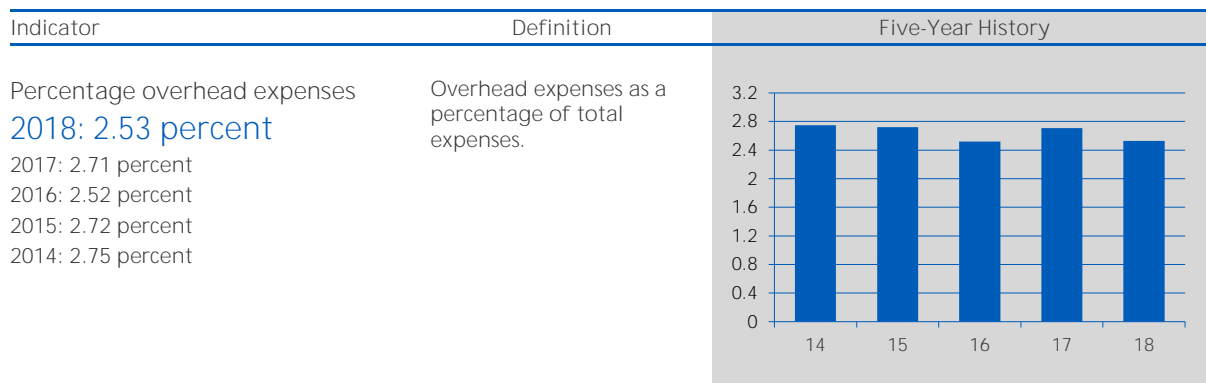


Under its Systems Goal, the Alliance aims to help strengthen the capacity of implementing countries' integrated health systems. From 2014 to 2018, the Alliance disbursed US\$ 1.1 billion to implementing countries to help bolster their health systems. Health systems strengthening (“HSS”) support addresses health system bottlenecks, primarily in five areas: (1) supply chain; (2) data availability, quality, and use; (3) demand promotion and community engagement; (4) in-country leadership, management, and coordination; and (5) health workforce. Governments are encouraged to engage civil society organisations for the implementation of HSS activities.

In June 2016, the Board agreed that an amount of at least US\$ 1.3 billion is available for HSS disbursements, including performance payments, for grant programme years in the 2016-2020 strategic period, with additional funding being subject to future Board decisions. In June 2018, the Board approved certain flexibilities to allow countries to fully benefit from the Board-approved HSS disbursements. Flexibilities will allow all countries facing fragility challenges to request additional HSS support of up to 50% beyond the

current country ceiling and allow Gavi to increase individual non-fragile country ceilings for HSS through 2020 by up to 25%, including countries that currently have a maximum ceiling of US\$ 100 million.

In June 2015, the Board approved the establishment of the CCEOP to strengthen country cold chain systems with an initial amount of US\$ 50 million to launch its implementation and fund the first applications. The CCEOP was launched in 2016. In December 2016, the Board approved additional funding for an aggregate amount not exceeding US\$ 250 million.



In order to maximise the amount of funds available for programmatic activities, the **Alliance's** administrative overhead must be kept as low as possible. The **Alliance's** percentage overhead expenses have been below 5% since 2014, and decreased from 2.71% in 2017 to 2.53% in 2018. This decrease in the **Alliance's** percentage overhead expenses was driven primarily by an increase in total programme expenses from 2017 to 2018 which is discussed further in the *Overview of Income and Expenses* section on page 16 of this report.

For the purposes of calculating the Alliance's percentage overhead and operating expenses amounts above, overhead expenses are the aggregate of the Alliance's fundraising, management and general expenses and operating expenses are the aggregate of the Alliance's overhead expenses, secretariat programme implementation expenses, and **partners'** programme implementation expenses in relation to evaluations and assessments and AMC fees. Overhead expenses exclude indirect programme expenses such as those expenses related to programme implementation and performance monitoring.

The components of the Alliance's percentage overhead and operating expenses were:

Indicator	2018	2017
Management and general expenses percentage	1.33%	1.48%
Fundraising expenses percentage	1.20%	1.23%
Total overhead expenses percentage	2.53%	2.71%

Indicator	2018	2017
Total overhead expenses percentage	2.53%	2.71%
Secretariat programme implementation expenses percentage	3.05%	3.48%
Partners' programme implementation expenses percentage	0.53%	1.10%
Total operating expenses percentage	6.11%	7.29%

The Alliance's fundraising, management and general expenses were as follows:

In Millions of US\$	2018	2017
Management and general expenses	25	24
Fundraising expenses	23	20
Total overhead expenses	48	44

The Alliance's operating expenses were as follows:

In Millions of US\$	2018	2017
Total overhead expenses	48	44
Secretariat programme implementation expenses	58	57
Partners' programme implementation expenses <sup>1</sup>	10	18
Total operating expenses	116	119

<sup>1</sup> This total only includes the portion of partners' programme implementation expenses that are related to evaluations and assessments and AMC fees.

Certain departments within the Secretariat conduct activities that have programmatic and fundraising, as well as management and general components. The cost of conducting these activities ("Joint Costs") were allocated as follows:

In Millions of US\$	2018	2017
Joint Costs allocated to programmes	18	18
Joint Costs allocated to fundraising	6	5
Joint Costs allocated to management and general	7	4
Total joint costs	31	27

For the purposes of calculating the Alliance's percentage overhead and operating expenses amounts above, total expenses are the aggregate of the Alliance's direct and indirect programme expenses, and overhead costs. Total expenses exclude financing costs and all fair value gains and losses. Total expenses were determined as follows:

In Millions of US\$	2018	2017
Direct country programme expenses	1,602	1,429
Secretariat programme implementation expenses	58	57
Partners' programme implementation expenses	194	108
Total programme expenses	1,854	1,594
Total overhead expenses	48	44
Total non-programme expenses	48	44
Total expenses, excluding financing expenses and fair value gains and losses	1,902	1,638

Indicator	Definition	Five-Year History												
Percentage net finance costs <b>2018: 2.42 percent</b> 2017: 1.53 percent 2016: 0.93 percent 2015: 0.46 percent 2014: 0.38 percent	IFFIm's net interest expense as a percentage of its average bonds and other borrowings balance for the year. Net interest expense is after the effect of hedging transactions. Average bonds and other borrowings for the year is the average of the nominal monthly balances.	<table border="1"> <caption>Five-Year History Data</caption> <thead> <tr> <th>Year</th> <th>Percentage net finance costs</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>0.38%</td> </tr> <tr> <td>2015</td> <td>0.46%</td> </tr> <tr> <td>2016</td> <td>0.93%</td> </tr> <tr> <td>2017</td> <td>1.53%</td> </tr> <tr> <td>2018</td> <td>2.42%</td> </tr> </tbody> </table>	Year	Percentage net finance costs	2014	0.38%	2015	0.46%	2016	0.93%	2017	1.53%	2018	2.42%
Year	Percentage net finance costs													
2014	0.38%													
2015	0.46%													
2016	0.93%													
2017	1.53%													
2018	2.42%													

The Alliance's net interest expense and average bonds and other borrowings balances were as follows:

In Millions of US\$, except Percentages	2018	2017	2016	2015	2014
Net interest expense on bonds and other borrowings after impact of swaps	27	22	13	9	7
Average nominal value of bonds and other borrowings for the year	1,114	1,436	1,395	1,962	1,822
Percentage net financing costs	2.42%	1.53%	0.93%	0.46%	0.38%

The Alliance incurs financing costs on Vaccine Bonds issued by IFFIm. In order to minimise these financing costs, IFFIm has done the following:

- Put in place a liquidity policy that allows it to maintain a high credit rating. As a result of this high credit rating, IFFIm's bonds and other borrowings rates to date have historically been better than if IFFIm's donors had raised their share of IFFIm's funding individually in their own markets. See the *Cash Reserve and Liquidity Policies* section on page 18 for further details.
- Entered into currency and interest rate swaps to hedge against IFFIm's exposure to currency and interest rate fluctuations impacting its Vaccine Bonds.

Percentage net financing costs were higher in 2018 compared to 2017 primarily due to higher interest rates in 2018. The Alliance's low percentage net financing costs over the last five years indicates that IFFIm's liquidity and hedging policies have been appropriately designed and effectively executed. Since its inception in 2006, IFFIm has accessed the capital markets at a weighted average cost of borrowing that is in total lower than that of its donors. IFFIm's weighted average cost of all its bonds issued since its inception is 2 basis points over USD LIBOR. This is 8 basis points lower than the weighted average cost of borrowing of its donors, which is 10 basis points over USD LIBOR calculated over the same period.

## INNOVATIVE FINANCE MECHANISMS

### BENEFITS OF INNOVATIVE FINANCE MECHANISMS

Innovative finance mechanisms help the Alliance to:

- Diversify its funding portfolio: Innovative finance mechanisms attract capital from a variety of public and private sources. They aim to attract funds that are committed for longer periods of time.
- Adapt to the needs of implementing countries, donors and investors: Innovative finance mechanisms help match the capacity and preferences of donors and investors with the needs of implementing countries to rapidly scale up vaccine coverage, lower disease prevalence and accelerate introduction of new and underused vaccines.
- Provide predictable and flexible resources: Funding predictability has enabled countries to implement multi-year programmes that fundamentally improve the quality of and access to health care services. Flexible resources allow the Alliance to access alternate funding resources as funding constraints emerge, avoiding programme disruption.
- Respond to the United Nations Sustainable Development Goals: The Alliance and immunisation are critical to achieving child health goals set by the United Nations ("UN"). Gavi aided the UN in achieving the MDG for child health, which aimed to reduce by two-thirds the deaths of children under five by 2015. As the MDG period came to an end, the Alliance is in full support of the UN post-2015 Sustainable Development Goals including child health: accelerate the progress made to date in reducing newborn and child

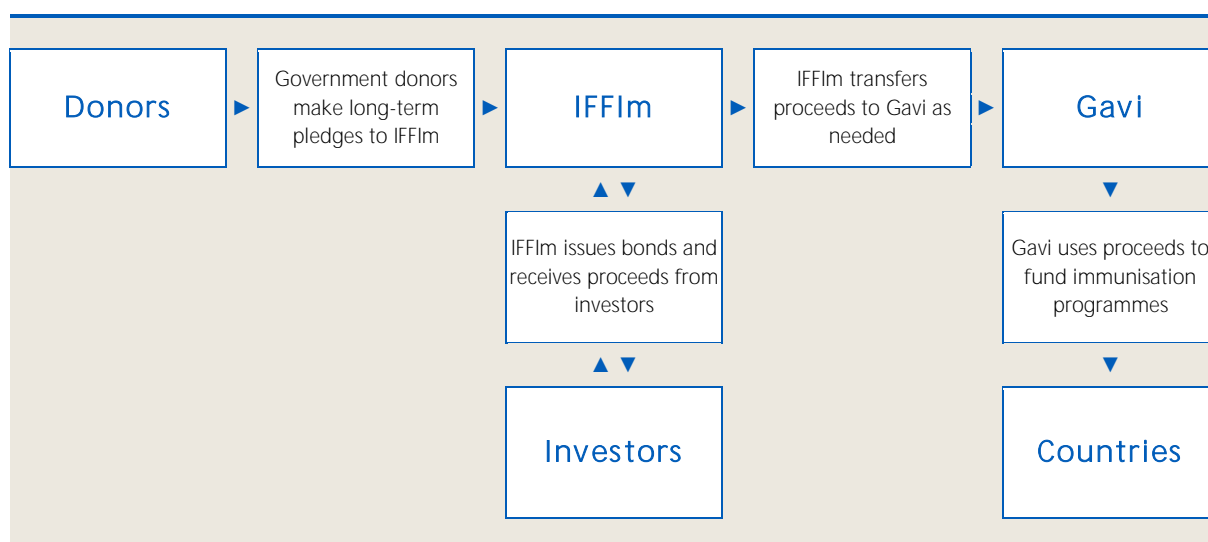
mortality by ending all such preventable deaths before 2030. Additional resources provided from innovative finance mechanisms help the Alliance accelerate funding for the introduction of vaccines and strengthen health systems.

- **Shape markets:** The Alliance’s use of innovative finance helps meet country demand, grow markets, attract manufacturers and reduce prices. This makes donor resources go further and increases the ability of countries to fund vaccines in the long-term.

## THE INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION

IFFIm is an innovative finance mechanism that provides long-term, predictable and flexible funding to Gavi. IFFIm historically has converted long-term government commitments into immediately available cash resources by issuing bonds in the capital markets. IFFIm was created in 2006 to accelerate the availability and predictability of funds for the Alliance’s immunisation programmes. Between 2006 and 2018, IFFIm accounted for over 20% of Gavi’s funding. IFFIm is a core component of Gavi’s long-term funding strategy.

IFFIm is backed by the Governments of the Commonwealth of Australia, the Federative Republic of Brazil, the Republic of France, the Republic of Italy, the State of the Netherlands, the Kingdom of Norway, the Republic of South Africa, the Kingdom of Spain, the Kingdom of Sweden and the United Kingdom of Great Britain and Northern Ireland, which together have pledged to contribute approximately US\$ 6.5 billion to IFFIm over 23 years<sup>1</sup>. These long-term government pledges are used as collateral to raise funds on the global capital markets by issuing Vaccine Bonds. Cash receipts from the donor governments are then used to repay IFFIm bonds.



The ability of IFFIm to convert long-term commitments into immediate cash provides Gavi with the flexibility to use funds when they are needed most. This means that Gavi can choose either to frontload IFFIm resources or to have smaller and more consistent drawdowns over a longer-term, depending on the Alliance’s funding needs. Having these immediately available resources ensures a near-term positive impact on public health that strengthens and protects future generations.

IFFIm Bonds also provide investors with a socially responsible investment opportunity, and raise awareness about the Alliance and its mission. IFFIm Bonds have proved popular with both institutional and individual investors, raising over US\$ 6.0 billion since IFFIm’s inception in 2006 to 31 December 2018<sup>2</sup>.

## THE ADVANCE MARKET COMMITMENT FOR PNEUMOCOCCAL VACCINE

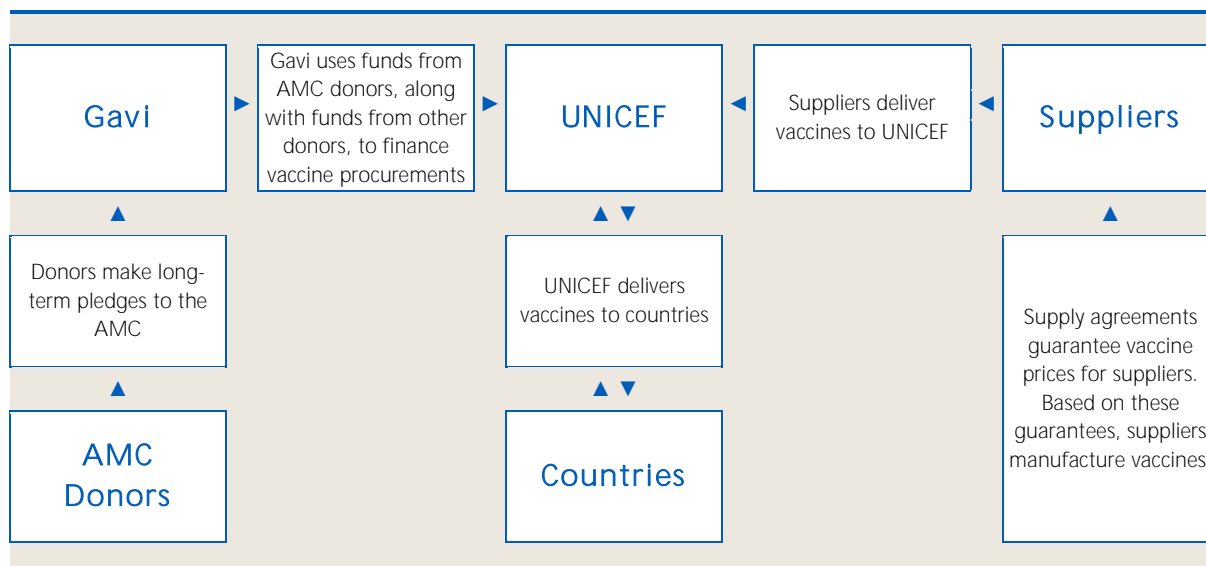
The Advance Market Commitment for Pneumococcal Vaccine (the “AMC”) aims to encourage the development and production of affordable vaccines tailored to the needs of developing countries. Following the announcement of the governments of Italy, the United Kingdom, Canada, the Russian Federation, Norway and the Gates Foundation, who collectively pledged a total of US\$ 1.5 billion to fund the programme, the AMC was designed to stimulate the late stage development and manufacture of affordable pneumococcal vaccines for the poorest countries. The terms that most significantly impact the AMC

<sup>1</sup> Further information on donor pledges to IFFIm is on page 83 of this report.

<sup>2</sup> Further information on IFFIm’s current financing arrangement is on page 20 of this report.

commitment are described in the *Significant Accounting Policies: Contributions Receivable from AMC Donors* on page 32 of the consolidated financial statements.

Under the AMC arrangement, donors commit funds to guarantee the price of vaccines once they have been developed. These financial commitments provide vaccine manufacturers with an incentive to invest in late stage vaccine development, and expand manufacturing capacity. In exchange, the vaccine manufacturers sign legally-binding commitments to provide the vaccines at a pre-agreed long-term price to developing countries.



The overarching goal of the AMC is to reduce morbidity and mortality from pneumococcal diseases, preventing an estimated 7 million childhood deaths by 2030. Specifically, the objectives of the pneumococcal AMC are:

- To accelerate the development of pneumococcal vaccines to meet developing country needs.
- To bring forward the availability of effective pneumococcal vaccines for developing countries by guaranteeing the initial purchase price, for a limited quantity of the new vaccines, that represents value for money and incentivises manufacturers to invest in scaling-up production capacity to meet developing country vaccine demand.
- To accelerate vaccine uptake by ensuring predictable vaccine pricing for countries and manufacturers, for example through binding commitments by participating companies to supply vaccines at low, long-term and sustainable prices.
- To test the effectiveness of the AMC mechanism as an incentive for supplying much needed vaccines and to learn lessons for developing possible similar initiatives in the future.

## THE GAVI MATCHING FUND

The Gavi Matching Fund is a public-private funding mechanism designed to incentivise private sector investments in immunisation.

**At the Alliance's pledging conference in June 2011**, the United Kingdom Department for International Development ("DFID") and the Gates Foundation pledged £ 50 million and US\$ 50 million, respectively, to match contributions from corporations, foundations and other organisations, as well as from their customers, members, employees and business partners until 2015.

**At the Alliance's second pledging conference in January 2015**, the Gates Foundation and the State of the Netherlands pledged US\$ 75 million and € 10 million, respectively, to match contributions from corporations, foundations and other organisations, as well as from their customers, members, employees and business partners until 2020.

The Gavi Matching Fund will allow the Alliance to deliver more life-saving vaccines to the lowest income countries. Healthy children lead to healthy communities and healthy societies. The Gavi Matching Fund also attracts advocates for the cause of immunisation and those who provide core business skills to help address technological and logistical challenges to immunisation.

The Gavi Matching Fund process comprises three key steps:

- (1) The Alliance works with the partner to find ways to engage customers, employees, business partners or others to contribute through the Gavi Matching Fund.
- (2) A private sector partner makes a cash or in-kind contribution to the Alliance.
- (3) Until 2015, every contribution to the Alliance through the Gavi Matching Fund by the private sector partner, its customers, employees and business partners was matched either by DFID or by the Gates Foundation. From 2016 to 2020, private sector contributions to the Alliance through the Gavi Matching Fund are matched by the Gates Foundation and the State of the Netherlands.

The Gavi Matching Fund raised US\$ 20 million in 2018. Since its inception in 2011 to 31 December 2018, the Gavi Matching Fund has raised a total of US\$ 309 million. This amount is the total of pledges from the private sector partners and matching pledges from DFID, the Gates Foundation, and the State of Netherlands.

## FINANCIAL OVERVIEW

### OVERVIEW OF ASSETS AND LIABILITIES

The following table summarises Gavi Group's consolidated assets and liabilities as of 31 December 2018, 2017 and 2016:

In Millions of US\$, except Percentages	2018	2017	2016	Change, 2017 to 2018	Change, 2016 to 2017
<b>Assets</b>					
Cash and investments	3,489	3,636	3,401	(4)%	7 %
Contributions receivable	4,329	5,762	6,328	(25)%	(9)%
Net derivatives and other assets	123	59	72	108 %	(18)%
<b>Total assets</b>	<b>7,941</b>	<b>9,457</b>	<b>9,801</b>	<b>(16)%</b>	<b>(4)%</b>
<b>Liabilities</b>					
Programme grants and procurement accounts payable	1,974	1,826	1,705	8 %	7 %
Bonds and other borrowings	886	1,181	1,382	(25)%	(15)%
Net derivatives and other liabilities	623	854	599	(27)%	43 %
<b>Total liabilities</b>	<b>3,483</b>	<b>3,861</b>	<b>3,686</b>	<b>(10)%</b>	<b>5 %</b>
<b>Total net assets</b>	<b>4,458</b>	<b>5,596</b>	<b>6,115</b>	<b>(20)%</b>	<b>(8)%</b>
<b>Total liabilities and net assets</b>	<b>7,941</b>	<b>9,457</b>	<b>9,801</b>	<b>(16)%</b>	<b>(4)%</b>

The Gavi Group's total assets decreased by 16% during 2018. The decrease in total assets was primarily due to programme disbursements of US\$ 1.7 billion, bond redemptions of US\$ 289 million, interest paid on bonds of US\$ 24 million, fair value losses on contributions receivable of US\$ 61 million, and administrative and other disbursements of US\$ 51 million, which were partially offset by new multi-year donor pledges and annual contributions totalling US\$ 589 million.

The Gavi Group's total liabilities decreased by 10% during 2018, primarily due to decreases in bonds and other borrowings and IFFIm's net derivative liability, partially offset by an increase in programme grants and procurement accounts payable. Each of these is discussed below:

- **Increase in programme grants and procurement accounts payable:** The increase in programme grants and procurement accounts payable was due to new programme approvals totalling US\$ 1.7 billion, which were partially offset by payments of outstanding programme liabilities totalling US\$ 1.5 billion.
- **Decrease in net derivative liability:** The Gavi Group's net derivative liability balance is primarily comprised of IFFIm's net liability position on its interest rate and currency swap contracts. This liability on swap contracts decreased from US\$ 767 million, as of 31 December 2017, to US\$ 527 million, as of 31 December 2018, primarily due to interest rate and foreign currency rate fluctuations during 2018. All else being equal, IFFIm's derivative liability will reverse over time as the swap positions related to those payments are unwound in the normal course of business. These swap positions will be unwound as payments are received from IFFIm donors and bonds are redeemed. See the *IFFIm Hedging Activity* section on page 20 of this report for further information on IFFIm's currency and interest swap arrangements.
- **Decrease in bonds and other borrowings:** The decrease in bonds and other borrowings resulted from the redemption of three bonds totalling US\$ 289 million and fair value gains of US\$ 6 million.



## OVERVIEW OF INCOME AND EXPENSES

The following table summarises Gavi Group's consolidated income and expenses for the years ended 31 December 2018, 2017 and 2016:

In Millions of US\$, except Percentages	2018	2017	2016	Change, 2017 to 2018	Change, 2016 to 2017
<b>Revenue</b>					
Contributions from government and private donors	589	748	1,490	(21)%	(50)%
Investment and other income	19	126	69	(85)%	83 %
Other revenue	6	4	2	50 %	100 %
<b>Total revenue<sup>1</sup></b>	<b>614</b>	<b>878</b>	<b>1,561</b>	<b>(30)%</b>	<b>(44)%</b>
<b>Expenses</b>					
Programme	1,854	1,594	1,622	16 %	(2)%
Net interest expense on bonds and other borrowings after impact of swaps	27	22	13	23 %	69 %
Other fair value (gains) losses <sup>2</sup>	(183)	(263)	75	(30)%	(449)%
Administrative, fundraising and other	54	44	42	23 %	4 %
<b>Total expenses</b>	<b>1,752</b>	<b>1,397</b>	<b>1,752</b>	<b>25 %</b>	<b>(20)%</b>
<b>Decrease in net assets</b>	<b>(1,138)</b>	<b>(519)</b>	<b>(191)</b>	<b>119 %</b>	<b>172 %</b>

<sup>1</sup> This total includes donor-restricted contributions from government and private donors and contributed goods and services and does not include the release of net assets and net fair value gains on derivatives, which are included in the total revenue reported in the Consolidated Statements of Activities on page 25 of the consolidated financial statements.

<sup>2</sup> Other fair value (gains) losses include net fair value gains on derivatives, and net fair value gains on contributions receivable and foreign currency transaction adjustments on contributions receivable, which are reported as total revenue and changes in net assets with donor restrictions, respectively, in the Consolidated Statements of Activities on page 25 of the consolidated financial statements.

The Gavi Group's recorded contribution revenue is the aggregate of new multi-year pledges and annual contributions. The Gavi Group's revenue for 2016, 2017 and 2018 was driven primarily by the following:

- **2016 contribution revenue:** Contribution revenue of US\$ 1.5 billion was recorded in 2016. Recorded revenue included new multi-year pledges received during the year of US\$ 751 million, US\$ 150 million, US\$ 106 million, and US\$ 61 million from the Kingdom of Norway, the Commonwealth of Australia, the Republic of Italy, and various other donors, respectively. Recorded revenue also included annual contributions of US\$ 235 million from USAID and US\$ 187 million from various other donors.
- **2017 contribution revenue:** Contribution revenue of US\$ 748 million was recorded in 2017. Recorded revenue included new multi-year pledges received during the year of US\$ 132 million, US\$ 67 million, and US\$ 7 million from the Republic of France, the State of the Netherlands, and various other donors, respectively. Recorded revenue also included annual contributions of US\$ 275 million from USAID and US\$ 267 million from various other donors. See *Schedule 1.5: Annual Contributions from Donors* on page 84 for a complete list of annual contributions received by the Gavi Group during 2017.
- **2018 contribution revenue:** Contribution revenue of US\$ 589 million was recorded in 2018. Recorded revenue included new multi-year pledges received during the year of US\$ 19 million, US\$ 11 million, US\$ 8 million, and US\$ 0.8 million from the Kingdom of Denmark, the Federative Republic of Brazil, the Republic of India, and various other donors, respectively. Recorded revenue also included annual contributions of US\$ 290 million from USAID and US\$ 260 million from various other donors. See *Schedule 1.5: Annual Contributions from Donors* on page 84 for a complete list of annual contributions received by the Gavi Group during 2018. The decrease in contribution revenue is an expected trend given that Gavi is in the fourth year of its current strategic period and winding down on its multi-year pledges, the majority of which were recognised at the beginning of the strategic period.

The Gavi Group's investment and other income is US\$ 19 million in 2018, a decrease from an income of US\$ 126 million in 2017 primarily as a result of lower market performance on almost all asset classes with the exception of money markets and short duration fixed income.

The Gavi Group's programme expenses increased by 16% in 2018 as it continued to experience strong and increased demand from implementing countries for vaccine and related programmes in line with Gavi's programmatic strategy.

Net interest expense was higher in 2018 compared to 2017 primarily due to higher interest rates in 2018. In 2018, net interest expense on bonds and other borrowings after impact of swaps of US\$ 27 million was comprised of interest expense of US\$ 24 million and interest expense on bond swaps of US\$ 3 million. In 2017, net interest expense on bonds and other borrowings after impact of swaps of US\$ 22 million was comprised of interest expense of US\$ 23 million, which was partially offset by interest income on bond swaps of US\$ 1 million.

Gavi Group incurred other fair value gains of US\$ 183 million and US\$ 263 million in 2018 and 2017, respectively. The composition and drivers of each of these gains is described below:

- **2016 other fair value losses:** Other fair value losses of US\$ 75 million were comprised of foreign currency transaction losses on contributions receivable of US\$ 519 million and net fair value losses on bonds and other borrowings of US\$ 32 million. These losses were partially offset by net fair value gains on contributions receivable of US\$ 210 million, fair value gains on derivatives of US\$ 263 million, and other foreign exchange gains of US\$ 3 million. The US\$ 519 million foreign currency transaction losses on contributions receivable were primarily the result of a stronger United States dollar in 2016, which significantly lowered the fair values of foreign currency denominated contributions receivable. The US\$ 32 million fair value losses on bonds and other borrowings were primarily the result of lower interest rates in 2016 and a stronger South African rand in 2016, which significantly increased the fair values on bonds that were denominated in South African rand. The US\$ 210 million fair value gains on contributions receivable were primarily the result of lower interest rates in 2016. The US\$ 263 million fair value gains on derivatives were primarily the result of a stronger United States dollar in 2016, which significantly lowered the fair values of pledge swaps, the majority of which were related to pledges denominated in euros and British pounds.
- **2017 other fair value gains:** Other fair value gains of US\$ 263 million were comprised of foreign currency transaction gains on contributions receivable of US\$ 479 million, net fair value gains on contributions receivable of US\$ 66 million and other foreign exchange gains of US\$ 6 million. These gains were partially offset by the fair value losses on derivatives of US\$ 258 million and net fair value losses on bonds and other borrowings of US\$ 30 million. The US\$ 479 million foreign currency transaction gains on contributions receivable were primarily the result of a weaker United States dollar in 2017, which significantly increased the fair values of foreign currency denominated contributions receivable. The US\$ 66 million fair value gains on contributions receivable were primarily the result of lower interest rates in 2017. The US\$ 258 million fair value losses on derivatives were primarily the result of a weaker United States dollar in 2017, which resulted in higher fair values of pledge swaps, the majority of which were related to pledges denominated in euros and British pounds. The US\$ 30 million fair value losses on bonds and other borrowings were primarily the result of lower interest rates in 2017 and a stronger South African rand in 2017, which significantly increased the fair values on bonds that were denominated in South African rand.
- **2018 other fair value gains:** Other fair value gains of US\$ 183 million were comprised of net fair value gains on contributions receivable of US\$ 105 million, fair value gains on derivatives of US\$ 262 million, and net fair value gains on bonds and other borrowings of US\$ 6 million. These gains were partially offset by the foreign currency transaction losses on contributions receivable of US\$ 165 million and other foreign exchange losses of US\$ 25 million. The US\$ 105 million net fair value gains on contributions receivable were primarily the result of stronger United States dollar in 2018, which decreased the fair value discount on contributions receivable. The US\$ 262 million fair value gains on derivatives were primarily the result of a stronger United States dollar in 2018, which resulted in lower fair values of pledge swaps, the majority of which were related to pledges denominated in euros and British pounds. The US\$ 6 million fair value gains on bonds and other borrowings were primarily the result of higher interest rates in 2018. The US\$ 165 million foreign currency transaction losses on contributions receivable were primarily the result of a stronger United States dollar in 2018, which significantly decreased the fair values of foreign currency denominated contributions receivable.

Net fair value gains on derivatives, and net fair value gains on contributions receivable and foreign currency transaction adjustments on contributions receivable are reported as total revenue and changes in net assets with donor restrictions, respectively, in the Consolidated Statements of Activities on page 25 of the consolidated financial statements. Net fair value gains or losses on bonds and other borrowings are reported as net financing income or expenses in the Consolidated Statements of Activities on page 25 of the consolidated financial statements and as other borrowing income or expenses in the Consolidated Statements of Functional Expenses on page 27 of the consolidated financial statements. See the *Gavi Foreign Currency and Hedging Activity* and *IFFm Hedging Activity* sections on pages 18 and 20, respectively, of this report for further information on Gavi Group's use of derivatives to hedge against market risks.

## OVERVIEW OF CASH FLOWS

The following table summarises Gavi Group's consolidated cash flows for the years ended 31 December 2018, 2017 and 2016:

In Millions of US\$, except Percentages	2018	2017	2016	Change, 2017 to 2018	Change, 2016 to 2017
Net cash from operating activities <sup>1</sup>	340	85	451	300 %	(81)%
Net cash from (used in) investing activities	98	158	(252)	(38)%	(163)%
Net cash used in financing activities	(289)	(230)	(256)	26 %	(10)%
Net change in cash	149	13	(57)	1,046 %	(124)%
Cash as of the beginning of the year	69	56	113	23 %	(50)%
Cash as of the end of the year	218	69	56	216 %	23 %

<sup>1</sup> This total includes the effect of exchange rate changes on cash, which is excluded from net cash provided by operating activities reported in the Consolidated Statements of Cash Flows on page 26 of the consolidated financial statements.

Net cash from operating activities is driven mainly by cash receipts from donors and cash payments to implementing countries, procurement agents, partners and vendors for programmatic and administrative purposes.

Net cash from (used in) investing activities mainly relates to the investment of proceeds from donors and bond issuances before those proceeds are used to fund Gavi programmes or redeem bonds.

Net cash used in financing activities reflects the cash inflows from Vaccine Bond issuances and cash outflows from Vaccine Bond redemptions.

The Gavi Group's cash receipts from donors and IFFIm investors were as follows:

In Millions of US\$, except Percentages	2018	2017	2016	Change, 2017 to 2018	Change, 2016 to 2017
Sovereign governments and the European Community	1,138	1,126	1,173	1 %	(4)%
Gates Foundation and other private donors	350	345	296	1 %	17 %
IFFIm and other innovative finance mechanisms	107	35	207	207 %	(83)%
Total cash receipts from donors and IFFIm investors	1,595	1,506	1,676	6 %	(10)%

## CASH RESERVE AND LIQUIDITY POLICIES

Gavi and IFFIm have put in place certain policies in order to ensure that they maintain sufficient liquidity to meet their obligations to implementing countries, IFFIm investors and all other creditors. These policies are summarised below:

- **Gavi cash reserve policy:** At all times, Gavi maintains a minimum unrestricted cash and investment reserve equivalent to eight months of Gavi's expected annual expenditures.
- **Gavi programme funding policy:** As a prerequisite to Board approval or endorsement of any new programmes, Gavi designates an amount of Qualifying Resources sufficient to fully cover all its commitments for the period from the start of the current year through the next two calendar years. Qualified Resources are defined as the aggregate of Gavi cash and investments on hand and expected future cash inflows for the next two years. Expected future cash flows are comprised of: (1) expected cash receipts from AMC donors and other direct Gavi donors, (2) expected funding from IFFIm, (3) project investment income.
- **IFFIm liquidity policy:** IFFIm maintains an adequate level of liquidity to meet its operational requirements, provide predictability of programme funding and support its credit rating. Taking these factors into account, IFFIm maintains a minimum balance of pooled investments equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum balance is recalculated and reset on a quarterly basis.

## GAVI FOREIGN CURRENCY AND HEDGING ACTIVITY

Gavi expenditures are primarily incurred in United States dollars. Therefore, Gavi is exposed to foreign currency exchange rate fluctuations on contributions receivable in currencies other than the United States dollar. In November 2011, the Board approved a currency hedging policy that specified parameters for

currency hedging through which Gavi can manage this exposure. Under its hedging policy, Gavi actively hedges its foreign currency exchange risk on a portion of contributions receivable by entering into currency forward contracts. In addition, a small portion of Gavi's currency exchange risk is naturally hedged by expenses that Gavi incurs in currencies other than the United States dollar.

At its pledging conference in Berlin in January 2015, Gavi valued pledges for direct contributions from donors using Bloomberg forecast foreign currency exchange rates. Using these rates, the valuation of direct contributions pledged for the period 2016 to 2020 totalled US\$ 7.9 billion<sup>3</sup>. The United States dollar has strengthened significantly since then, thereby reducing the United States dollar valuation<sup>4</sup> of the direct contributions pledged in other currencies. The Secretariat estimated that, as of April 2019, the United States dollar value of the pledges for direct contributions had reduced by US\$ 0.4 billion to a value of US\$ 7.5 billion, for the period 2016 to 2020. The amount of US\$ 7.5 billion, as indicated in the table below, is comprised of:

- US\$ 3.0 billion (40%) for amounts received or to be received in United States dollars;
- US\$ 4.0 billion (53%) for amounts in other currencies already received and exchanged for United States dollars, and amounts to be received that are hedged into United States dollars; and
- US\$ 0.5 billion (7%) for non-US\$ amounts to be received that are not yet hedged and are valued using Bloomberg forecast rates. Gavi is exposed to exchange rate fluctuations on this amount.

As of April 2019, Gavi had hedged 73% of the non-US\$ direct contributions that it expects to receive in 2019 and 2020. The following table summarises Gavi's expected cash inflows for the period 2016 to 2020, in United States dollars and other currencies. The underlying forecasted information was prepared by the Secretariat as of April 2019:

In Millions of US\$, except Percentages	Cash inflows in United States dollars	Cash inflows in currencies other than the United States dollar, already received or hedged	Cash inflows in currencies other than the United States dollar, not yet received nor hedged	Total
Direct contributions	3,008 40%	4,009 53%	491 7%	7,508 100%
Other cash inflows:				
Proceeds from IFFIm bond issuances	677	-	-	677
Proceeds from AMC contributions	530	-	-	530
Investment income	266	-	-	266
Anticipated release of funds from cash and investment reserve	392	-	-	392
Total Assured Resources <sup>1</sup>	4,873 52%	4,009 43%	491 5%	9,373 100%

<sup>1</sup> See the *Future Plans* section on page 21 of this report for further discussion.

The following table analyses the above expected future cash inflows from donors in currencies other than the United States dollar, by year:

In Millions of US\$, except Percentages	2016	2017	2018	2019	2020	Total
Expected cash inflows in currencies other than the United States dollar, already received or hedged	955 100%	857 100%	851 100%	656 73%	690 71%	4,009
Expected cash inflows in currencies other than the United States dollar, not yet received nor hedged	-	-	-	242 27%	249 29%	491
Total expected cash inflows in currencies other than the United States dollar	955	857	851	898	939	4,500

<sup>3</sup> Includes pledges for direct contributions that were made at the Berlin conference and subsequently, including contributions for Inactivated Polio Vaccine.

<sup>4</sup> The updated valuation of non-US\$ contributions uses Bloomberg forecast foreign currency rates as of 30 April 2019.

Gavi remains exposed to foreign currency fluctuations on a portion of its contributions receivable. The sensitivity analysis in the following table shows the impact that a 5% change in value of the United States dollar would have on the fair value of Gavi's contributions receivable as of 31 December 2018:

In Millions of US\$	Illustrative Increase or Decrease in US\$ Value of Contributions Receivable for each 5% movement of exchange rate against US\$	
	As of 31 December 2018	As of 31 December 2017
Australian dollar	5	5
British pound	25	41
Canadian dollar	7	12
Danish krone	1	-
Euro	7	13
Norwegian krone	16	25

## IFFIm HEDGING ACTIVITY

The majority of IFFIm's contributions receivable and some of its bonds and other borrowings are denominated in currencies other than the United States dollar. Therefore, IFFIm is exposed to the risk of financial loss or unpredictable cash flows resulting from fluctuations in foreign exchange rates. Since almost all of the Alliance's programme expenses are incurred in United States dollars and predictability of funding is essential to the Alliance's mission, IFFIm has entered into currency swap contracts with the World Bank to mitigate the aforementioned risks. Under these contracts, IFFIm has economically swapped foreign currency receipts from its donors and payments to its investors with United States dollar receipts from, and payments to, the World Bank.

In addition to the abovementioned foreign exchange risks, IFFIm is also exposed to potential adverse changes in the value of its contributions receivable and bonds and other borrowings resulting from fluctuations in interest rates. In order to mitigate this risk, IFFIm has entered into interest rate swap contracts with the World Bank. Under these contracts, IFFIm has economically swapped its contributions receivable into dollar floating rate receivables from the World Bank and its bonds and other borrowings into floating rate payables to the World Bank.

The following table shows IFFIm's fair value adjustments and interest expense, for the year ended 31 December 2018, before and after the impact of IFFIm's currency and interest rate swaps:

In Millions of US\$	Pledges	Bonds
<u>Interest and fair value adjustments before impact of swaps</u>		
Interest expense	-	(24)
Interest rate fair value losses	(9)	(8)
Foreign currency fair value (losses) gains	(95)	13
Other fair value gains	95	-
<u>Total interest and fair value adjustments before impact of swaps</u>	<u>(9)</u>	<u>(19)</u>
<u>Impact of currency and interest rate swaps</u>		
Interest expense	-	(2)
Interest rate fair value gains	42	5
Foreign currency fair value gains (losses)	124	(12)
Other fair value losses	(1)	-
<u>Total impact of currency and interest rate swaps</u>	<u>165</u>	<u>(9)</u>
<u>Net interest and fair value adjustments after impact of swaps</u>	<u>156</u>	<u>(28)</u>

## RECENT EVENTS

### MID-TERM REVIEW

In December 2018, the 2018 Mid-Term Review meeting was hosted by the United Arab Emirates. The conference set out a vision for the future of the Gavi model and took stock of the Alliance's performance halfway through its current five-year strategic period (2016-2020). Midway through the reporting period, the Alliance is set to deliver on these commitments, with more children being immunised with more vaccines than ever before.

## SUPPORT FOR COALITION FOR EPIDEMIC PREPAREDNESS INNOVATION

In March 2019, the IFFIm board approved a proposal for Gavi to support the Coalition for Epidemic Preparedness Innovation (“CEPI”) through the issuance of IFFIm bonds backed by a new pledge from the Kingdom of Norway to IFFIm. CEPI is a global public-private partnership whose mission is to accelerate the development of vaccines against emerging infectious diseases and enable equitable access to these vaccines for people during outbreaks. The approved arrangement will accelerate the availability of funding for CEPI’s programmes by drawing on IFFIm’s capacity to raise financing on international capital markets based on long-term pledges from its Grantors.

## ISSUANCE OF THIRD SUKUK

In April 2019, IFFIm, through IFFIm Sukuk Company III Limited, completed a private placement Sukuk transaction with the Islamic Development Bank Group (“IsDB”), raising US\$ 50 million. The 3-year Sukuk – a financial certificate that complies with Islamic law – provides IsDB with a socially responsible investment that will help protect tens of millions of children against preventable diseases. The transaction was arranged by the First Abu Dhabi Bank and marks IFFIm’s third Sukuk transaction, furthering IFFIm’s presence in Islamic capital markets and building awareness and support for its programmes among Gulf Cooperation Council investors. The issue, maturing on 9 April 2022, has an issue price of 100% and carries a quarterly coupon of 4 basis points over three-month USD LIBOR.

## FUTURE PLANS

### MEETING FUTURE VACCINE DEMAND

The Secretariat regularly forecasts, reviews and manages Gavi’s cash flows to ensure that Gavi has sufficient Qualifying Resources and liquidity to meet all its future vaccine demand. See the *Cash Reserve and Liquidity Policies* section on page 18 of this report for further information on Gavi’s Qualifying Resources and liquidity policies.

As of June 2019, Gavi’s estimated Qualifying Resources for its 2016-2020 strategic period totalled US\$ 9.5 billion<sup>5</sup>, while its total forecasted cash outflows for the same period were US\$ 9.2 billion. Therefore, Gavi has approximately US\$ 0.3 billion available for additional future mission-related investments. This surplus also provides increased assurance that Gavi will be able to meet future vaccine demand while still responding to significant unexpected future events. Such events may include development and approvals of new vaccines, disease outbreaks, vaccine price fluctuations, and foreign currency exchange rate fluctuations. Gavi is currently developing a framework for assessing trade-offs on potential future investments as and when they come up for Board decision.

The following table summarises Gavi’s estimated future cash inflows from donors and investors, and cash outflows for programmatic and administrative activities, for the remainder of its current strategic period. This forecasted information was prepared by the Secretariat in June 2019:

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<sup>5</sup> This estimated total amount of US\$ 9.5 billion is comprised of total Assured Resources of US\$ 9.3 billion and potential future contributions, not yet pledged, of US\$ 0.2 billion.

In Millions of US\$	2019	2020	Total
<b>Expected cash inflows from donors and investors:</b>			
Confirmed direct contributions to Gavi	1,262	1,284	2,546
Proceeds from IFFIm bond issuances	477	400	877
Proceeds from AMC contributions	63	272	335
Estimated investment and other income	25	25	50
Total expected future cash inflows from donors and investors	1,827	1,981	3,808
Anticipated release of funds from cash and investment reserve			392
Potential further contributions not yet pledged			397
Total expected funding available	1,827	1,981	4,597
<b>Expected cash outflows for programmatic and administrative activities:</b>			
Vaccine programmes	(1,034)	(1,440)	(2,474)
Cash-based programmes	(521)	(528)	(1,049)
Partner programme implementation and Secretariat expenses	(361)	(373)	(734)
Total expected cash outflows for programmatic and administrative activities	(1,916)	(2,341)	(4,257)

After taking into account available resources, and assuming that the forecasted level of funding for 2019 will be maintained through 2020, the Secretariat forecasts that Gavi will have sufficient resources to fund all its programmatic commitments through 2020.

## PLEDGING CONFERENCE

On 13 February 2019, the United Kingdom government announced that it will host Gavi's replenishment pledging conference in mid-2020. Next year's event will raise funds to support Gavi's programmes from 2021 to 2025 strategic period and will aim to bring together contributions from donors. These resources will be complemented by developing countries co-financing and the vaccine industry's contributions.

## PREPARATION OF THE ANNUAL FINANCIAL REPORT

### RESPONSIBILITY FOR FINANCIAL STATEMENTS

The GAVI Alliance Board and the Secretariat is responsible for the preparation of the Alliance's financial statements and related information that is presented in this report. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The IFFIm financial statements have been prepared in conformity with accounting principles generally accepted in the United Kingdom. The Alliance's financial statements include amounts based on estimates and judgments made by the Secretariat. The Company engaged Deloitte to audit and opine on the Alliance's financial statements.

The Alliance designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorised use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organisational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of internal audits.

The Board, through its Audit and Finance Committee, meets periodically with the Secretariat, internal auditor, and Deloitte to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting. Deloitte and the internal auditor each have full and free access to the Audit and Finance Committee.

### FORWARD-LOOKING INFORMATION

Certain information contained in this *Discussion and Analysis* constitutes forward-looking information. This forward-looking information relates to the future financial conditions and results of activities of the Alliance. The information represents the Secretariat's current expectations and estimates about the business environments in which the Alliance operates and the Secretariat's beliefs and assumptions regarding these environments. This forward-looking information is subject to important risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. The results or events predicted in the forward-looking information contained in this *Discussion and Analysis* may differ materially from actual results or events.

# CONSOLIDATED FINANCIAL STATEMENTS





## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In Thousands of US\$	Note	As of 31 December 2018	As of 31 December 2017 As Adjusted
<u>Assets</u>			
Cash		217,636	68,988
Receivables, prepaid expenses and other assets		38,474	41,612
Foreign currency forward contracts receivable	3	84,293	17,305
Investments	4	1,901,072	1,934,210
Pooled investments	4	816,964	911,776
Restricted cash	6	553,481	721,476
Contributions receivable	5	4,329,614	5,762,074
<b>Total assets</b>		<b>7,941,534</b>	<b>9,457,441</b>
<u>Liabilities and net assets</u>			
<u>Liabilities</u>			
Accounts payable and other liabilities		94,981	40,146
Programme grants payable	7	1,412,645	1,132,371
Procurement accounts payable	6	560,760	693,987
Net payable for currency and interest rate swaps	3	526,754	766,872
Foreign currency forward contracts payable	3	1,921	46,937
Bonds and other borrowings	8	886,338	1,181,141
<b>Total liabilities</b>		<b>3,483,399</b>	<b>3,861,454</b>
<u>Net assets</u>			
Without donor restrictions		195,944	239,022
With donor restrictions	9	4,262,191	5,356,965
<b>Total net assets</b>		<b>4,458,135</b>	<b>5,595,987</b>
<b>Total liabilities and net assets</b>		<b>7,941,534</b>	<b>9,457,441</b>

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES

In Thousands of US\$	Note	Year Ended 31 December 2018	Year Ended 31 December 2017 As Adjusted
<u>Changes in net assets without donor restrictions</u>			
<u>Revenue</u>			
Contributions from government and private donors		350,519	323,578
Net investment income	10	19,145	126,068
Net fair value gains on derivatives	11	262,307	-
Other revenue		6,028	4,376
Release of net assets		1,266,274	1,229,559
<b>Total revenue</b>		<b>1,904,273</b>	<b>1,683,581</b>
<u>Expenses</u>			
Programme		1,854,488	1,593,578
Management and general		25,178	24,200
Net financing expenses	14	19,452	52,735
Fundraising		22,794	20,231
Net fair value losses on derivatives	11	-	257,937
Foreign currency transaction adjustment		25,439	(5,102)
<b>Total expenses</b>		<b>1,947,351</b>	<b>1,943,579</b>
<b>Change in net assets without donor restrictions</b>		<b>(43,078)</b>	<b>(259,998)</b>
<u>Changes in net assets with donor restrictions</u>			
Contributions from government and private donors		238,445	424,652
Net fair value gains on contributions receivable		104,588	65,958
Foreign currency transaction adjustment on contributions receivable		(165,533)	479,457
Provision for bad debts		(6,000)	-
Release of net assets		(1,266,274)	(1,229,559)
<b>Change in net assets with donor restrictions</b>		<b>(1,094,774)</b>	<b>(259,492)</b>
<u>Net assets as of the beginning of the year</u>			
Without donor restrictions		239,022	499,020
With donor restrictions		5,356,965	5,616,457
<b>Total net assets as of the beginning of the year</b>		<b>5,595,987</b>	<b>6,115,477</b>
<u>Net assets as of the end of the year</u>			
Without donor restrictions		195,944	239,022
With donor restrictions	9	4,262,191	5,356,965
<b>Net assets as of the end of the year</b>		<b>4,458,135</b>	<b>5,595,987</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands of US\$	Year Ended 31 December 2018	Year Ended 31 December 2017
<u>Net cash flows from operating activities</u>		
<u>Change in net assets</u>	(1,137,852)	(519,490)
<u>Adjustments to reconcile change in net assets to net cash from operating activities:</u>		
Realised and unrealised foreign currency transaction adjustment	167,068	(480,776)
(Decrease) increase in fair value of bonds and other borrowings	(5,429)	30,043
Increase in fair value of contributions receivable	(104,588)	(65,958)
Provision for bad debts	6,000	-
Depreciation expense	2,036	2,232
Loss on disposal of fixed assets	90	-
Investment fees	1,161	3,760
Realised and unrealised losses (gains) on investments and pooled investments	26,334	(99,767)
<u>Changes in assets and liabilities:</u>		
Decrease (increase) in receivables, prepaid expenses and other assets	2,996	(11,767)
(Increase) decrease in receivable for currency and interest rate swaps	(1,866)	9,005
(Increase) decrease in receivable for foreign currency forward contracts	(66,988)	24,220
Decrease (increase) in restricted cash	167,995	(285,579)
Decrease in net contributions receivable	1,365,560	1,110,891
Increase in accounts payable and other liabilities	54,835	10,818
Increase (decrease) in net programme grants payable	280,274	(137,214)
(Decrease) increase in procurement accounts payable	(133,227)	258,161
(Decrease) increase in payable for currency and interest rate swaps	(238,252)	191,176
(Decrease) increase in payable for foreign currency forward contracts	(45,016)	44,630
<u>Net cash provided by operating activities</u>	341,131	84,385
<u>Cash flows from investing activities</u>		
Purchase of fixed assets	(1,984)	(1,603)
Purchase of investments and pooled investments	(2,964,107)	(3,169,425)
Sales of investments and pooled investments	3,064,562	3,328,779
<u>Net cash provided by investing activities</u>	98,471	157,751
<u>Cash flows from financing activities</u>		
Proceeds from new bonds and other borrowings	-	299,700
Redemption of bonds and other borrowings	(289,374)	(530,271)
<u>Net cash used in financing activities</u>	(289,374)	(230,571)
<u>Effect of exchange rate changes on cash</u>	(1,580)	1,085
<u>Net change in cash</u>	148,648	12,650
<u>Cash as of the beginning of the year</u>	68,988	56,338
<u>Cash as of the end of the year</u>	217,636	68,988
<u>Supplemental disclosures</u>		
Cash paid for interest	24,033	22,325

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

## CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended 31 December 2018, in Thousands of US\$	Programme Expenses	Management and General Expenses	Financing Expenses	Fundraising Expenses	Total Expenses
Direct programme expenses	1,602,670	-	-	-	1,602,670
Programme implementation	193,887	-	-	-	193,887
<b>Total programme expenses</b>	<b>1,796,557</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,796,557</b>
Payroll and benefits	31,188	12,450	-	9,818	53,456
Training and recruitment	-	780	-	-	780
Professional fees	12,369	6,303	-	7,507	26,179
Media production and distribution	350	85	-	357	792
Events and meetings	816	1,196	-	1,328	3,340
Travel and representation	4,083	601	-	929	5,613
Facility and office costs	7,743	3,193	-	2,448	13,384
Supplies and minor equipment	1,382	570	-	407	2,359
Other borrowing income	-	-	(4,772)	-	(4,772)
Interest expense	-	-	24,224	-	24,224
Other operating expenses	57,931	25,178	19,452	22,794	125,355
<b>Total functional expenses</b>	<b>1,854,488</b>	<b>25,178</b>	<b>19,452</b>	<b>22,794</b>	<b>1,921,912</b>
Year Ended 31 December 2017, in Thousands of US\$	Programme Expenses	Management and General Expenses	Financing Expenses	Fundraising Expenses	Total Expenses
Direct programme expenses	1,429,131	-	-	-	1,429,131
Programme implementation	108,010	-	-	-	108,010
<b>Total programme expenses</b>	<b>1,537,141</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,537,141</b>
Payroll and benefits	30,289	11,350	-	9,153	50,792
Training and recruitment	-	662	-	-	662
Professional fees	13,107	6,774	-	7,579	27,460
Media production and distribution	352	26	-	211	589
Events and meetings	814	1,419	-	264	2,497
Travel and representation	3,792	507	-	715	5,014
Facility and office costs	7,008	2,626	-	1,990	11,624
Supplies and minor equipment	1,075	836	-	319	2,230
Other borrowing expense	-	-	30,150	-	30,150
Interest expense	-	-	22,585	-	22,585
Other operating expenses	56,437	24,200	52,735	20,231	153,603
<b>Total functional expenses</b>	<b>1,593,578</b>	<b>24,200</b>	<b>52,735</b>	<b>20,231</b>	<b>1,690,744</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND AFFILIATIONS

These consolidated financial statements include the accounts of the following entities: (1) the GAVI Alliance (“Gavi”) and (2) the International Finance Facility for Immunisation Company (“IFFIm”). For the purposes of these consolidated financial statements, Gavi and IFFIm are collectively referred to as the Gavi Group. IFFIm’s accounts include the accounts of IFFIm Sukuk Company Limited, up to the date of its dissolution, and IFFIm Sukuk Company II Limited, both Cayman Islands companies with limited liability, which were established for the sole purpose of issuing Sukuk certificates in support of IFFIm’s operations and their activities are conducted on behalf of IFFIm and according to IFFIm’s business needs. 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-judicial association of public and private sector organisations, institutions and governments, including the Bill and Melinda Gates Foundation (the “Gates Foundation”), the United Nations Children’s Fund (“UNICEF”), the International Bank for Reconstruction and Development (the “World Bank”), the World Health Organisation (the “WHO”), developing country governments, grantor country governments, vaccine manufacturers, civil society organisations and research and technical health institutes.

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 the company registration number 5857343. It is also registered as a charity with the Charity Commission for England and Wales, with the 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 Gavi which uses the funds for its vaccine procurement, immunisation and health systems strengthening (“HSS”) programmes. Gavi is the sole member of IFFIm. Gavi has control of IFFIm and also has ongoing economic interests in the net assets of IFFIm through contracts and affiliation agreements.

IFFIm Sukuk Company Limited (“IFFImSC”): IFFImSC is a Cayman Islands company with limited liability, which was incorporated on 3 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with the company registration number 293422. IFFIm has control over IFFImSC, which was established for the sole purpose of issuing Sukuk certificates in support of IFFIm’s operations. IFFImSC was dissolved on 30 April 2018.

IFFIm Sukuk Company II Limited (“IFFImSC II”): IFFImSC II is a Cayman Islands company with limited liability, which was incorporated on 25 August 2015 under the Companies Law (2013 Revision) of the Cayman Islands with the company registration number 303397. IFFIm has control over IFFImSC II, which was established for the sole purpose of issuing Sukuk certificates in support of IFFIm’s operations.

## 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 (“US GAAP”).

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of Gavi, IFFIm, IFFImSC, and IFFImSC II. All intercompany balances and transactions have been eliminated on consolidation.

Cash and Cash Equivalents: The Gavi Group reports all demand deposits as cash. At times, the balances in bank accounts held in Switzerland, the United Kingdom and the United States may exceed the respective deposit insurance limits. The Gavi Group 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.

Net Contributions Receivable: The Gavi Group’s net contributions receivable comprise unconditional promises to give from donors. The Gavi Group records each unconditional promise to give at fair value on the date the recognition criteria are met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote. The techniques applied in determining the fair values of promises to give are described in the *Fair Values 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 values of the contributions receivable. 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.

Changes in the fair values of contributions receivable, excluding fair value changes related to changes in currency exchange rates, are recognised in the Consolidated Statements of Activities in the period of change

and included in net fair value gains (losses) on contributions receivable in the Consolidated Statements of Activities.

An allowance for doubtful accounts is provided for those receivables which are considered to be uncollectible based on historical experience and management's evaluation of the likelihood of payment. Accounts are written off after all reasonable collection efforts have been exhausted.

Contributions receivable pledged in currencies other than the United States dollar are converted to United States dollars using the spot currency exchange rates as of year-end. Fair value changes related to changes in currency exchange rates are reported in the Consolidated Statements of Activities as foreign currency transaction adjustment.

Investments: Gavi and IFFIm manage and record their investments in different ways as follows:

- Investments held by Gavi: These investments are governed by Gavi's investment policies 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. Money market accounts managed by external advisors, with original maturities of three months or less, are reported in the Consolidated Statements of Financial Position as investments.
- Investments held by IFFIm: These investments are managed on a pooled basis by the World Bank, which maintains a single, commingled investment portfolio (the "Pool") for all of the trust funds it administers. The World Bank commingles IFFIm's assets with other trust fund assets it administers. The amounts recorded in the Gavi Group's Consolidated Statements of Financial Position represent the Gavi Group'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. The carrying amount of cash included in the Pool approximates its fair value.

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

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

Bonds and Other Borrowings: Bonds and other borrowings are recognised at fair value. The techniques applied in determining the fair values of bonds and other borrowings are described in the *Fair Values of Financial Instruments* section below.

Changes in the fair values of bonds and other borrowings are recognised in net assets without donor restrictions in the period of change and are included in net financing expenses in the Consolidated Statements of Activities. Bonds and other borrowings issuance costs, mark-to-market costs, and discounts are recognised in the period incurred and are also included in net financing expenses in the Consolidated Statements of Activities.

Derivative Financial Instruments: IFFIm uses currency and interest rate swaps and Gavi uses foreign currency forward contracts to manage its assets and liabilities. These derivatives are recognised at fair value in the Consolidated Statements of Financial Position. The currency and interest rate swaps are shown net, as they are the subject of a master netting agreement, while the foreign currency forward contracts are shown gross. The techniques applied in determining the fair values of derivative financial instruments are described in the *Fair Values of Financial Instruments* section below.

Changes in the fair values of derivatives including fair value changes related to changes in currency exchange rates are recognised in the Consolidated Statements of Activities in the period of change and included in net fair value gains and losses on derivatives in the Consolidated Statements of Activities.

IFFIm and Gavi have elected not to apply hedge accounting. Therefore, fair value changes on derivative financial instruments are not offset against related fair value changes on the contributions receivable, and bonds and other borrowings that are economically hedged by those derivative financial instruments.

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 offsets derivative assets against derivative liabilities and presents the net amounts in the Consolidated Statements of Financial Position.

Net Programme Grants Payable: Net programme grants payable are recognised at fair value. The techniques applied in determining the fair values of programme grants payable are described in the *Fair Values of Financial Instruments* below.

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

Procurement Accounts Payable: Procurement accounts payable are recognised at fair value. The techniques applied in determining the fair values of procurement accounts payable are described in the *Fair Values of Financial Instruments* below.

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 observability 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 Gavi Group has elected to report its contributions receivable, programme grants payable, procurement accounts payable and bonds and other borrowings at fair value, with changes in fair value reported in the **Consolidated Statements of Activities**. With respect to IFFIm's contributions receivable and bonds and other borrowings, this election was made to better align the carrying values of these contributions receivable and bonds and other borrowings with the carrying values of currency and interest rate swap contracts that economically hedge them. With respect to programme grants payable, procurement accounts payable and non-IFFIm contributions receivable, this election was made to ensure consistent accounting treatment across Gavi and IFFIm. The Gavi Group recognises all new contributions receivable, programme grants payable, procurement accounts payable and bonds and other 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 Gavi Group'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 either: (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.

Investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient are not categorised in the fair value hierarchy and are disclosed separately, as shown in Note 17 to the consolidated financial statements for the years ended 31 December 2018 and 2017.

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

- Cash: The carrying amount of the Gavi Group's cash approximates its fair value.
- Investments Managed by Gavi: The fair values of investments are calculated based on either quoted market prices per share, observable data such as ongoing redemption and subscription activity, 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 Statements of Financial Position. The World Bank maintains the Pool for IFFIm, certain trust funds and other entities administered by the World Bank, as well as assets held in trust for other World Bank Group institutions. The Pool's assets are maintained separate from the

funds of the World Bank Group. The Pool is divided into sub-portfolios to which allocations were made based on funding specific investment horizons, risk tolerances and other eligibility requirements set by the World Bank.

IFFIm's share of the Pool is not traded in any market. However, the Pool is a trading portfolio that is reported at fair value. IFFIm's shares in the Pool represent its 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. The carrying amount of cash included in the Pool approximates its fair value.

Under an investment strategy approved by the IFFIm board, IFFIm is invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding its investment portfolio. 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.

- **Contributions Receivable from IFFIm Donors:** The Gavi Group's contributions receivable include pledges to IFFIm from the following ten sovereign government donors: (1) the Commonwealth of Australia, (2) the Republic of France, (3) the Republic of Italy, (4) the Kingdom of Norway, (5) the State of the Netherlands, (6) the Republic of South Africa, (7) the Kingdom of Spain, (8) the Kingdom of Sweden, (9) the United Kingdom, and (10) Federative Republic of Brazil (together the "IFFIm Donors"). These pledges are legally binding payment obligations to IFFIm. The pledges are irrevocable and are payable by the IFFIm Donors in several instalments in accordance with predetermined fixed payment schedules over time.

The total amount paid by the IFFIm Donors is impacted by 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 one or more eligible recipient countries, as defined by the transactional documents, enter into protracted arrears on their 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 0.5%, 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 as of 31 December 2018 and 2017 was as follows:

Country	Country Weighting	Total Share
South Sudan, Sudan	0.5%	1%
Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, 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%	61%
Vietnam	3%	3%
Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria, Pakistan	5%	35%

The fair values of contributions receivable from the 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. The 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. The probabilistic model uses inputs that are both unobservable and significant to the overall fair value of the contributions receivable. This model yielded reductions in expected future cash flows of 9.4% and 11.7% as of 31 December 2018 and 2017, respectively.



The reduced expected future cash flows are then discounted to present value using observable donor-specific risk-adjusted interest rates. 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 values of future cash flows from IFFIm Donors were US\$ 2.2 billion and US\$ 2.6 billion as of 31 December 2018 and 2017, respectively. These fair values were estimated using observable donor-specific risk adjusted annual discount rates ranging from 0.0% to 8.0% for 2018, and from 0.0% to 4.5% for 2017.

- **Contributions Receivable from AMC Donors: Advance Market Commitments (each an "AMC")** 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.

In June 2009, 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, (5) the United Kingdom, and (6) the Gates Foundation (together the "AMC Donors"), along with the World Bank, UNICEF and the WHO, launched 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 expected life of the AMC.

The fair values of contributions receivable 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:

- Gavi and the AMC Donors both contribute to the purchase of each pneumococcal vaccine dose. AMC Donor funds are not available to Gavi if it does not, or cannot, fund its portion of the purchases at the time that the funding is required.
- The aggregate amount funded by AMC Donors is limited to the total vaccine demand over the expected life of the AMC. This vaccine demand is estimated through strategic demand forecasts that are compiled and published semi-annually by Gavi.
- Payments by the Gates Foundation, 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 supranational yield curve to reflect increased risk, if any, or identifying securities with similar risk profiles and using the yield curves for those securities.**

The fair values of future cash flows from AMC Donors were US\$ 316 million and US\$ 371 million as of 31 December 2018 and 2017, respectively. This fair value was estimated using observable annual discount rates ranging from 2.6% to 3.0% for 2018, and from 2.1% to 3.0% for 2017.

- **Other Contributions Receivable:** Contributions receivable other than those from IFFIm Donors or AMC Donors are estimated using a discounted cash flow method. The fair values of future cash flows as of 31 December 2018 and 2017 were US\$ 1.8 billion and US\$ 2.8 billion, respectively. This fair value was estimated using observable donor-specific risk adjusted annual discount rates ranging from 0.5% to 6.9% for 2018, and from 0.0% to 3.8% for 2017.
- **Programme Grants Payable:** The fair value of each country 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.

The fair values of grants payable to programme implementing partners are estimated using a discounted cash flow method. Future cash flows are discounted using inputs from the United States treasury bonds and notes Bloomberg Fair Values ("BFV") yield curve.

- **Procurement Accounts Payable:** The fair value of each procurement accounts 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.

- **Bonds and Other Borrowings:** The fair value of IFFIm's bonds and other 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. All model inputs are based on readily observable market parameters such as yield curves, foreign exchange rates, and credit spreads. A credit valuation adjustment and a debit valuation adjustment are included in the valuation of derivatives to account for counterparty credit risk and IFFIm's own credit risk, respectively.

**Fixed Assets:** Furniture, equipment and leasehold improvements that were purchased by the Gavi Group 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. Fixed assets (net of accumulated depreciation of US\$ 6.6 million and US\$ 6.0 million in 2018 and 2017, respectively) of US\$ 3.6 million and US\$ 3.7 million are included in receivables, prepaid expenses and other assets in the Consolidated Statements of Financial Position as of 31 December 2018 and 2017, respectively.

**Income Taxes:** The Gavi Group is exempt from income taxes in each of the jurisdictions in which it has operations. 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 Gavi Group performed an evaluation of uncertain tax positions for the years ended 31 December 2018 and 2017 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 2018, the statutes of limitations for tax years 2015 through 2017 remain open with the United States Federal jurisdiction or the various states and local jurisdictions in which the Gavi Group files tax returns. It is the Gavi Group's policy to recognise interest or penalties related to uncertain tax positions, if any, in income tax expense. As of 31 December 2018 and 2017, the Gavi Group had no accrued interest or penalties.

**Contingencies:** The Gavi Group's programmes include investment cases. An investment case is a proposal that is prepared jointly by Gavi and 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 consolidated financial statements are presented in United States dollars, which is the reporting currency of the Gavi Group. 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 2018 and 2017. 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 Statements of Activities.

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

- **Net Assets Without Donor Restrictions:** Net assets that are not subject to donor-imposed stipulations.
- **Net Assets With Donor Restrictions:** Net assets subject to donor-imposed stipulations that are expected to be met by actions of the Gavi Group, the passage of time, or both.

**Revenue Recognition:** Contributions 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 donor-restricted support if they are received with donor stipulations that limit the use of the contributed assets for specific purposes or use in future years. When a donor restriction expires, that is when the time or purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions.

Revenue from cost-reimbursable contracts and grants is recognised as the related costs are incurred, or as the related activities occur and any conditions stipulated in the grant agreements are met, on the basis of direct costs, plus allowable indirect costs.

Contributed goods and services are included in contributions in the Consolidated Statements of Activities at their estimated fair value at the date of their receipt. Gavi received US\$ 0.6 million and US\$ 1.0 million in contributed services for the years ended 31 December 2018 and 2017, respectively.

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

The Gavi Group's major classes of programmes are New and Underused Vaccine Support ("NVS") programmes, HSS programmes and Investment Cases. NVS programmes provide funding to Gavi supported developing countries for the introduction of vaccines and associated vaccine technology. HSS programme funding is used to achieve and sustain increased immunisation coverage, through strengthening the capacity of countries' systems to provide immunisation and other health services. The Gavi Group records these programme expenses in the periods to which the grants assigned for the current year and immediately subsequent year are approved. Investment Cases are one-time tactical investments in disease prevention and control. These investments are made through Gavi Group partners such as the UNICEF and WHO.

Allocation of Functional Expenses: The Gavi Group's expenses are summarised by their functional classification in the Consolidated Statements of Activities. Certain costs have been allocated among the respective functional classes of expenses, on the basis of time and effort of full-time employees, as shown in the Consolidated Statements 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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. ASU No. 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of the guidance include: [1] presentation of two classes of net assets rather than the previously required three, [2] disclosure of the indirect method of presenting the net amount for operating cash flows on the face of the statement of cash flows is no longer required if the direct method is used, [3] presentation of investment income net of investment expenses, and [4] enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The amendments in ASU No. 2016-14 are effective for annual periods beginning after 15 December 2017, and interim periods beginning after 15 December 2018. Retrospective application is required. The Gavi Group adopted the provisions of ASU No. 2016-14 for the year ended 31 December 2018. As a result of the adoption of ASU No. 2016-14:

- There were changes in the basis of allocating certain costs among programme expenses, management and general expenses, and fundraising expenses. As a result, for the year ended 31 December 2017, incremental management and general expenses of US\$ 2.4 million and US\$ 0.7 million were allocated to programme expenses and fundraising expenses, respectively, reported in the Consolidated Statement of Activities on page 25 of the consolidated financial statements.
- For the year ended 31 December 2017, investment expenses of US\$ 840 thousand were netted against investment income, as shown in Note 10 to the consolidated financial statements, and included in net investment income reported in the Consolidated Statements of Activities on page 25 of the consolidated financial statements. Prior to the adoption of ASU No. 2016-14, investment expenses were included in management and general expenses reported in the Consolidated Statements of Activities on page 25 of the consolidated financial statements.

Change in Accounting Policy: With the adoption of ASU No. 2016-14, the Gavi Group reassessed its accounting policy on the classification and release of net assets in relation to donor contributions with donor-imposed stipulations. The change in accounting policy is consistent with the Gavi Group's standard practices.

Donor contributions whose use is limited to specific purposes, are classified as net assets without donor restrictions when funds are spent on relevant programmes. In prior years, these donor contributions were classified as net assets without donor restrictions to the extent that relevant and available programmes had been recognised. Furthermore, Gavi eliminates the policy in prior years that donor restricted contributions whose restrictions expire within the same year are reported as net assets without donor restrictions. The following changes are reported in the Consolidated Statements of Activities on page 25 of the consolidated financial statements: [1] as of 1 January 2017, net assets without donor restrictions of US\$ 135 million were reclassified to net assets with donor restrictions, [2] for the year ended 31 December 2017, contributions from government and private donors of US\$ 129 million, previously reported as changes in net assets without donor restrictions, were reclassified and reported as changes in net assets with donor restrictions, [3] for the year ended 31 December 2017, incremental net assets of US\$ 141 million were released from restrictions, [4] for the year ended 31 December 2017, foreign currency transaction adjustment of US\$ 413 thousand, previously reported as changes in net assets without donor restrictions, were reclassified and reported as changes in net assets with donor restrictions, and [5] as of 31 December 2017, net assets without donor restrictions of US\$ 124 million were reclassified to net assets with donor restrictions.

Donor contributions with time and programme restrictions are reported as net assets with donor restrictions due to programme restriction. As of 31 December 2017, net assets with donor restrictions due to time restriction of US\$ 452 million were reclassified to net assets with donor restrictions due to programme restriction. See Note 9 for further details.

### 3. DERIVATIVE FINANCIAL INSTRUMENTS

The Gavi Group 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, while Gavi is exposed to foreign exchange risk only. Each of these is described further below.

**Foreign Exchange Rate Risk:** During the years ended 31 December 2018 and 2017, IFFIm was exposed to foreign exchange risks from currency mismatches as well as timing differences between receipt of donor payments, payment of bonds and other borrowings obligations, disbursements to Gavi and issuance of IFFIm bonds. To mitigate these risks, donor pledges were economically swapped into United States dollar floating rate assets and, at issuance, IFFIm's bonds and other borrowings was economically swapped into United States dollar floating rate liabilities.

The Gavi Group hedges its exposure to currency fluctuations by taking out foreign currency forward contracts. This was done primarily to improve predictability of contribution cash flows which are denominated in foreign currencies, and cash balances which are required in Swiss Francs to pay operating expenses for the Secretariat.

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

The notional amounts and fair values of currency and interest rate swaps held by IFFIm were:

In Thousands of US\$	31 December 2018		31 December 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency and interest rate swaps receivable related to contributions receivable	58,083	3,688	39,442	1,822
Total currency and interest rate swaps receivable		3,688		1,822
Currency and interest rate swaps payable related to contributions receivable	2,187,434	(448,084)	2,634,958	(652,703)
Currency and interest rate swaps payable related to bonds and other borrowings	163,586	(82,358)	633,952	(115,991)
Total currency and interest rate swaps payable		(530,442)		(768,694)
Net fair value of currency and interest rate swaps		(526,754)		(766,872)

The rationale of offsetting derivative assets against derivative liabilities is described in Note 2 to the consolidated financial statements.

IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum liquidity level is recalculated and reset on a quarterly basis. As of December 2018, IFFIm's calculated minimum liquidity was US\$ 528.2 million and the value of IFFIm's cash and pooled investments was US\$ 817 million. As of December 2017, IFFIm's calculated minimum liquidity level was US\$ 366.5 million and the value of IFFIm's cash and pooled investments was US\$ 912 million.

Under the terms of the Credit Support Annex ("**CSA**") to the International Swaps and Derivatives Association ("**ISDA**") Agreement between IFFIm and the World Bank, the World Bank as IFFIm's counterparty on all currency and interest rate swap contracts has the right to call for collateral to protect against its exposure under these contracts. The World Bank has not exercised this right and has confirmed that it will not call collateral over at least twelve months from the date of approval of these financial statements. Instead, in order to mitigate the risk that the World Bank may call collateral, an agreement has been reached between the World Bank and IFFIm to apply an additional buffer (the "**Risk Management Buffer**") to an existing gearing ratio limit that IFFIm uses to manage its liquidity risk. The Risk Management Buffer was applied to manage the World Bank's exposure under the swap contracts and may be adjusted by the World Bank in its sole discretion. In addition, the World Bank as IFFIm's Treasury Manager, shall continue to monitor IFFIm's funding needs to ensure that at all times IFFIm maintains sufficient available resources to be able to meet its financial obligations, including debt-service payments and obligations under the abovementioned CSA and ISDA Agreement.

The notional amounts and fair values of foreign currency forward contracts held by Gavi were:

In Thousands of US\$	31 December 2018		31 December 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign currency forward contracts receivable	1,330,561	84,293	454,376	17,305
Foreign currency forward contracts payable	(48,000)	(1,921)	1,199,064	(46,937)

Gavi uses foreign exchange contracts to reduce the level of foreign exchange risk associated with its contributions receivable. Under its hedging policy, Gavi enters into foreign exchange contracts to economically hedge a portion of the foreign currency exposure on its contributions receivable. These foreign exchange contracts, which include option and forward contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. Gavi minimises counterparty credit risk in derivative instruments by entering into transactions with high quality counterparties whose credit rating is not lower than A or A2 as measured by at least two major credit agencies. The maximum exposure with any single bank is limited to 10% of the short-term portfolio or \$100 million (or equivalent in other currencies), whichever is higher. Due to the policy in place and assessment performed, there are no significant concentrations of risk.

#### 4. INVESTMENTS

The fair values of the Gavi Group's investments were:

In Thousands of US\$	2018	2017
Money market funds	738,772	594,128
Registered investment companies	342,860	454,987
Limited liability companies and limited partnerships <sup>1</sup>	819,440	885,095
Pooled investments	816,964	911,776
Total investments	2,718,036	2,845,986

<sup>1</sup> The Gavi Group invests a portion of its assets in collective equity funds and limited liability companies and limited partnerships. The fair value of these investments is estimated using their calculated net asset value per share ("NAVPS") as a practical expedient, and they are redeemable at their current net asset value upon written notice by the Gavi Group.

The following table summarises the redemption frequencies, redemption notice periods and fair values of the Gavi Group's investments in funds which are valued based on NAVPS as a practical expedient:

As of 31 December 2018, In Thousands of US\$	Redemption Frequency	Redemption Notice Period	Fair Value
Limited liability companies and limited partnerships <sup>2</sup>	Daily	5 day notice	98,010
Limited liability companies and limited partnerships <sup>3</sup>	Monthly	3 day notice	192,386
Limited liability companies and limited partnerships <sup>4</sup>	Monthly	5 day notice	113,287
Limited liability companies and limited partnerships <sup>5</sup>	Monthly	7 day notice	40,531
Limited liability companies and limited partnerships <sup>7</sup>	Monthly	30 day notice	215,143
Limited liability companies and limited partnerships <sup>9</sup>	Quarterly	60 day notice	26,230
Limited liability companies and limited partnerships <sup>10</sup>	Quarterly	65 day notice	48,276
Limited liability companies and limited partnerships <sup>11</sup>	Quarterly	90 day notice	78,867
Limited liability companies and limited partnerships <sup>12</sup>	None	None	6,710
Total			819,440

As of 31 December 2017, In Thousands of US\$	Redemption Frequency	Redemption Notice Period	Fair Value
Limited liability companies and limited partnerships <sup>1</sup>	Daily	1 day notice	66,527
Limited liability companies and limited partnerships <sup>2</sup>	Daily	5 day notice	96,913
Limited liability companies and limited partnerships <sup>3</sup>	Monthly	3 day notice	127,863
Limited liability companies and limited partnerships <sup>4</sup>	Monthly	5 day notice	163,045
Limited liability companies and limited partnerships <sup>5</sup>	Monthly	7 day notice	39,910
Limited liability companies and limited partnerships <sup>6</sup>	Monthly	15 day notice	38,275
Limited liability companies and limited partnerships <sup>7</sup>	Monthly	30 day notice	118,290
Limited liability companies and limited partnerships <sup>8</sup>	Monthly	90 day notice	26,321
Limited liability companies and limited partnerships <sup>9</sup>	Quarterly	60 day notice	72,213
Limited liability companies and limited partnerships <sup>10</sup>	Quarterly	65 day notice	48,246
Limited liability companies and limited partnerships <sup>11</sup>	Quarterly	90 day notice	87,492
<b>Total</b>			<b>885,095</b>

<sup>1</sup> In 2017, this category is comprised of one underlying fund that invests primarily in other multi-sector total return fixed income mandates. The underlying fund is measured against the Barclays Global Aggregate Bond Index.

<sup>2</sup> This category is comprised of two underlying funds. One fund's investment objective is to maximise long-term total return by investing up to 50% of its total net assets in securities rated at or above Baa1 or BBB- at the time of purchase by a rating agency recognised nationally in the United States. One new fund was added in 2018. This new fund seeks to provide investors with above average absolute returns primarily through investing and trading in equities and equity related instruments. Short-term volatility will be managed through the use of various hedging and risk management techniques.

<sup>3</sup> This category is comprised of three underlying funds. One fund's investment objective is to realise long-term appreciation in the value of its assets. This fund seeks exposure to risks that are systematic in nature, i.e., the risks that are intrinsic to the operation of the global markets and economies. The other fund seeks to generate an attractive risk-adjusted return while preserving capital, with a focus on ultra short duration fixed income securities. This fund seeks to provide additional yield relative to a money market strategy via higher spread premiums and interest rate sensitivity. Another fund seeks to invest in transferable securities and/or in other liquid financial assets in accordance with the Regulations with the aim of spreading investment risk.

<sup>4</sup> This category is comprised of one underlying fund. One fund seeks to outperform the Barclays Capital 1-3 Year U.S. Treasury index by investing in fixed rate, floating rate or variable interest fixed income securities. In 2017, this category comprised of two underlying funds. The other fund seeks to maintain a diversified portfolio consisting of listed equity, equity-related and debt securities, including exchange traded funds, other securities and other pooled investment vehicles.

<sup>5</sup> This category is comprised of one underlying fund. The fund seeks to maximise its total return on a risk-adjusted basis by investing in relative value opportunities within sectors of the U.S. fixed income market that are considered to be liquid.

<sup>6</sup> In 2017, this category is comprised of one underlying fund. The investment objective of the fund is to achieve risk-adjusted returns in excess of the MSCI All Country World Investable Index, Net (unhedged), in U.S. dollars on its assets by investing in long and short global equity instruments, futures and currency derivatives.

<sup>7</sup> This category is comprised of six underlying funds. One fund seeks long-term capital appreciation by investing primarily in common stocks of emerging markets small capitalisation issuers. The other fund seeks to generate absolute return on a period-by-period basis by investing in liquid derivative markets for commodities. Another fund seeks to invest all of its assets in ordinary shares to achieve long-term appreciation in the value of its assets. Another fund seeks to outperform the MSCI World ex USA Micro Cap Index over full market cycles. This fund will principally invest in equity securities issued by micro capitalization non-U.S. corporations. Two new funds were added in 2018. One new fund seeks to achieve long-term capital appreciation that is uncorrelated or negatively correlated with global equity markets. The other new fund seeks to generate superior risk adjusted returns relative to the B of A Merrill Lynch 0-5 year US High Yield Constrained Index through a portfolio of short duration investments consisting primarily of high yield and convertible bonds, corporate loans, preferred equities, stressed and distressed securities, and "special situation" investments.

<sup>8</sup> In 2017, this category is comprised of one underlying fund. The investment objective of the fund is to generate a consistent, long-term appreciation of assets through the active management of a comprehensive, equity-focused portfolio which includes sector-specific, market-neutral sub-portfolios, together with various complementary equity-focused investment strategies.

<sup>9</sup> This category is comprised of one underlying fund. This fund seeks to invest opportunistically mainly in stressed, distressed and special situations debt obligations with varying terms as to collateralisation, relative seniority or subordination, interest requirements and maturity and occasionally in post-reorganisation equity products of corporate issuers incorporated or significantly carrying out business in Europe. In 2017, this category comprised of two underlying funds. The other fund seeks to achieve superior total return through a portfolio of high yield securities, including bonds and bank debt, stressed and distressed securities, undervalued equities, short selling of debt and equity securities, and to a lesser extent "special situation" investing. Due to a one year lock-up period, redemptions of shares in this fund are restricted until the first anniversary of the subscription payment.

<sup>10</sup> This category is comprised of one underlying fund. This fund will seek to achieve its investment objective by investing primarily in U.S. residential mortgage-backed securities to generate returns in excess of any financing costs. It will also seek to exploit structural market inefficiencies and make short-term relative value trades in such markets. It will invest predominantly in all forms of U.S. residential mortgage-backed securities, government securities and related derivative instruments, including, without limitation, U.S. Treasury debt, government sponsored enterprise (“Agency”) backed securities and fixed or adjustable rate collateralised mortgage obligations and Real Estate Mortgage Investment Conduits. It may also enter into repurchase and reverse repurchase agreements and invest and trade in future contracts, forward contracts, options, swaps, swaptions and other derivative transactions. It will primarily invest in Agency backed mortgage securities which carry the Agency guarantee of timely payment of principal and interest.

<sup>11</sup> This category is comprised of three underlying funds. One underlying fund invests primarily in other offshore hedge fund vehicles. The other fund invests in securities and financial instruments and products of any kind that it believes may be appropriate to earn a return comparable to various market indices plus an additional return based on the success of long/short and other relative value strategies executed principally in the fixed income and related markets. Another fund seeks to consistently generate attractive risk-adjusted returns over a market cycle by investing primarily in emerging markets across a range of asset classes, including but not limited to foreign exchange, credit, interest rates, commodities and equities.

<sup>12</sup> This category is comprised of one underlying fund. This fund seeks capital preservation and the generation of superior, risk-adjusted absolute returns over a multi-year period. Due to a three year lock-up period, redemptions of shares in these funds are restricted until the three year anniversary of the subscription payment.

## 5. NET CONTRIBUTIONS RECEIVABLE

The Gavi Group’s net contributions receivable consisted of the following unconditional promises to give:

In Thousands of US\$	2018	2017
Unconditional promises due in less than one year	1,262,237	1,330,606
Unconditional promises due in two to five years	2,518,400	3,657,156
Unconditional promises due thereafter	901,878	1,260,944
Contributions receivable before unamortised discount, grant payment condition and allowance for doubtful accounts	4,682,515	6,248,706
Due in less than one year:		
Unamortised discount	(751)	(378)
Reduction due to grant payment condition <sup>1</sup>	(31,840)	(39,535)
Due in more than one year:		
Unamortised discount	(105,199)	(132,788)
Reduction due to grant payment condition <sup>1</sup>	(209,111)	(313,931)
Allowance for doubtful accounts	(6,000)	-
Total net contributions receivable	4,329,614	5,762,074

<sup>1</sup> The grant payment condition is described in Note 2 to the consolidated financial statements.

Based on **management’s** evaluation of collectability of contributions receivable, an allowance for doubtful accounts of US\$ 6 million was recorded for the year ended 31 December 2018.

## 6. RESTRICTED CASH AND PROCUREMENT ACCOUNTS PAYABLE

The Gavi Group established separate bank accounts into which it transfers cash as needed for the benefit of UNICEF to procure vaccines and other supplies on the Gavi Group’s behalf (the “Procurement Accounts”). All cash deposited into the Procurement Accounts is irrevocable and may only be withdrawn by UNICEF, with the exception of investment income, which may be remitted to the Gavi Group. As collateral security for the prompt payment and performance when due of Gavi Group’s obligations, the Gavi Group has granted to UNICEF a security interest in all of Gavi Group’s rights, titles, interests in, and proceeds from, the Procurement Accounts and all financial assets credited thereto. As of 31 December 2018 and 2017, US\$ 553 million and US\$ 721 million, respectively, were available to UNICEF in the Procurement Accounts.

Amounts committed to UNICEF for the procurement of vaccines were US\$ 561 million and US\$ 694 million as of 31 December 2018 and 2017, respectively. These amounts are presented as procurement accounts payable in the Consolidated Statements of Financial Position.

## 7. NET PROGRAMME GRANTS PAYABLE

The Gavi Group's committed but unpaid grants were:

In Thousands of US\$	2018	2017
Grants payable due in less than one year	1,404,280	1,114,913
Grants payable due in two to five years	8,710	18,093
Grants payable before unamortised discount	1,412,990	1,133,006
Unamortised discount	(345)	(635)
Total net programme grants payable	1,412,645	1,132,371

## 8. BONDS AND OTHER BORROWINGS

IFFIm borrows in the worldwide capital markets by offering its bonds to fund the Gavi Group's programmes. IFFIm's outstanding bonds and other borrowings were all bonds except for IFFIm Sukuk certificates with a fair value of US\$ 200 million as of 31 December 2017.

Bonds and other borrowings summarised by year of maturity were:

Year of Maturity, In Thousands of US\$	31 December 2018		31 December 2017	
	Nominal Amount	Fair Value	Nominal Amount	Fair value
2018	-	-	288,626	289,898
2019 <sup>1</sup>	500,000	505,051	500,000	502,586
2020	329,838	327,005	334,804	329,749
Thereafter	91,595	54,282	106,841	58,908
Total bonds and other borrowings	921,433	886,338	1,230,271	1,181,141

<sup>1</sup> Fair value includes accrued interest of US\$ 1.1 million as of 31 December 2018.

Bonds and other borrowings as of 31 December 2018, include both United States dollar and foreign currency denominated fixed and variable rate debt as presented below:

Currency	Coupon Rate	Fair Value as of 31 December 2018, in Thousands of US\$	Fair Value as of 31 December 2017, in Thousands of US\$
United States Dollars	Variable	805,008	1,003,240
South African Rand	Fixed	81,330	154,118
Turkish Lira	Fixed	-	23,783
Total bonds and other borrowings		886,338	1,181,141

In order to diversify its investors and raise its profile in the Middle East capital markets, IFFIm issued US\$ 200 million in Sukuk certificates through IFFImSC II on 17 September 2015. The Sukuk certificates entitled the holders to pro-rata interests in commodity transactions with IFFIm under which IFFIm purchased and immediately on-sold commodities on a recognised commodities exchange as part of the Sukuk issuance. The purchase and on-sale of the commodity transactions offset each other and were recorded on a net basis. In September 2018, IFFImSC II made the final payment to the holders of its certificate.

As of 31 December 2018, the weighted average coupon interest rate for fixed rate bonds was 0.8%, with actual rates ranging from 0.5% to 5.3%, and the coupon rate for variable rate bonds was ranging from 13 to 26 basis points over three-month USD LIBOR.

As of 31 December 2017, the weighted average coupon interest rate for fixed rate bonds was 2.5%, with actual rates ranging from 0.5% to 5.3%, and the coupon rate for variable rate bonds was 13 to 26 basis points over three-month USD LIBOR. As of 31 December 2017 the coupon interest rates for the Sukuk certificates issued through IFFImSC II were 14 basis points over three-month USD LIBOR.



## 9. NET ASSETS WITH DONOR RESTRICTIONS

The Gavi Group's net assets with donor restrictions consisted of the following:

In Thousands of US\$	2018	2017 As Adjusted
Due to time restriction	3,797,802	4,791,527
Due to programme restriction	464,389	565,438
Total net assets with donor restrictions	4,262,191	5,356,965

In prior years, the Gavi Group considered restriction due to time as carrying more weight than restriction due to purpose with respect to the classification of net assets with donor restrictions. Therefore, in prior years, donor contributions with time and programme restrictions were classified and reported as net assets with donor restrictions due to time restriction. In 2018, the Gavi Group reassessed this policy and changed its basis, for determining which restriction carries more weight, to a consideration of whether the restriction is explicit or implied. Explicit donor stipulations generally carry more weight than implied restrictions. Therefore, as time restrictions are principally implied and the majority of purpose restrictions are explicit, donor contributions with time and programmes restrictions are classified and reported as net assets with donor restrictions due to programme restriction. Prior year amounts have been adjusted to conform to current year presentation.

## 10. NET INVESTMENT INCOME

Net investment income was as follows:

In Thousands of US\$	2018	2017
Investment income on investments held by Gavi	2,889	117,535
Investment fees on investments held by Gavi	(3,614)	(5,670)
Direct internal investment expenses	(778)	(840)
Net investment (expense) income on investments held by Gavi	(1,503)	111,025
Investment income on pooled investments held by IFFIm	20,648	15,043
Total net investment income	19,145	126,068

Investment income on investments held by Gavi included realised and unrealised net losses of US\$ 26 million and net gains of US\$ 100 million for the years ended 31 December 2018 and 2017, respectively. US\$ 97 million of net losses and US\$ 62 million of net gains were unrealised as of 31 December 2018 and 2017, respectively.

## 11. NET FAIR VALUE GAINS (LOSSES) ON DERIVATIVES

Net gains (losses) on the fair values of derivatives, which have been recognised in the Consolidated Statements of Activities, include the following:

In Thousands of US\$	2018	2017
Net gains (losses) from swaps related to contributions receivable	164,669	(237,554)
Net (losses) gains from swaps related to bonds and other borrowings	(9,408)	30,033
Net gains (losses) from other derivatives	107,046	(50,416)
Net fair value gains (losses) on derivatives	262,307	(257,937)

## 12. LEASES

Geneva, Switzerland leases: Gavi had a lease agreement for office space in Geneva, Switzerland, which commenced in January 2012 and ended in July 2018. Gavi also had a lease agreement for additional office space in Geneva, Switzerland, which commenced in July 2014 and ended in July 2018. Gavi entered into a ten-year lease agreement, with a five-year option to renew, for new office space in Geneva, Switzerland commencing on February 2018 and ending in February 2028. Gavi relocated to the new office in July 2018.

Washington, DC leases: Gavi had a ten-year lease agreement for office space in Washington, DC, which commenced in June 2007 and ended in July 2017. In September 2016, Gavi entered into a fifteen-year lease agreement for new office space in Washington, DC, commencing in August 2017 and ending in July 2032. The lease agreement provided Gavi with a Tenant Improvement Allowance of up to US\$ 2.3 million towards certain costs incurred by Gavi incidental to its occupancy of the new office space. Gavi utilised US\$ 1.9 million

of the Tenant Improvement Allowance, which will be recognised as a reduction of rent expense over the term of the lease on a straight-line basis. Tenant Improvement Allowance of US\$ 1.7 million and US\$ 1.8 million are included in accounts payable and other liabilities in the Consolidated Statements of Financial Position as of 31 December 2018 and 2017, respectively.

Gavi's future minimum lease payments are as follows:

In Thousands of US\$	Expenses
Year Ending 31 December 2019	2,702
Year Ending 31 December 2020	2,721
Year Ending 31 December 2021	2,741
Year Ending 31 December 2022	2,762
Year Ending 31 December 2023	2,783
Thereafter	16,392
<b>Total</b>	<b>30,101</b>

Rent expense for these leases is recognised on a straight-line basis over the term of the leases. Rental expense was US\$ 4.1 million and US\$ 3.7 million for the years ended 31 December 2018 and 2017, respectively.

### 13. RETIREMENT PLANS

The Gavi Group 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 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 **Gavi's** contributions was US\$ 7.3 million and US\$ 6.9 million for the years ended 31 December 2018 and 2017, respectively.

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 contributions equal 1% of each vested **participant's** compensation and a 3% contribution due to a safe harbour provision. Participants are fully vested upon employment. 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 amounts expensed for **Gavi's** contributions were US\$ 429 thousand and US\$ 425 thousand for the years ended 31 December 2018 and 2017, respectively.

### 14. NET FINANCING EXPENSES

Financing expenses were as follows:

In Thousands of US\$	2018	2017
Interest expense on bonds and other borrowings	24,224	22,585
Net fair value (gains) losses on bonds and other borrowings	(5,620)	29,783
Other financing charges	848	367
<b>Net financing expenses</b>	<b>19,452</b>	<b>52,735</b>

### 15. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Gavi Group to concentrations of credit risk consist of deposits in banks in excess of deposit insurance limits in Switzerland, the United Kingdom and the United States. Bank deposits in these countries are insured up to limits guaranteed by the Swiss **Banks'** and Securities **Dealers'** Depositor Protection Association, the United **Kingdom's** Financial Services Compensation Scheme ("**FSCS**") and the United States Federal Deposit Insurance Corporation ("**FDIC**") respectively. The Gavi Group also 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 deposit insurance limits in Switzerland and the United Kingdom are SFr 100 thousand and £ 85 thousand respectively, per depositor, per insured depository institution. In the US, the standard maximum FDIC deposit insurance amount per depositor, per insured depository institution for each account ownership category is

US\$ 250 thousand. While amounts in the Gavi Group's demand deposit accounts at times exceed the amounts guaranteed in the respective jurisdictions and therefore bear some risk, the Gavi Group has not experienced, nor does it anticipate, any credit losses on these financial instruments.

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 at the time of purchase 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 whose minimum rating is AAA.

As of 31 December 2018, the Gavi Group had the following concentrations of credit risk with respect to contributions receivable:

- **The Gavi Group's contributions receivable as of 31 December 2018 included US\$ 1.5 billion and US\$ 1.2 billion of pledges received, either directly or through IFFIm, from the United Kingdom and euro zone countries, respectively. This represented 35% and 27%, respectively, of the Gavi Group's total contributions receivable as of 31 December 2018.**
- **The Gavi Group's contributions receivable as of 31 December 2018 included US\$ 316 million of pledges from AMC Donors and guaranteed by the World Bank. This represented 7% of the Gavi Group's total contributions receivable as of 31 December 2018.**

As of 31 December 2018, Gavi had entered into foreign currency forward contracts with a single counterparty with an aggregate fair value (receivable) of US\$ 39 million. This represented 47% of Gavi's foreign currency forward contracts as of 31 December 2018.

## 16. LIQUIDITY AND AVAILABILITY

As of 31 December 2018, the Gavi Group's financial assets available to meet cash needs for general expenditures, such as operating expenses and scheduled redemption of bonds and other borrowings, within one year consisted of the following:

In Thousands of US\$	Note	31 December 2018
Cash		217,636
Foreign currency forward contracts receivable	3	84,293
Investments	4	1,901,072
Pooled investments	4	816,964
Contributions receivable	5	1,229,646
<b>Total financial assets available within one year</b>		<b>4,249,611</b>
Less those unavailable for general expenditure within one year due to:		
Lock-up redemption on investments	4	(6,710)
Redemption of bonds and other borrowings	8	(381,287)
Donor-imposed programme restrictions on contributions	9	(464,389)
<b>Financial assets available to meet cash needs for general expenditures within one year</b>		<b>3,397,225</b>

Gavi and IFFIm have put in place certain policies in order to ensure that they maintain sufficient liquidity to meet their obligations to implementing countries, IFFIm investors and all other creditors. These policies are summarised below:

- **Gavi cash reserve policy:** At all times, Gavi maintains a minimum unrestricted cash and investment reserve equivalent to eight months of Gavi's expected annual cash expenditures.
- **Gavi programme funding policy:** As a prerequisite to Board approval or endorsement of any new programmes, Gavi designates an amount of Qualifying Resources sufficient to fully cover all its commitments for the period from the start of the current year through the next two calendar years.

Qualified Resources are defined as the aggregate of Gavi cash and investments on hand and expected future cash inflows for the next two years. Expected future cash flows are comprised of: (1) expected cash receipts from AMC donors and other direct Gavi donors, (2) expected funding from IFFIm, (3) project investment income.

- **IFFIm liquidity policy:** IFFIm maintains an adequate level of liquidity to meet its operational requirements, provide predictability of programme funding and support its credit rating. Taking these factors into account, IFFIm maintains a minimum balance of pooled investments equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum balance is recalculated and reset on a quarterly basis.

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table summarises the Gavi Group's assets measured at fair value along with their valuation hierarchy:

As of 31 December 2018, in Thousands of US\$	Investments measured at Net Asset Value	Level 1	Level 2	Level 3	Total
<u>Pooled investments:</u>					
Government and agency securities	-	-	682,913	-	682,913
Mortgage and asset-backed securities	-	-	29,933	-	29,933
Derivatives	-	-	7,819	-	7,819
Money market securities	-	-	104,502	-	104,502
Net securities purchased/(sold) under resale/repurchase agreements	-	-	(8,203)	-	(8,203)
<u>Other investments:</u>					
Money market funds	-	738,772	-	-	738,772
Registered investment companies	-	342,860	-	-	342,860
Limited partnerships and limited liability companies	819,440	-	-	-	819,440
Net contributions receivable	-	-	1,924,219	2,405,395	4,329,614
Foreign currency forward contracts	-	-	84,293	-	84,293
<b>Total assets at fair value</b>	<b>819,440</b>	<b>1,081,632</b>	<b>2,825,476</b>	<b>2,405,395</b>	<b>7,131,943</b>

As of 31 December 2017, in Thousands of US\$	Investments measured at Net Asset Value	Level 1	Level 2	Level 3	Total
<u>Pooled investments (as adjusted):</u>					
Government and agency securities	-	-	783,872	-	783,872
Mortgage and asset-backed securities	-	-	69,688	-	69,688
Derivatives	-	-	(20,135)	-	(20,135)
Money market securities	-	-	79,187	-	79,187
Net securities purchased/(sold) under resale/repurchase agreements	-	-	(836)	-	(836)
<u>Other investments:</u>					
Money market funds	-	594,128	-	-	594,128
Registered investment companies	-	454,987	-	-	454,987
Limited partnerships and limited liability companies	885,095	-	-	-	885,095
Net contributions receivable	-	-	2,992,205	2,769,869	5,762,074
Foreign currency forward contracts	-	-	17,305	-	17,305
<b>Total assets at fair value</b>	<b>885,095</b>	<b>1,049,115</b>	<b>3,921,286</b>	<b>2,769,869</b>	<b>8,625,365</b>

In prior years, the fair value hierarchy disclosure in relation to pooled investments was analysed on the basis of the underlying investments in the fund, which consisted of level 1 and level 2 financial instruments. As described in Note 2, investments held by IFFIm relate to a pooled investments portfolio. Therefore, for the purposes of the fair value hierarchy, pooled investments are treated as one instrument. Accordingly, in 2018, the prior year disclosure has been adjusted to show that the pooled investments are classified within level 2 of the fair value hierarchy.

The following table summarises the Gavi Group's liabilities measured at fair value along with their valuation hierarchy:

As of 31 December 2018, in Thousands of US\$	Level 1	Level 2	Level 3	Total
Net programme grants payable	-	1,412,645	-	1,412,645
Bonds and other borrowings	-	886,338	-	886,338
Foreign currency forward contracts payable	-	1,921	-	1,921
Net payable for currency and interest rate swaps	-	526,754	-	526,754
Total liabilities at fair value	-	2,827,658	-	2,827,658

As of 31 December 2017, in Thousands of US\$	Level 1	Level 2	Level 3	Total
Net programme grants payable	-	1,132,371	-	1,132,371
Bonds and other borrowings	-	1,181,141	-	1,181,141
Foreign currency forward contracts payable	-	46,937	-	46,937
Net payable for currency and interest rate swaps	-	766,872	-	766,872
Total liabilities at fair value	-	3,127,321	-	3,127,321

The following table provides a summary of changes in the fair value of Level 3 financial assets:

In Thousands of US\$	Contributions Receivable as of 31 December 2018
Fair value as of 1 January 2018	2,769,869
Net realised fair value gains	108,642
Net unrealised fair value losses	(116,889)
New pledges	10,737
Contributions received/redemptions	(366,964)
Total level 3 assets at fair value	2,405,395

In Thousands of US\$	Contributions Receivable as of 31 December 2017
Fair value as of 1 January 2017	2,553,323
Net realised fair value gains	68,659
Net unrealised fair value gains	261,901
New pledges	198,817
Contributions received/redemptions	(312,831)
Total level 3 assets at fair value	2,769,869

There were no transfers of assets and liabilities between levels of the fair value hierarchy in 2018 and 2017.

The techniques applied in determining the fair values of financial instruments are described in the *Fair Values of Financial Instruments* section of Note 2 to the consolidated financial statements.

## 18. RECENTLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE

The following are recently issued accounting standards updates with possible financial reporting implications for the Gavi Group. These accounting standards updates are effective in future accounting periods and have not yet been adopted by the Gavi Group.

- In June 2018, the FASB issued ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 *Not-for-Profit Entities* or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Gavi Group is reviewing this update to determine its significant impact on the timing of revenue and expense recognition in Gavi Group's consolidated financial statements. This update will be effective for Gavi's financial year ending 31 December 2019 and will be adopted on a modified prospective basis.
- In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*. This update seeks to increase transparency and comparability among organisations by recognising lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In July 2018, the FASB issued ASU No. 2018-10 *Codification Improvements to Topic 842, Leases*. This update affects a number of aspects of the guidance issued in the amendments in ASU No. 2016-02 *Leases (Topic 842): Recognition of Operating Leases*. In July 2018, the FASB issued ASU No. 2018-11 *Leases (Topic 842): Targeted Improvements*. This update provides entities with an additional (and optional) transition method to adopt the new leases standard and provide lessors with a practical expedient for separating lease and non-lease components in a contract and allocating the consideration in the contract to the separate components. Gavi's most significant lease arrangements are the leases for its Geneva, Switzerland and Washington, DC offices. Under these updates, Gavi may need to record these leases as assets and liabilities on its balance sheet, rather than simply expensing the rents due to the landlords as they are incurred. The Gavi Group is reviewing this update to determine its impact on the Gavi Group's consolidated financial statements. These updates will be effective for Gavi's financial year ending 31 December 2019.
- In May 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers (Topic 606)*. This update clarifies the principles of recognising revenue and develops a common revenue standard for US GAAP and International Financial Reporting Standards. ASU No. 2015-14 (issued in August 2015) *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU No. 2016-08 *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This update clarifies the criteria for recognising revenue for the provision of goods and services. It states that, when a third party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. In May 2016, the FASB issued ASU No. 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This update clarifies certain aspects and does not change the core principle of the guidance in Topic 606. The Gavi Group has historically not earned any revenue through the provision of goods and services, either as a principal or an agent. However, with the expansion of its operational partnerships activity, there is potential that it may enter into such arrangements going forward, which would make these updates applicable. The Gavi Group will review new operational partnerships to determine any impact of these updates to the Gavi Group's consolidated financial statements. These updates will be effective for Gavi's financial year ending 31 December 2019.
- In January 2016, the FASB issued ASU No. 2016-01 *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The main objective of this update is to enhance the reporting model for financial instruments, in certain targeted areas, to provide users of financial statements with more decision-useful information. In February 2018, the FASB issued ASU No. 2018-03 *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*. This update clarifies certain aspects of the guidance issued in ASU No. 2016-01 *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in these updates address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and may have implications for the way the Gavi

Group accounts for its financial instruments. These updates will be effective for Gavi's financial year ending 31 December 2019.

- In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides clarifying guidance on, among other things, the following specific cash flow issues: (a) the treatment in the statement of cash flows of debt prepayment or debt extinguishment cost and (b) the treatment in the statement of cash flows of the settlement of zero-coupon debt instruments or other debt Instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This update may be applicable to certain IFFIm transactions that are consolidated into the Gavi Group's consolidated financial statements. This update will be effective for Gavi's financial year ending 31 December 2019.
- In November 2016, the FASB issued ASU No. 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Gavi Group will make the required presentation changes in its consolidated statements of cash flows in accordance with this update. This update will be effective for Gavi's financial year ending 31 December 2019.
- In July 2018, the FASB issued ASU No. 2018-09 *Codification Improvements*. This update clarifies, corrects errors in, or makes minor improvements to the Codification. This update will be effective for Gavi's financial year ending 31 December 2019.
- In August 2018, the FASB issued ASU No. 2018-13 *Fair Value Measurements (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This update modifies the disclosure requirements on fair value measurements in Topic 820 *Fair Value Measurement*. This update will be effective for Gavi's financial year ending 31 December 2020.
- In August 2018, the FASB issued ASU No. 2018-15 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update aligns the requirements for capitalising implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalising implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This update will be effective for Gavi's financial year ending 31 December 2021.
- In November 2018, the FASB issued ASU No. 2018-18 *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. This update clarifies the interaction between Topic 808 *Collaborative Arrangements* and Topic 606 *Revenue from Contracts with Customers* and aims to reduce the diversity in how entities recognise and measure revenue from collaborative arrangements. This update will be effective for Gavi's financial year ending 31 December 2021.

## 19. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Gavi Group evaluated subsequent events through 20 August 2019, which represents the date that the consolidated financial statements were issued. The Alliance identified the following significant subsequent events requiring disclosure:

- In April 2019, IFFIm, through IFFIm Sukuk Company III Limited, completed a private placement Sukuk transaction with the Islamic Development Bank Group ("IsDB"), raising US\$ 50 million. The 3-year Sukuk – a financial certificate that complies with Islamic law – provides IsDB with a socially responsible investment that will help protect tens of millions of children against preventable diseases. The transaction was arranged by the First Abu Dhabi Bank and marks IFFIm's third Sukuk transaction, furthering IFFIm's presence in Islamic capital markets and building awareness and support for its programmes among Gulf Cooperation Council investors. The issue, maturing on 9 April 2022, has an issue price of 100% and carries a quarterly coupon of 4 basis points over three-month USD LIBOR.

## **Independent Auditors' Report**

The Board of Directors  
**GAVI Alliance, Geneva**

We have audited the accompanying consolidated financial statements of GAVI Alliance, which comprise the consolidated statement of financial position as of 31 December 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### ***GAVI Alliance Board and Secretariat's Responsibility for the Consolidated Financial Statements***

The GAVI Alliance Board and the Secretariat are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GAVI Alliance as of 31 December 2018, and the change in their net assets, their cash flows and functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

The consolidated financial statements of the entity as of and for the year ended December 31, 2017 were audited by other auditors whose report, dated August 31, 2018, expressed an unmodified opinion on those statements.

As part of our audit of the 2018 consolidated financial statements, we also audited the adjustments described in Note 2 that were applied to retrospectively adjust the 2017 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures on the 2017 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 consolidated financial statements as a whole.

Deloitte SA



Fabien Bryois  
Partner



Lisa Watson  
Director

Geneva, Switzerland, 20 August 2019

# THE INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION

## CONSOLIDATED FINANCIAL STATEMENTS

The full set of IFFIm's financial statements is set out on pages 49 to 78 of this report, comprising of the Consolidated Statement of Financial Activities, the Consolidated Statement of Income and Expenditures, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, and the related notes 1 to 20 (shown as notes 20 to 39 in this report). IFFIm's trustees' report has not been included. IFFIm's full annual report, which includes the trustees' report, can be obtained free of charge from <http://www.iffim.org/finance/trustees-reports-and-financial-statements/>. Any references to page numbers and note numbers included in the IFFIm auditor's report do not refer to corresponding pages and notes in this report.

## CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

In Thousands of US\$	Note	Year Ended 31 December 2018 Restricted Funds	Year Ended 31 December 2017 Restricted Funds
<u>Income from:</u>			
Contribution revenue	21	10,738	198,817
Donated services	21	924	892
Investments	22	20,648	15,043
<b>Total income</b>		<b>32,310</b>	<b>214,752</b>
<u>Expenditure on:</u>			
Raising funds	23	27,006	24,913
Charitable activities	23	1,991	51,785
<b>Total expenditure</b>		<b>28,997</b>	<b>76,698</b>
Net income before gains and losses		3,313	138,054
Net fair value gains on pledges, bonds, and swaps	24	151,049	94,044
<b>Net movement in funds</b>		<b>154,362</b>	<b>232,098</b>
<u>Reconciliation of funds:</u>			
Total funds as of the beginning of the year		1,044,068	811,970
<b>Total funds as of the end of the year</b>		<b>1,198,430</b>	<b>1,044,068</b>

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

All incoming resources and resources expended derive from continuing operations and there are no gains or losses other than those included in this statement.

# CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURES

In Thousands of US\$	Note	Year Ended 31 December 2018 Restricted Funds	Year Ended 31 December 2017 Restricted Funds
<u>Turnover</u>			
Contribution revenue	21	10,738	198,817
<u>Operating expenses</u>			
Programme grants	23	-	50,000
<b>Treasury manager's fees</b>	23	1,934	1,961
Governance costs	23	1,991	1,785
Total operating expenses		3,925	53,746
<u>Other operating income</u>			
Donated services	21	924	892
Total operating income		924	892
Operating income		7,737	145,963
<u>Financing and investment income (expenses)</u>			
<u>Financing income (expenses) on bonds and bond swaps:</u>			
Net fair value (losses) gains on bonds and bond swaps	24	(3,788)	250
Interest expense on bonds	23	(24,224)	(22,585)
Net financing expenses on bonds and bond swaps		(28,012)	(22,335)
<u>Other financing income (expenses):</u>			
Net fair value gains on pledges and pledge swaps	24	155,591	92,750
Other foreign exchange (losses) gains	24	(754)	1,044
Other financing charges	23	(848)	(367)
Net other financing income		153,989	93,427
<u>Investment income:</u>			
Investment and interest income	22	20,648	15,043
Total financing and investment income		146,625	86,135
Surplus for the year		154,362	232,098

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

## BALANCE SHEETS

Group and Parent Company In Thousands of US\$	Note	As of 31 December 2018	As of 31 December 2017
<u>Fixed assets</u>			
Sovereign pledges due after more than one year	25	1,944,351	2,290,090
Derivative financial instruments due after more than one year	27	2,277	1,255
<b>Total fixed assets</b>		<b>1,946,628</b>	<b>2,291,345</b>
<u>Current assets</u>			
Sovereign pledges due within one year	25	306,134	297,994
Derivative financial instruments due within one year	27	1,411	562
Prepayments		114	239
Funds held in trust	26	816,964	911,776
Cash		1,978	14
<b>Total current assets</b>		<b>1,126,601</b>	<b>1,210,585</b>
<u>Liabilities</u>			
Creditors falling due within one year	28	833,006	342,780
Derivative financial instruments due within one year	27	551	61,152
<b>Net current assets</b>		<b>293,044</b>	<b>806,653</b>
<b>Total assets less current liabilities</b>		<b>2,239,672</b>	<b>3,097,998</b>
Creditors falling due after more than one year	29	511,351	1,346,393
Derivative financial instruments due after more than one year	27	529,891	707,537
<b>Net assets</b>		<b>1,198,430</b>	<b>1,044,068</b>
<b>Restricted funds</b>		<b>1,198,430</b>	<b>1,044,068</b>

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

The parent company's surplus was US\$ 154 million and US\$ 232 million for the years ended 31 December 2018 and 2017, respectively.

## CONSOLIDATED STATEMENT OF CASH FLOWS

In Thousands of US\$	Note	Year Ended 31 December 2018 Restricted Funds	Year Ended 31 December 2017 Restricted Funds
<u>Cash flows from operating activities</u>			
Cash provided by operating activities		199,911	286,348
Net cash provided by operating activities		199,911	286,348
<u>Cash flows from investing activities</u>			
Investment and interest income received	22	20,648	15,043
Decrease (increase) in funds held in trust	34	94,812	(48,562)
Net cash provided by (used in) investing activities		115,460	(33,519)
<u>Cash flows from financing activities</u>			
Proceeds from bond issuances	34	-	299,700
Redemption of bonds	34	(289,374)	(530,271)
Interest paid on bonds		(24,033)	(22,325)
Net cash used in financing activities		(313,407)	(252,896)
Net change in cash		1,964	(67)
Cash as of the beginning of the year		14	81
Cash as of the end of the year		1,978	14

Reconciliation of net change in funds to net cash flows from operating activities:

In Thousands of US\$	2018	2017
Net change in funds	154,362	232,098
Investment and interest income	(20,648)	(15,043)
Bond interest expense	24,224	22,585
Fair value losses (gains) on sovereign pledges	9,078	(330,304)
Fair value (gains) losses on bonds	(5,620)	29,783
Initial fair value of pledges	(10,738)	(198,817)
Payments received from donors	339,259	295,820
Decrease in prepayments	125	114
(Decrease) increase in amounts due under derivative financial instruments	(240,118)	200,181
Decrease in trade creditors and amounts due to related parties	(13)	(69)
(Decrease) increase in grants payable	(50,000)	50,000
Net cash provided by operating activities	199,911	286,348

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. SIGNIFICANT ACCOUNTING POLICIES

The International Finance Facility for Immunisation Company (“IFFIm”) is a private company limited by guarantee and incorporated and domiciled in the United Kingdom. The GAVI Alliance (“Gavi”) is the sole member of IFFIm and exercises direction over the timing and extent of IFFIm’s fundraising and programme disbursement activities. Gavi’s mission is to save children’s lives and protect people’s health by increasing equitable use of vaccines in lower-income countries. Gavi is domiciled in Switzerland and is recognised as an international institution under the Swiss Host State Act. Its principal address is Chemin du Pommier 40, 1218 Grand-Saconnex, Geneva, Switzerland. Gavi’s Annual Financial Reports, including its Consolidated Financial Statements, are published on its website: <https://www.gavi.org/investing/funding/financial-reports/>.

The principal accounting policies of IFFIm are summarised below. These accounting policies were consistently applied from prior years. IFFIm’s consolidated financial statements have been prepared on a going concern basis and approved by its trustees in accordance with applicable law and United Kingdom Generally Accepted Accounting Standards. As IFFIm’s credit rating is AA, the World Bank has the right to call collateral and protect its derivative exposure to IFFIm. However, following discussions and agreement with the World Bank, the World Bank has confirmed that it will not call collateral over at least twelve months from the date of approval of these financial statements, which would cause IFFIm to be unable to meet its required financial obligations. In assessing the going concern of IFFIm, the trustees have also considered the ability to defer grant payments to Gavi to the extent that this is required for IFFIm to meet other obligations as they fall due within the next twelve months. Therefore, the trustees concluded that the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about IFFIm’s ability to continue as a going concern.

Basis of Accounting: The consolidated financial statements are prepared:

- on the accruals basis of accounting, under the historical cost convention, with the exception of sovereign pledges, funds held in trust, derivative financial instruments, and bonds payable, which are included at fair value;
- in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities (Charities SORP (FRS 102)), and the Financial Reporting Standard 102 applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities Act 2011 and United Kingdom Generally Accepted Accounting Practice, as it applies from 1 January 2015 together with subsequent updates. The financial statements have been prepared to give a true and fair view of the state of IFFIm’s affairs as of 31 December 2018, and of IFFIm’s incoming resources and application of resources for the year then ended; and
- in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39), as permitted by FRS 102, sovereign pledges, funds held in trust, derivative financial instruments, and bonds payable are measured at fair value with changes in fair value recognised in the income statement. These assets and liabilities are recorded at fair value based on the methodologies described in Note 33.

The balance sheet presentation has been updated in the current year and the related comparatives in line with the SORP presentation requirements. There is no change to the classification of balances or the results of IFFIm due to these changes.

Basis of Consolidation: A subsidiary is an entity controlled by a group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

IFFIm had control over IFFIm Sukuk Company Limited (“IFFImSC”), a Cayman Islands company with limited liability, which was incorporated on 3 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 293422. The registered office of IFFImSC was P.O. Box 1093 Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. IFFImSC was dissolved on 30 April 2018. IFFIm has control over IFFIm Sukuk Company II Limited (“IFFImSC II”), a Cayman Islands company with limited liability, which was incorporated on 25 August 2015 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 303397. The registered office of IFFImSC II was P.O. Box 1093 Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. IFFImSC and IFFImSC II were established for the sole purpose of issuing sukuk certificates in support of IFFIm’s operations and their activities are conducted on behalf of IFFIm and according to IFFIm’s business needs. IFFIm is the primary beneficiary of



both entities, bears a significant level of risk incidental to their activities, and retains residual or ownership risks related to both entities or their assets. Therefore, these consolidated financial statements include the accounts of IFFImSC and IFFImSC II. As of 31 December 2018, IFFImSC II had cash of US\$ 470, share capital of US\$ 250, and retained earnings of US\$ 250, which are included in the group balance sheet but not included in the parent company balance sheet. The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present a separate parent company statement of income and expenditures. **The parent company's surplus for the year ended 31 December 2018 was US\$ 154 million.**

**Contribution Revenue:** Voluntary income received by way of contributions and grants that are for a defined portfolio of programme implementing countries or specified purposes is recognised as revenue in the restricted net asset class when there is evidence of entitlement, it can be measured reliably, and receipt is probable. Contributions and grants are reported as contribution revenue at fair value in the year in which payments are received or unconditional promises to give or pledges are made. See Notes 21 and 25 for more details on revenue calculation and recognition of pledges.

**Donated Services:** Donated services are included at the value to IFFIm of the service provided.

**Charitable Activities:** Charitable expenses comprise the direct costs of immunisation, vaccine procurement and health systems strengthening ("HSS") grants by IFFIm. They are recognised as expenses in the Statement of Financial Activities when indicative funding confirmations to Gavi have been signed by any trustee on behalf of the IFFIm board. Charitable expenses also include support costs and governance costs associated with meeting the constitutional and statutory requirements of IFFIm and include audit fees, legal fees, as well as the costs of providing strategic direction to IFFIm. No support costs are allocated to expenditure on raising funds as such costs are not considered material.

**Expenditure on Raising Funds:** Any costs of securing the sovereign pledges that are borne by IFFIm are expensed through its Statement of Financial Activities in the periods in which they are incurred. IFFIm is allocated a percentage of the fundraising costs with the assignment of the pledges from Gavi to IFFIm. **Consequently, IFFIm's costs of generating funds comprise the treasury manager's fees for managing IFFIm's funds held in trust that generate its investment income and for managing IFFIm's borrowings that generate the funds that IFFIm grants to Gavi for immunisation, vaccine procurement and HSS programmes.**

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

**Interest Income and Expense:** Investment and interest income is recognised during the period in which it is earned. Interest expense is recognised during the period in which it is incurred.

**Sovereign Pledges:** Sovereign pledges are recognised as contribution revenue and as receivables upon assignment of donor contributions to IFFIm by Gavi. Sovereign pledges are initially recognised at fair value then subsequently remeasured at fair value as of each reporting date. Gains and losses due to changes in fair market values are reported in fair value gains (losses) in the Statement of Financial Activities. **Contribution amounts received from donors depend on a Grant Payment Condition (the "GPC") which allows the donors to reduce such amounts.** See Note 33 for details of the GPC.

**Funds Held in Trust:** Funds held in trust represent IFFIm's investments in a portfolio maintained by the World Bank in its capacity as IFFIm's treasury manager. IFFIm's share in the pooled investment portfolio is measured at fair value on initial recognition, and then subsequently remeasured at fair value at the reporting date in accordance with IAS 39, as permitted by FRS 102. Gains or losses due to changes in fair market values are reported in fair value gains (losses) in the Statement of Financial Activities. See Notes 26 and 33 for further details.

**Cash:** Cash consists of cash at depository bank accounts. Cash does not include IFFIm's pooled investment portfolio, which is presented separately as funds held in trust in the Balance Sheets.

**Derivative Financial Instruments:** IFFIm uses derivatives to manage its assets and liabilities. Derivative financial instruments are accounted for at fair value. Changes in the fair values of derivatives are recognised as changes in restricted net assets in the periods of the changes and reported in fair value gains (losses) in the Statement of Financial Activities.

In applying IAS 39, as permitted by FRS 102, IFFIm has elected not to apply hedge accounting.

**Bonds Payable:** Bonds payable are recognised at fair value at the time of issuance and subsequently remeasured at fair value at each reporting date. Bonds payable have been elected to be fair valued as IFFIm manages all its assets and liabilities on a fair value basis. The bond issuance costs are written off in the year of issue and are reported in other resources expended as finance charges in the Statement of Financial Activities. Gains or losses due to changes in fair market values are reported in fair value gains (losses) in the Statement of Financial Activities.

**As IFFIm's bonds payable are measured at fair value with changes in fair value recognised in the income statement, bond issuance costs are expensed as incurred.**

**Grants Payable:** Grants payable are initially recognised at board approved amounts when an indicative funding confirmation to Gavi has been signed by one of IFFIm’s trustees on behalf of the IFFIm board. They are subsequently remeasured at amortised cost where settlement is delayed and the effect of the time value of money is material.

**Funds:** Funds, revenues, gains and losses are classified based on the existence of grantor-imposed restrictions. IFFIm receives its funding from grantors or by raising funds by borrowing in worldwide capital markets. Proceeds are used to fund Gavi programmes for a defined portfolio of eligible countries or specified purposes. Therefore all funds are treated as restricted funds. There are currently no unrestricted or designated funds. See Note 33 for IFFIm’s defined portfolio of eligible countries.

**Foreign Currency Remeasurement:** The consolidated financial statements are presented in United States dollars which is IFFIm’s functional and reporting currency. All financial assets are monetary assets. As such, foreign currency transactions are translated into the functional currency using the exchange rates in effect on the dates on which they occur. Exchange gains and losses arising on settled transactions are included in other incoming funds in the Statement of Financial Activities. Gains and losses on the translation of foreign currency denominated assets and liabilities at year end exchange rates are included in fair value gains (losses) in the Statement of Financial Activities.

**Use of Estimates:** The preparation of the consolidated financial statements in conformity with United Kingdom accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the year. Actual results could differ from these estimates.

Significant estimates and judgements are used in determining the fair values of IFFIm’s sovereign pledges receivable, bonds payable, and derivative financial instruments. The natures of these significant estimates and judgements are described in Note 33 and Note 37.

## 21. CONTRIBUTION REVENUE

**Contribution Revenue:** Several governments (the “Grantors”) have entered into legally binding obligations (“Grantor pledges”) to make scheduled grant payments to Gavi over periods of up to 20 years. Gavi has assigned the right to receive these grant payments to IFFIm in consideration for IFFIm’s agreement to assess for approval immunisation, vaccine procurement, and HSS programmes presented to IFFIm by Gavi, and to use its reasonable endeavours to raise funds for such programmes if approved.

The details of the grant obligations entered into by the Grantors are as follows:

Grantor	Grant Date	Payment Period	Grant Amount, in Thousands	Grant Amount, in Thousands of US\$ <sup>5</sup>
Commonwealth of Australia <sup>3</sup>	28 March 2011	19 years	A\$ (AUD) 250,000	176,463
Commonwealth of Australia <sup>4</sup>	3 June 2016	5 years	A\$ (AUD) 37,500	26,469
Federative Republic of Brazil	10 October 2018	20 years	US\$ (USD) 20,000	20,000
Republic of France <sup>1</sup>	2 October 2006	15 years	€ (EUR) 372,800	426,931
Republic of France <sup>2</sup>	7 December 2007	19 years	€ (EUR) 867,160	993,072
Republic of France <sup>1</sup>	4 May 2017	5 years <sup>6</sup>	€ (EUR) 150,000	171,780
Republic of Italy	2 October 2006	20 years	€ (EUR) 473,450	542,195
Republic of Italy	14 November 2011	14 years	€ (EUR) 25,500	29,203
State of the Netherlands <sup>7</sup>	18 December 2009	7 years	€ (EUR) 80,000	91,616
State of the Netherlands	2 May 2017	4 years	US\$ (USD) 66,667	66,667
Kingdom of Norway <sup>7</sup>	2 October 2006	5 years	US\$ (USD) 27,000	27,000
Kingdom of Norway	31 August 2010	10 years	Nkr (NOK) 1,500,000	172,829
Republic of South Africa	13 March 2007	20 years	US\$ (USD) 20,000	20,000
Kingdom of Spain	2 October 2006	20 years	€ (EUR) 189,500	217,015
Kingdom of Sweden	2 October 2006	15 years	Skr (SEK) 276,150	30,851
United Kingdom	2 October 2006	20 years	£ (GBP) 1,380,000	1,762,122
United Kingdom	5 August 2010	19 years	£ (GBP) 250,000	319,225
Cumulative contribution revenue since inception				5,093,438

<sup>1</sup> Acting through Agence Française de Développement.

<sup>2</sup> Acting through the Ministry of Economy, Industry and Employment.

<sup>3</sup> Acting through the Australian Agency for International Development.

<sup>4</sup> Acting through the Department of Foreign Affairs and Trade.

<sup>5</sup> United States dollar equivalent amounts of Grantor pledges at the exchange rates as of 31 December 2018.

<sup>6</sup> Corresponds to a payment period from 31 March 2022 to 31 March 2026.

<sup>7</sup> These grant obligations were fully paid and were not outstanding as of 31 December 2018.

Contribution revenue recognised was comprised of:

In Thousands of US\$	2018	2017
Initial fair value of pledge received from the Federative Republic of Brazil	10,738	-
Initial fair value of pledge received from the Republic of France	-	140,350
Initial fair value of pledge received from the State of the Netherlands	-	58,467
Total contribution revenue	10,738	198,817

**Donated Services:** IFFIm received donated administrative services from Gavi in 2018 and 2017. The services donated by Gavi were valued by using a comprehensive cost allocation model to calculate a single administrative support amount.

The following donated services were recorded as both income and expense and valued at an amount equal to the cost incurred by Gavi:

In Thousands of US\$	2018	2017
Administrative support	924	892
Total donated services	924	892

## 22. INVESTMENT AND INTEREST INCOME

In Thousands of US\$	2018	2017
Income from funds held in trust	20,664	15,045
Bank account interest	(16)	(2)
Total investment and interest income	20,648	15,043

## 23. TOTAL EXPENDITURE

In Thousands of US\$	2018	2017
<b>Expenditure on raising funds</b>		
<b>Treasury manager's fees:</b>		
Financial operations management	1,934	1,961
<b>Finance charges:</b>		
Bond interest expense	24,224	22,585
Other financing charges	848	367
Total finance charges	25,072	22,952
Total expenditure on raising funds	27,006	24,913
<b>Expenditure on charitable activities</b>		
<b>Country-specific programmes:</b>		
New and underused vaccines	-	45,000
Health systems strengthening and immunisation services	-	5,000
<b>Professional services:</b>		
Consultancy fees	304	190
Gavi administrative support fee	924	892
Legal fees	252	170
Tax compliance services	14	15
<b>Auditor's remuneration:</b>		
Statutory audit	382	390
<b>Other governance costs:</b>		
Trustees' indemnity insurance premiums	6	9
Trustees' meeting and travel expenses	109	119
Total expenditure on charitable activities	1,991	51,785

**Administrative and Financial Management Support:** Pursuant to the Finance Framework Agreement entered into among IFFIm, the Grantors, the World Bank, and Gavi, IFFIm has no employees. IFFIm outsources all administrative support to Gavi, and outsources its treasury function, together with certain accounting and financial reporting support, to the World Bank.

**Auditor's Remuneration:** Statutory audit expenses relate to the audit of financial information included in these financial statements and in the special purpose reporting package prepared by the World Bank in its capacity as IFFIm's treasury manager. Other financing charges include fees of US\$ 15 thousand and US\$ 20

thousand that were paid to IFFIm's former auditor, KPMG LLP, in 2018 and 2017, respectively, for services related to IFFIm's bond issuances.

**Trustees' Expenses:** IFFIm's trustees are not remunerated. They are, however, reimbursed for expenses they incur in attending meetings and performing other functions directly related to their duties as trustees. IFFIm also incurs professional indemnity insurance premium expenses for the trustees. IFFIm had six trustees as of 31 December 2018 and 2017.

## 24. FAIR VALUE GAINS AND LOSSES

In Thousands of US\$	2018	2017
<u>Fair value gains (losses) on bonds and bond swaps</u>		
Fair value gains (losses) on bonds	5,620	(29,783)
Net fair value (losses) gains on bond swaps	(9,408)	30,033
Net fair value (losses) gains on bonds and bond swaps	(3,788)	250
<u>Fair value gains (losses) on pledges and pledge swaps</u>		
Fair value (losses) gains on sovereign pledges	(9,078)	330,304
Net fair value gains (losses) on pledge swaps	164,669	(237,554)
Net fair value gains on pledges and pledge swaps	155,591	92,750
Other foreign exchange (losses) gains	(754)	1,044
Net fair value gains on pledges, bonds, and swaps	151,049	94,044

## 25. SOVEREIGN PLEDGES

IFFIm's sovereign pledges represent grants from the Grantors. These legally binding payment obligations are irrevocable by the Grantors and are paid in several instalments according to predetermined fixed payment schedules.

The total amounts paid by the Grantors to IFFIm are impacted by the GPC. See Note 33 for further details.

Sovereign pledges, like contribution revenue, are recognised upon assignment of the Grantor contributions to IFFIm by Gavi. Fair value adjustments due to changes in interest rates, the GPC, discounting and exchange rates are recognised from inception until year end.

Sovereign pledges were comprised of:

Group and Parent Company In Thousands of US\$	2018	2017
Balance as of the beginning of the year	2,588,084	2,354,783
Initial fair value of pledges	10,738	198,817
Payments received from donors	(339,259)	(295,820)
Fair value (losses) gains	(9,078)	330,304
Balance as of the end of the year	2,250,485	2,588,084
Sovereign pledges due within one year	306,134	297,994
Sovereign pledges due after more than one year	1,944,351	2,290,090
Total sovereign pledges	2,250,485	2,588,084

Note 27 provides details on fair value gains from interest rate and currency swaps that were recognised related to the sovereign pledges due.

## 26. FUNDS HELD IN TRUST

The World Bank maintains a single investment portfolio (the "Pool") for IFFIm and other trust funds it administers. The World Bank maintains the Pool's assets separate and apart from the funds owned by the World Bank Group. Funds held in trust represent cash, money market instruments, government and agency obligations, asset-backed securities and corporate securities (together "Liquid Assets") that are managed by the World Bank.

The Pool is divided into sub-portfolios to which allocations were made based on fund specific investment horizons, risk tolerances and other eligibility requirements set by the World Bank. Under an investment strategy approved by IFFIm's trustees, IFFIm's Liquid Assets were invested in high-grade fixed-income

instruments with interest rate sensitivity matching that of the liabilities funding the portfolio.

Group and Parent Company In Thousands of US\$	2018	2017
IFFIm's share in the Pool's fair value	816,964	911,776

The Pool's fair value is based on market quotations. Gains, losses and investment income are recognised in the period in which they occurred and are allocated to IFFIm on a daily basis. These net gains totalled US\$ 21 million and US\$ 15 million for the years ended 31 December 2018 and 2017, respectively, and were reported as investment income in the Consolidated Statement of Financial Activities.

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

IFFIm entered into interest rate and currency swaps that economically hedged certain risks as discussed below.

For financial reporting purposes, IFFIm elected not to define any qualifying hedge relationships as defined by IAS 39, as permitted by FRS 102. All derivatives were valued at fair value recognising the resulting gains and losses in the Consolidated Statement of Financial Activities during the period in which they occur. Net gains on derivatives were recognised as changes in restricted net assets. IFFIm applies overnight indexed swap discounting rates to value its interest rate and currency swaps for the major currencies. IFFIm includes a credit valuation adjustment and a debit valuation adjustment in the valuation of its derivative portfolio to account for counterparty credit risk and its own credit risk, respectively. These adjustments are determined by applying counterparty and own probabilities of default, based on the respective credit default swap spreads, to the market value of the derivative portfolio. The debit valuation adjustment is calculated based on the threshold amount, above which the World Bank, as counterparty on all of IFFIm's interest rate and currency swap contracts, has a right to call for collateral.

The World Bank, as IFFIm's treasury manager, executed a comprehensive swap programme to mitigate IFFIm's exposure to movements in foreign currency and interest rates. IFFIm's swap contracts under the comprehensive swap programme were executed: (1) using the market exchange and interest rates at the time the swap contracts were written, (2) considering the different payment profiles in different grant currencies and, (3) assuming that the reduction amounts due to the GPC will remain at the levels they were as of the time the swap contracts were written, (4) assuming no Grantor defaults.

At issuance, IFFIm's fixed rate bond obligations have been swapped simultaneously on a back-to-back basis into United States dollar 3-month LIBOR, floating-rate liabilities.

As described in Note 31, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next twelve months.

The notional amounts and fair values of the interest rate and currency swaps were:

Group and Parent Company In Thousands of US\$	31 December 2018		31 December 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency and interest rate swaps receivable related to sovereign pledges	58,083	3,688	39,442	1,822
Total currency and interest rate swaps receivable		3,688		1,822
Currency and interest rate swaps payable related to sovereign pledges	2,187,434	(448,084)	2,634,958	(652,703)
Currency and interest rate swaps payable related to bonds payable	163,586	(82,358)	633,952	(115,991)
Total currency and interest rate swaps payable		(530,442)		(768,694)
Total fair value of interest rate and currency swaps		(526,754)		(766,872)

The World Bank is counterparty on all of IFFIm's currency and interest rate swap contracts and, therefore, the above US\$ 527 million net liability on swaps is due to the World Bank. The World Bank has the right to call for collateral to protect against its exposure on IFFIm's derivative positions under the terms of the Credit Support Annex ("CSA") to the ISDA Agreement between IFFIm and the World Bank. The World Bank has not exercised this right and has confirmed that it will not call collateral over at least twelve months from the date of approval of these financial statements. Note 31 describes measures in place to mitigate the risk that

the World Bank may call collateral.

## 28. CREDITORS FALLING DUE WITHIN ONE YEAR

Group and Parent Company In Thousands of US\$	2018	2017
Bonds payable falling due within one year	505,051	291,812
Grants payable within one year	327,000	50,000
Trade creditors	724	648
Amounts due to Gavi	231	320
<b>Total creditors falling due within one year</b>	<b>833,006</b>	<b>342,780</b>

## 29. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors falling due after more than one year are comprised of bonds payable and grants payable. IFFIm issues bonds on worldwide capital markets to meet IFFIm's primary objective of funding Gavi's immunisation, vaccine procurement, and HSS programmes. IFFIm's outstanding bonds payable and grants payable were:

Issue Date	Maturity Date	Coupon Interest Rate	Nominal Amount, in Thousands	Group and Parent Company	
				Fair Value as of 31 December 2018, in Thousands of US\$	Fair Value as of 31 December 2017, in Thousands of US\$
24 June 2009	24 June 2024	0.50%	R (ZAR) 800,000	36,389	39,548
28 June 2010	29 June 2020	0.50%	R (ZAR) 430,000	27,041	29,426
28 June 2012	29 June 2027	0.50%	R (ZAR) 520,000	17,900	19,360
27 March 2013	19 March 2018	5.31%	R (ZAR) 801,000	-	65,784
27 March 2013	19 March 2018	5.34%	₺ (TRY) 90,000	-	23,783
29 September 2015	29 September 2018	Libor+14bps	US\$ (USD) 200,000	-	200,331
26 October 2016	1 November 2019	Libor+26bps	US\$ (USD) 500,000	503,910	502,586
16 November 2017	16 November 2020	Libor+13bps	US\$ (USD) 300,000	301,098	300,323
<b>Total bonds payable</b>				<b>886,338</b>	<b>1,181,141</b>
<b>Bonds payable falling due within one year</b>				<b>(505,051)</b>	<b>(291,812)</b>
<b>Bonds payable falling due after more than one year</b>				<b>381,287</b>	<b>889,329</b>
<b>Grants payable after more than one year</b>				<b>130,064</b>	<b>457,064</b>
<b>Total creditors falling due after more than one year</b>				<b>511,351</b>	<b>1,346,393</b>

As of 31 December 2018 and 2017, the fair values of creditors falling due after more than five years totalled US\$ 54 million and US\$ 59 million, respectively.

As of 31 December 2018 and 2017, the undiscounted maturities of IFFIm's bonds payable totalled US\$ 956 million and US\$ 1.2 billion, respectively, as shown in Note 31. This was US\$ 70 million and US\$ 64 million higher than the fair value of IFFIm's bonds payable as of 31 December 2018 and 2017, respectively.

Total bonds payable by the parent company included amounts due to IFFImSC II of US\$ 200 million as of 31 December 2017. The amount due to IFFImSC II of US\$ 200 million matured and was fully paid on 29 September 2018.

## 30. CREDIT RISK

Credit risk is the risk that IFFIm may suffer financial loss should the Grantors, market counterparties or implementing countries fail to fulfil their contractual obligations. The carrying amounts of financial assets represent IFFIm's maximum credit exposures. These maximum exposures were:

In Thousands of US\$	2018	2017
Sovereign pledges	2,250,485	2,588,084
Cash and investments	818,942	911,790
<b>Total credit exposure</b>	<b>3,069,427</b>	<b>3,499,874</b>

IFFIm's derivative assets are excluded from its credit exposure as they would be netted against its derivative

liabilities. As of 31 December 2018 and 2017, IFFIm had a net liability balance on its interest rate and currency swap contracts of US\$ 527 million and US\$ 767 million, respectively. The World Bank, an AAA-credit rated institution, serves as the counterparty for all IFFIm's swaps.

**Credit Risk Related to Sovereign Pledges:** IFFIm was exposed to Grantor credit risk on pledges from sovereign government donors. This exposure is detailed by Grantor in Note 21 above. The Grantors were rated between BB- and AAA as of 31 December 2018.

The **Grantors'** credit ratings as of 31 December 2018 and 2017, as determined by Standard and Poor's Ratings Service ("**S&P**"), were:

Grantor	2018	2017
Commonwealth of Australia	AAA	AAA
Federative Republic of Brazil	BB-	BB
Republic of France	AA	AA
Republic of Italy	BBB	BBB
State of the Netherlands	AAA	AAA
Kingdom of Norway	AAA	AAA
Republic of South Africa	BB+	BB
Kingdom of Spain	A-	BBB+
Kingdom of Sweden	AAA	AAA
United Kingdom	AA	AA

IFFIm was also indirectly exposed to implementing country credit risk embodied in the GPC. IFFIm took this risk into account when determining the fair value of sovereign pledges. See Note 33 for details.

**Credit Risk Related to Cash and Investments:** To manage credit risk related to investments, the World Bank invests in highly rated Liquid Assets. The World Bank was limited to investments with the following minimum credit ratings at the time of purchase:

- Investments in money market instruments were limited to instruments issued or guaranteed by financial institutions whose senior debt securities were rated at least A- by the major rating agencies.
- Investments in government and agency obligations were limited to obligations issued or unconditionally guaranteed by government agencies rated at least AA- by the major rating agencies if denominated in a **currency other than the issuers' home currencies**. **Obligations denominated in issuers' home currencies** required no rating. Obligations issued by an agency or instrumentality of a government, a multilateral organisation or any other official entity required a minimum credit rating of AA-.
- Investments in asset-backed securities and corporate securities were limited to securities with a minimum rating of AAA.

In order to achieve greater diversification of portfolio risks and generate value, the World Bank has made investments in the short term domestic debt of new sovereign markets offering potential to generate excess yields over LIBOR, mainly from currency basis arbitrage. Investments in these sovereign markets are subject to specific approvals from the financial governing committees of the World Bank and prudent credit limits.

IFFIm's investments in money market instruments, government and agency obligations, asset-backed securities and corporate securities had the following credit ratings:

In Thousands of US\$	2018	2017
Instruments and securities rated AAA	282,338	375,510
Instruments and securities rated AA+	6,888	24,002
Instruments and securities rated AA	104,736	91,355
Instruments and securities rated AA-	73,197	84,779
Instruments and securities rated A+	297,848	293,314
Instruments and securities rated A	41,262	38,470
Instruments and securities rated A-	10,695	4,346
Total funds held in trust	816,964	911,776

Cash, receivables and payables included in IFFIm's funds held in trust are reported in the AAA category as they are held by the World Bank, which is an AAA credit-rated institution.

IFFIm's credit ratings by Fitch Ratings, **Moody's** Investor Service, and by Standard and **Poor's** Ratings Service ("**S&P**") remained unchanged during 2018. The IFFIm board, working with the World Bank, has put in place

measures to manage credit risk.

### 31. LIQUIDITY RISK

Liquidity risk is the risk that IFFIm may be unable to meet its obligations, when they fall due, as a result of a sudden, and potentially protracted, increase in cash outflows. Under its liquidity policy, IFFIm seeks to maintain an adequate level of liquidity to meet its operational requirements, provide predictability of programme funding and support its credit rating. Taking these factors into account, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum liquidity level is recalculated and reset on a quarterly basis. As of 31 December 2018, the calculated minimum liquidity was US\$ 528.2 million and the value of IFFIm's Liquid Assets was US\$ 817 million. As of 31 December 2017, the calculated minimum liquidity was US\$ 366.5 million and the value of IFFIm's Liquid Assets was US\$ 912 million.

Based on factors such as the strength of its financial base, its conservative financial policies and the strong support of the Grantors, IFFIm's Global Debt Issuance Programme is rated AA by S&P, AA by Fitch Ratings, and Aa1 by Moody's Investor Service.

In order to help maintain IFFIm's credit ratings and ensure the lowest possible cost of funds, bond issuances are managed against the present value of expected future cash flows from Grantor pledges, in view of the GPC and other credit factors. To provide comfort to the rating agencies and bond holders that IFFIm will always be able to service its bonds, IFFIm only raises bonds against a percentage of the present value of Grantor pledges. The residual, which is still available to IFFIm over time, creates a cushion to protect bond holders against adverse credit events such as a large number of countries entering into protracted arrears to the IMF. The cushion is a percentage of the present value of Grantor pledges, and is established through the Gearing Ratio Limit ("GRL") model. The present value of Grantor pledges used in the GRL model is not reduced by the GPC Fair Value Adjustment, which is described in Note 33.

In order to mitigate the risk that the World Bank may call collateral, an agreement is in place between the World Bank and IFFIm to apply an additional buffer to the GRL to manage the World Bank's exposure under the derivative transactions entered into between IFFIm and the World Bank (the "Risk Management Buffer"). The Risk Management Buffer may be adjusted by the World Bank in its sole discretion. As of 31 December 2018, the Risk Management Buffer was 12% of the present value of expected future cash flows from Grantor pledges.

The following were the contractual undiscounted maturities of IFFIm's financial liabilities, including estimated interest payments:

As of 31 December 2018, in Thousands of US\$	Total Cash Outflows	Due in Less than One Year	Due in 2020	Due in 2021	Due from 2022 through 2030
Bonds payable	(956,399)	(523,766)	(338,687)	(459)	(93,487)
Grants payable to Gavi	(457,064)	(327,000)	-	(130,064)	-
Derivative financial liabilities	(439,337)	(29,773)	(60,753)	(42,736)	(306,075)
<b>Total undiscounted maturities</b>	<b>(1,852,800)</b>	<b>(880,539)</b>	<b>(399,440)</b>	<b>(173,259)</b>	<b>(399,562)</b>

As of 31 December 2017, in Thousands of US\$	Total Cash Outflows	Due in Less than One Year	Due in 2019	Due in 2020	Due from 2021 through 2030
Bonds payable	(1,244,646)	(298,561)	(500,798)	(335,553)	(109,734)
Grants payable to Gavi	(507,064)	(50,000)	(400,000)	(57,064)	-
Derivative financial liabilities	(1,024,303)	(97,022)	(82,885)	(117,723)	(726,673)
<b>Total undiscounted maturities</b>	<b>(2,776,013)</b>	<b>(445,583)</b>	<b>(983,683)</b>	<b>(510,340)</b>	<b>(836,407)</b>

The trustees expect that IFFIm will receive cash inflows over the lives of its derivative financial assets. The following are the expected undiscounted inflows from derivative financial assets and the expected



undiscounted cash outflows from derivative financial liabilities:

As of 31 December 2018, in Thousands of US\$	Total Cash Inflows (Outflows)	Due in Less than One Year	Due in 2020	Due in 2021	Due from 2022 through 2030
Derivative financial assets	31,343	9,116	5,530	4,075	12,622
Derivative financial liabilities	(439,337)	(29,773)	(60,753)	(42,736)	(306,075)
Net cash outflows	(407,994)	(20,657)	(55,223)	(38,661)	(293,453)

As of 31 December 2017, in Thousands of US\$	Total Cash Inflows (Outflows)	Due in Less than One Year	Due in 2019	Due in 2020	Due from 2021 through 2030
Derivative financial assets	62,266	10,808	11,890	7,023	32,545
Derivative financial liabilities	(1,024,303)	(97,022)	(82,885)	(117,723)	(726,673)
Net cash outflows	(962,037)	(86,214)	(70,995)	(110,700)	(694,128)

## 32. MARKET RISK

Market risk is the risk that IFFIm's net assets or deficit for the year, or its ability to meet its objectives, may be adversely affected by changes in foreign exchange rates and interest rates. IFFIm's market risk objectives are: (1) understanding the components of IFFIm's market risk, (2) controlling IFFIm's market risk through the use of currency and interest swaps, and (3) facilitating predictable funding of Gavi programmes within a controlled and transparent risk management framework.

IFFIm's market risk is comprised of foreign exchange rate risk and interest rate risk. Each of these is described further below.

Foreign Exchange Rate Risk: IFFIm was exposed to foreign exchange risks from currency mismatches as well as timing differences between receipt of Grantor payments, payment of bond obligations, disbursements to Gavi and issuance of IFFIm bonds. To mitigate these risks, Grantor pledges were swapped into United States dollar floating rate assets and, at issuance, IFFIm's bonds payable were swapped into United States dollar floating rate liabilities.

The carrying amounts of IFFIm's foreign currency assets and liabilities, including derivatives, were:

As of 31 December 2018, in Thousands of US\$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	107,965	(104,464)	3,501
Brazilian real	-	-	-
Swiss franc	3	-	3
Euro	1,047,170	(975,454)	71,716
British pound	1,013,848	(1,067,591)	(53,743)
Japanese yen	2	-	2
Norwegian krone	31,111	(33,248)	(2,137)
New Zealand dollar	1	-	1
Swedish krona	5,591	(5,925)	(334)
Turkish lira	-	-	-
South African rand	82,652	(81,330)	1,322

As of 31 December 2017, in Thousands of US\$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	126,682	(122,519)	4,163
Swiss franc	66	-	66
Euro	1,182,161	(1,153,857)	28,304
British pound	1,174,072	(1,285,094)	(111,022)
Japanese yen	1	-	1
Norwegian krone	48,185	(52,754)	(4,569)
New Zealand dollar	1	-	1
Swedish krona	7,930	(8,656)	(726)
Turkish lira	23,772	(23,783)	(11)
South African rand	156,582	(154,117)	2,465

The following exchange rates applied during the year:

In US\$	Average Rate for the Year Ended 31 December 2018	Spot Rate as of 31 December 2018	Average Rate for the Year Ended 31 December 2017	Spot Rate as of 31 December 2017
Australian dollar	0.7059	0.7476	0.7820	0.7666
Brazilian real	0.2576	0.2737	0.3019	0.3131
Swiss franc	1.0166	1.0220	1.0251	1.0154
Euro	1.1452	1.1810	1.1987	1.1297
British pound	1.2769	1.3352	1.3510	1.2884
Japanese yen	0.0091	0.0091	0.0089	0.0089
Norwegian krone	0.1152	0.1228	0.1220	0.1209
New Zealand dollar	0.6714	0.6924	0.7122	0.7106
Swedish krona	0.1117	0.1149	0.1219	0.1170
Turkish lira	0.1891	0.2064	0.2644	0.2740
South African rand	0.0695	0.0754	0.0812	0.0751

**Sensitivity to Foreign Exchange Rates:** Strengthening and weakening of the United States dollar, against the above currencies, as of 31 December 2018 and 2017 would have increased (decreased) IFFIm's net assets and surpluses for those years by the amounts shown below. This analysis is based on foreign currency exchange rate variances that IFFIm considered to be reasonably possible at the end of the year. The analysis assumes that all other variables, in particular interest rates, remain unchanged:

In Thousands of US\$	Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2018		Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2017	
	10% Strengthening of US\$	10% Weakening of US\$	10% Strengthening of US\$	10% Weakening of US\$
Australian dollar	(325)	397	(387)	473
Euro	(6,534)	7,986	(2,608)	3,187
British pound	4,962	(6,064)	10,155	(12,412)
Norwegian krone (restated)	194	(237)	414	(506)
Swedish krona (restated)	30	(37)	66	(81)
Turkish lira	-	-	1	(1)
South African rand	(120)	147	(224)	274

The prior year disclosures for the sensitivity to foreign exchange rates in relation to the Norwegian krone and Swedish krona were incorrect and have been restated. In the prior year, the impact on IFFIm's surplus and net assets of a 10% strengthening of the United States dollar relative to the Norwegian krone and Swedish krona was disclosed as a decrease of US\$ 4 million and an increase of US\$ 4 million, respectively, and the impact due to a 10% weakening of the United States dollar was disclosed as an increase in surplus and net assets of US\$ 4 million and US\$ 5 million, respectively. There is no impact on the primary financial statements. The table above includes the corrected disclosure.

**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 interest rate profiles of IFFIm's interest-bearing financial instruments, including derivatives, with the exception of funds held in trust, were:

In Thousands of US\$	2018 Carrying Amount	2017 Carrying Amount
<b>Fixed rate instruments</b>		
Financial assets	82,652	180,354
Financial liabilities	(2,274,893)	(2,808,648)
Net fixed rate instruments	(2,192,241)	(2,628,294)
<b>Variable rate instruments</b>		
Financial assets	1,747,716	1,982,621
Financial liabilities	(970,287)	(1,303,276)
Net variable rate instruments	777,429	679,345

**Sensitivity to Interest Rates:** Changes of 25 basis points in interest rates as of 31 December 2018 and 2017 would have increased (decreased) IFFIm's net assets and surpluses for those years by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain unchanged:

In Thousands of US\$	Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2018	Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2017
25 basis point increase	13,851	(1,181)
25 basis point decrease	(14,096)	1,171

**Value at Risk ("VaR") for Funds Held in Trust:** VaR measures, in terms of fair value changes, the potential losses due to adverse market movements over a given interval at a given confidence level. VaR is conceptually applicable to all financial risk types with valid regular price histories. The annual VaR at 95% confidence level for IFFIm's funds held in trust was US\$ 0.6 million and US\$ 0.6 million for the years ended 31 December 2018 and 2017, respectively. IFFIm uses a three-year historical dataset to compute VaR.

### 33. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of IFFIm's financial assets and liabilities are equal to their carrying amounts shown in IFFIm's balance sheets.

Fair Value Hierarchy: The table below analyses IFFIm's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Financial instruments that were valued using unadjusted prices quoted in active markets for identical assets and liabilities.
- Level 2: Financial instruments that were valued using inputs, other than quoted prices included with Level 1, which were observable for the asset or liability, either directly or indirectly.
- Level 3: Financial instruments whose valuation incorporated inputs for the asset or liability that were not based on observable market data.

As of 31 December 2018, in Thousands of US\$	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Sovereign pledges	-	-	2,250,485	2,250,485
Funds held in trust	-	816,964	-	816,964
Derivative financial instruments	-	3,688	-	3,688
<b>Total financial assets</b>	-	<b>820,652</b>	<b>2,250,485</b>	<b>3,071,137</b>
<u>Financial liabilities</u>				
Bonds payable	-	886,338	-	886,338
Derivative financial instruments	-	530,441	-	530,441
<b>Total financial liabilities</b>	-	<b>1,416,779</b>	-	<b>1,416,779</b>

As of 31 December 2017, in Thousands of US\$	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Sovereign pledges	-	-	2,588,084	2,588,084
Funds held in trust (restated)	-	911,776	-	911,776
Derivative financial instruments	-	1,817	-	1,817
<b>Total financial assets</b>	-	<b>913,593</b>	<b>2,588,084</b>	<b>3,501,677</b>
<u>Financial liabilities</u>				
Bonds payable	-	1,181,141	-	1,181,141
Derivative financial instruments	-	768,689	-	768,689
<b>Total financial liabilities</b>	-	<b>1,949,830</b>	-	<b>1,949,830</b>

In prior year, the fair value hierarchy disclosure in relation to funds held in trust was analysed on the basis of the underlying investments in the fund, which consisted of level 1 and level 2 financial instruments. As described in Note 1, funds held in trust relate to a pooled investments portfolio. Therefore, for the purposes of the fair value hierarchy, funds held in trust are treated as one instrument. Accordingly, the prior year disclosure has been restated to show that the funds held in trust are classified within level 2 of the fair value hierarchy.

The changes in the aggregate fair value of IFFIm's Level 3 financial assets and liabilities were:

In Thousands of US\$	2018	2017
Balance as of the beginning of the year	2,588,084	2,354,783
Initial fair value of pledges	10,738	198,817
Donor payments	(339,259)	(295,820)
Fair value losses	(9,078)	330,304
<b>Balance as of the end of the year</b>	<b>2,250,485</b>	<b>2,588,084</b>

The bases for techniques that IFFIm applied in determining the fair values of financial assets and liabilities are summarised below.

Funds Held in Trust: The World Bank, as treasury manager, maintains IFFIm's investments on a pooled accounting basis and the pooled investments are reported at fair value. IFFIm's share in pooled cash and investments represents IFFIm's allocated share of the Pool's fair value at the end of the year. The fair value is based on market quotations where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The corresponding proportionate interest income

and investment gains or losses are recognised by IFFIm in the year in which they occur.

**Sovereign Pledges Receivable:** Fair values are estimated using a discounted cash flow method. Each cash flow is reduced by an estimated reduction amount due to the GPC and the reduced cash flows are discounted to present value using observable Grantor-specific interest rates.

The GPC allows the Grantors to reduce their payments in the event that an IFFIm-eligible country falls into protracted arrears on its obligations to the International Monetary Fund (the "IMF"). Each implementing country has been ascribed a weight in a reference portfolio that will remain static for the life of IFFIm. Donors reduce the amounts they pay IFFIm by the aggregate percentage weights of countries that are in protracted arrears to the IMF. When countries clear their arrears to the IMF, future amounts payable by donors to IFFIm are increased by the respective weights of those clearing countries. The reference portfolio comprises 70 predetermined IFFIm-eligible countries. Each implementing country has been given a weighting of either 0.5%, 1%, 3% or 5%, totalling of 100%, as shown in the table below. The amount of each Grantor payment is determined 25 business days prior to the due date of such payment.

The reference portfolio as of 31 December 2018 was as follows:

Country	Country Weighting	Total Share
South Sudan, Sudan	0.5%	1%
Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia, Burkina, Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, 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, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen Republic, Zambia, Zimbabwe	1%	61%
Vietnam	3%	3%
Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria, Pakistan	5%	35%

The fair values of contributions receivable are estimated using the discounted cash flow method. Each cash flow is reduced by an estimated percentage due to the GPC (the "GPC Fair Value Adjustment") and the reduced cash flows are discounted to present value at donor-specific interest rates. The GPC Fair Value Adjustment is calculated using a probabilistic model, which estimates the likelihood and duration that any implementing country might fall into arrears with the IMF over the life of the Grantor pledges. This probabilistic model is based on the assumption that the performance of the implementing countries since 1981 is a reasonable proxy for their future performance.

The initial GPC Fair Value Adjustment used in October 2006 was 17.6%, and it was 9.4% and 11.7% as of 31 December 2018 and 2017 respectively. 1% decreases in the GPC Fair Value Adjustment as of 31 December 2018 and 2017 would have resulted in increases in the fair values of sovereign pledges of US\$ 25 million and US\$ 29 million, respectively. 1% increases in the GPC Fair Value Adjustment would have had equal but opposite effects on the fair values of sovereign pledges.

During the year ended 31 December 2018, two reference portfolio countries were in protracted arrears to the IMF. Those countries were Somalia and Sudan.

For the above sovereign pledges as of 31 December 2018, market based discount rates ranging from 0.0% to 8.0% were applied, as appropriate, depending on the donor, payment schedule and currency of the grant payments.

**Bonds Payable:** The fair values of IFFIm's bonds payable are 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.

As of 31 December 2018 and 2017, the portions of the fair values of bonds payable that were attributable to IFFIm's own credit spreads were an increase of US\$ 1 million and an increase of US\$ 5 million, respectively.

**Derivative Financial Instruments:** The fair values of derivatives are estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date. All model inputs are based on readily observable market parameters such as yield curves, foreign exchange rates, and basis spreads.

## 34. NOTES TO THE STATEMENT OF CASH FLOWS

The following table analyses changes in net debt:

In Thousands of US\$	Fair Value as of 31 December 2017	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2018
Cash	14	1,964	1,978
Bonds payable	(1,177,891)	294,994	(882,897)
Funds held in trust	911,776	(94,812)	816,964
Total	(266,101)	202,146	(63,955)

In Thousands of US\$	Fair Value as of 31 December 2016	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2017
Cash	81	(67)	14
Bonds payable	(1,378,679)	200,788	(1,177,891)
Funds held in trust	863,214	48,562	911,776
Total	(515,384)	249,283	(266,101)

The following table reconciles net cash flows to movement in net debt:

In Thousands of US\$	2018	2017
Decrease in cash	1,964	(67)
Decrease in funds held in trust	(94,812)	48,562
Proceeds from bond issuances	-	(299,700)
Redemption of bonds	289,374	530,271
Fair value (losses) gains on bonds	5,620	(29,783)
Movement in net debt in the period	202,146	249,283
Net debt as of the beginning of the year	(266,101)	(515,384)
Net debt as of the end of the year	(63,955)	(266,101)

## 35. RELATED PARTY TRANSACTIONS

IFFIm's related parties are:

- **Gavi:** Gavi is a not-for-profit organisation based in Switzerland. Gavi is IFFIm's sole member.
- **IFFImSC:** IFFImSC was a Cayman Islands company with limited liability, which was incorporated on 3 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 293422. IFFImSC was established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations. On 27 November 2014, IFFImSC issued sukuk certificates for a total amount of US\$ 500 million. On 4 December 2017, IFFImSC made the final payment in relation to its certificates and, on 30 April 2018, IFFImSC was dissolved. These consolidated financial statements include the accounts of IFFImSC up to the date of its dissolution.
- **IFFImSC II:** IFFImSC II is a Cayman Islands company with limited liability, which was incorporated on 25 August 2015 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 303397. IFFImSC II was established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations. On 29 September 2015, IFFImSC II issued sukuk certificates for a total amount of US\$ 200 million. On 29 September 2018, IFFImSC made the final payment in relation to its certificates. These consolidated financial statements include the accounts of IFFImSC II.

Balances due to or from related parties are non-interest bearing and do not have specific terms of repayment.

IFFIm's related party balances were:

In Thousands of US\$	2018	2017
Programme grants payable to Gavi	457,064	507,064
Accounts payable to Gavi	231	320

IFFIm recorded programme grants to Gavi of US\$ 50 million during the year ended 31 December 2017. No programme grants to Gavi were recorded by IFFIm during the year ended 31 December 2018. IFFIm recorded in-kind contributions from Gavi of US\$ 924 thousand and US\$ 892 thousand during the years ended 31

December 2018 and 2017, respectively.

### 36. COMMITMENTS AND CONTINGENCIES

The trustees are not aware of any commitments or contingencies as of 31 December 2018 or 2017.

### 37. ACCOUNTING ESTIMATES AND JUDGEMENTS

IFFIm manages its sovereign pledges, funds held in trust, derivative financial instruments, and bonds payable on a fair value basis. Therefore, these assets and liabilities are measured at fair value on the balance sheets. When available, IFFIm generally uses quoted market prices to determine fair value. If quoted market prices are not available, fair value is determined using internally developed valuation models, which are often based on the discounted cash flow method and use market parameters such as interest rates and currency rates.

IFFIm applied the following key accounting estimate in the valuation of its sovereign pledges:

As described in Note 1, contribution amounts received from IFFIm's Grantors depend on a Grant Payment Condition ("**GPC**"), which allows the Grantors to reduce their payments in the event that an IFFIm-eligible country falls into protracted arrears on its obligations to the IMF. Therefore, the fair values of IFFIm's sovereign pledges are estimated using a discounted cash flow method, which includes the application of an estimated reduction amount due to the GPC ("**GPC Fair Value Adjustment**"). The GPC Fair Value Adjustment is calculated using a probabilistic model, which estimates the likelihood and duration that any implementing country might fall into arrears with the IMF over the life of the Grantor pledges. See Note 15 for more details on the GPC Fair Value Adjustment and other estimates applied in determining the fair values of IFFIm's financial assets and liabilities.

IFFIm made the following key judgement in the valuation of its derivative portfolio:

As described in Note 8, IFFIm includes a credit valuation adjustment and a debit valuation adjustment in the valuation of its derivative portfolio to account for counterparty credit risk and its own credit risk, respectively. The debit valuation adjustment is typically applied to the uncollateralised portion of a derivative portfolio. However, IFFIm has not posted any collateral as the World Bank has not exercised its right to call collateral and protect its derivative exposure to IFFIm, as described in Notes 1 and 8 above. After due consideration, consistent with market practice, IFFIm calculated the debit valuation adjustment based solely on the uncollateralised portion of its derivative portfolio.

### 38. CURRENT TAX

IFFIm is a registered United Kingdom charity and, as such, is exempt from United Kingdom taxation of income and gains falling within s478-489 Corporation Tax Act 2010 and s256 Taxation of Chargeable Gains Act 1992 on its charitable activities. No tax charges arose during the years ended 31 December 2018 or 2017. IFFImSC II is a Cayman Islands company with limited liability, incorporated under the Companies Law (2013 Revision) of the Cayman Islands. There are no taxes on income or gains in the Cayman Islands.

### 39. SUBSEQUENT EVENTS

In April 2019, IFFIm, through IFFIm Sukuk Company III Limited, completed a private placement Sukuk transaction with the Islamic Development Bank Group ("**IsDB**"), raising US\$ 50 million. The 3-year Sukuk – a financial certificate that complies with Islamic law – provides IsDB with a socially responsible investment that will help protect tens of millions of children against preventable diseases. The transaction was arranged by the First Abu Dhabi Bank and marks IFFIm's third Sukuk transaction, furthering IFFIm's presence in Islamic capital markets and building awareness and support for its programmes among Gulf Cooperation Council investors. The issue, maturing on 9 April 2022, has an issue price of 100% and carries a quarterly coupon of 4 basis points over three-month USD LIBOR.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION COMPANY

### Report on the audit of the financial statements

#### Opinion

**In our opinion the financial statements of The International Finance Facility For Immunisation Company (the 'parent charitable company' or 'IFFIm') and its subsidiaries (the 'group'):**

- **give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 December 2018 and of the group's incoming resources and application of resources, including the group's income and expenditure for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the consolidated statement of financial activities;
- the consolidated statement of income and expenditures;
- the consolidated and parent company balance sheets;
- the consolidated statement of cash flows; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent charitable company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Summary of our audit approach

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• the valuation of sovereign pledges; and</li><li>• the recognition of contribution revenue in relation to new sovereign pledges.</li></ul>
<b>Materiality</b>	The materiality that we used for the group financial statements was \$23.1m which was determined at the planning stage of the audit on the basis of 1% of forecasted sovereign pledges held at fair value.



## Scoping

As described on page 9 in the Structure, Governance and Management section, the parent charitable company is reliant upon treasury management, risk management and accounting services provided by the World Bank. As such we instructed the Deloitte member firm in the US ('Deloitte US') to perform certain procedures on our behalf. As part of this work Deloitte US performed procedures over certain aspects of the Key Audit Matters set out below in this auditor's report. The work was performed under the direction and supervision of the UK audit engagement team.

## Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the trustees' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation of sovereign pledges

### Key audit matter description



IFFIm's asset base consists primarily of sovereign pledges from sovereign government donors ('the pledges'). The pledges are used to support various vaccine procurement and immunisation programmes by Gavi, the Vaccine Alliance ('Gavi').

The pledges are recognised as contribution revenue and as receivables upon assignment of donor contributions to IFFIm by Gavi. The pledges are recognised at fair value at inception and are subsequently re-measured at fair value with changes in fair value recognised in the statement of income and expenditures.

The fair value of the pledges are estimated using a discounted cash flow model. The fair value of cash flows reflect the potential for reduced payment of the pledges in the event that the grant payment conditions ('GPC') are not met. The GPC allows the grantors to reduce their payments in the event that an IFFIm eligible country falls into protracted arrears on its obligations to the International Monetary Fund ('IMF'). Management have described this accounting policy in note 1 of the financial statements.

As detailed in the summary of critical accounting judgements and estimates in note 18 and fair value disclosures in note 14, the estimation of the GPC fair value adjustment requires significant management judgement in particular the likelihood and duration that any implementing country might fall into arrears with the IMF over the life of the Grantor pledges. Therefore, we have determined that there was a risk of error in or manipulation of this balance.

As at 31 December 2018, the value of the sovereign pledges amounted to US\$2.3b (2017: US\$2.6b). The fair value movement attributable to the GPC fair value adjustment in 2018 amounted to \$95.0m (2017: US\$58.0m).

**How the scope of our audit responded to the key audit matter**



To scope our audit and respond to the key audit matters, we have:

- evaluated the design and implementation of key controls over the GPC fair value adjustment focusing on the governance over the fair value estimation;
- challenged and evaluated the reasonableness of the assumptions used in the GPC fair value adjustment, in particular, the likelihood and duration that any Implementing country might fall into arrears with the IMF over the life of the pledges, by:
  - independently assessing the country risk ratings used to apply specific probability of default percentages;
  - recalculation of the GPC fair value adjustment percentage; and
  - back testing of the actual GPC fair value adjustment to assess whether the current GPC fair value adjustment percentage is reasonable;
- tested the reasonableness of the donor discount rates used by independently validating the donor discount rates; and
- engaged our own valuation specialist who assisted us in challenging the appropriateness of the methodology used in calculating the fair value of the sovereign pledges.

**Key observations**



From the work performed, we concur with management’s assessment that the valuation is appropriate as at 31 December 2018.

**Recognition of contribution revenue in relation to new sovereign pledges**



**Key audit matter description**



In October 2018, IFFIm received a new sovereign pledge from the Federative Republic of Brazil with a nominal value of \$20.0m. As at 31 December 2018, the fair value of the new sovereign pledge amounted to \$10.7m which was recognised in revenue during the period. The nominal value was adjusted for the GPC fair value adjustment. m

For new pledges, it is necessary to assess whether an unconditional pledge has been provided to determine whether the contribution revenue should be recognised during the year of grant. The assessment is based on whether there is evidence of entitlement to the pledge, the receipt is probable and whether the amounts can be measured reliably. As such, the application of revenue recognition policy on contribution revenue was identified to be a key judgement area and a potential area susceptible to fraud.

Management have described the recognition basis for contribution revenue in Note 1 to the financial statements.

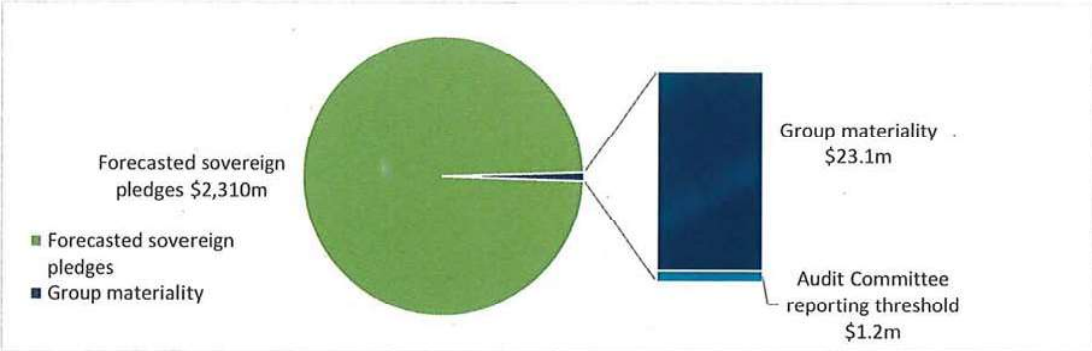
<p><b>How the scope of our audit responded to the key audit matter</b></p> 	<p>To scope our audit and respond to the key audit matters, we have:</p> <ul style="list-style-type: none"> <li>• evaluated the design and implementation of key controls focusing on the governance over the revenue recognition policy;</li> <li>• reviewed and challenged management's assessment on the appropriateness of IFFIm's revenue recognition policy in accordance with FRS 102; and</li> <li>• inspected relevant grant agreements.</li> </ul>
<p><b>Key observations</b></p> 	<p>From the work performed, we concur with management's assessment that the recognition of contribution revenue is appropriate as at 31 December 2018.</p>

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent charitable company financial statements
<b>Materiality</b>	US\$ 23.1m (predecessor auditor in 2017: US\$18.0m)	US\$ 23.1m(predecessor auditor in 2017: US\$18.0m)
<b>Basis for determining materiality</b>	<p>When planning our audit we set our materiality at \$23.1m based on 1% of forecasted sovereign pledges.</p> <p>The predecessor auditor, KPMG, set the materiality in the prior year with reference to a benchmark of 0.5% of total assets.</p>	
<b>Rationale for the benchmark applied</b>	<p>IFFIm's main purpose is to raise funds to support Gavi for its health and immunisation programmes. These are financed by sovereign pledges and represents the capital of the bondholders as IFFIm converts these pledges into immediately available cash resources by issuing bonds in the international capital markets. Therefore, we identified this to be an appropriate benchmark for materiality.</p>	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$1.2m (predecessor auditor in 2017: \$0.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### **An overview of the scope of our audit**

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We determined that there were two components for the purposes of our audit. The first component related to the operations of the parent company which are based in the US. These account for 100% of the asset balance and 99.99% of the liabilities and include all treasury related balances managed by the World Bank. The second component related to the governance and head office functions of the parent charitable company, as well as two other legal entities, incorporated in the Cayman Islands.

Because there are three legal entities in the group, consolidated financial statements have been prepared in accordance with UK GAAP; however, the two subsidiary entities were immaterial to the Group. Also, as special purpose vehicles that have fulfilled their purpose, they were liquidated as at or after the balance sheet date.

Both components identified for the purposes of our audit were subject to full scope audits at a component materiality which was lower than the materiality of the financial statements as a whole.

As described in the Summary of audit scope section of the auditor report, the parent is reliant upon treasury management, risk management and accounting services provided by the World Bank. As such, we instructed Deloitte US to perform certain procedures on our behalf. As part of this work, Deloitte US performed procedures over certain aspects of the Key Audit Matters set out below in this auditor's report. The work was performed under the direction and supervision of the UK audit engagement team through regular meetings with and a visit to Deloitte US.

### **Other information**

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The trustees are responsible for the other information. The other information comprises the information included in the annual report including the annual report of the trustees other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

## Responsibilities of the trustees

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As explained more fully in the trustees' responsibilities statement, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charitable company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group or the parent charitable company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Extent to which the audit was considered capable of detecting irregularities, including fraud

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We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### *Identifying and assessing potential risks related to irregularities*

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the charitable company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including component audit teams and involving relevant internal specialists, including charity specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of sovereign pledges and recognition of contribution revenue in relation to new pledges; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the

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financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, Charities SORP, Charities Act 2011 and tax legislation.

*Audit response to risks identified*

As a result of performing the above, we identified the valuation of sovereign pledges and the recognition of contribution revenue in relation to new pledges as key audit matters. The key audit matters section of our report explains these matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the charity commission; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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In our opinion, based on the work undertaken in the course of the audit:

- the information given in the trustees' report, which includes the strategic report and the directors' report prepared for the purposes of company law for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report included within the trustees' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent charitable company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the trustees' report.

### Matters on which we are required to report by exception

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*Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent charitable company, or returns adequate for our audit have not been received from branches not visited by us; or
  - the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

***We have nothing to report in respect of these matters.***

#### *Trustees' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of trustees' remuneration have not been made.

***We have nothing to report in respect of this matter.***

#### **Other matters**

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##### *Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the Board of Trustees on 4 June 2018, to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is accordingly one year.

##### *Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

#### **Use of our report**

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This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Simon Stephens, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
5 June 2019

# SUPPLEMENTARY INFORMATION





## PLEDGES AND CONTRIBUTIONS SCHEDULES

Schedules 1.1 to 1.6 provide details of the Gavi Group's pledges and contributions from the following sources:

- **Multi-Year Pledges:** The Gavi Group receives upfront written commitments from donors that do not include any conditions and are payable over multiple years ("Multi-Year Pledges"). In accordance with its accounting policy, the Gavi Group records each Multi-Year Pledge as contribution revenue and contributions receivable at fair value on the date the recognition criteria are met. The recorded contributions receivable balances are then reduced over time as cash payments are received from the donors, and are adjusted for changes in fair value.

The Gavi Group's methodology for valuing its contributions receivable, including details of IFFIm's grant payment condition and the Advance Market Commitment, is described in the *Fair Values of Financial Instruments* section of Note 2 to the consolidated financial statements. Multi-Year Pledges in foreign currency are converted to United States dollars at the prevailing average interbank exchange rate as of 31 December 2018. See *Foreign Currency Transactions* section of Note 2 to the consolidated financial statements for further information.

Multi-Year Pledges balances presented in the currencies of the pledges, in Schedules 1.3 and 1.4, are not adjusted for reductions due to discounting. Discounting the Gavi Group's contributions receivable is described in Note 2 to the consolidated financial statements.

Multi-Year Pledges to IFFIm presented in the currencies of the pledge, in Schedule 1.4, are not adjusted for reductions due to the grant payment condition ("GPC"). The GPC is described in Note 2 to the consolidated financial statements.

- **Annual Contributions:** The Gavi Group receives contributions from donors that are committed and paid annually ("Annual Contributions"). In accordance with its accounting policy, the Gavi Group records Annual Contributions as contribution revenue when payments are received from the donors.

Schedules 1.7 to 1.8 provide details of cash receipts from donors, in United States dollar and in currencies of receipts. Cash receipts in foreign currencies are converted to United States dollar at the prevailing interbank exchange rate at the date cash is received.

### SCHEDULE 1.1: MULTI-YEAR PLEDGES FROM DONORS, IN UNITED STATES DOLLARS

The following table presents the nominal amounts of Multi-Year Pledges from all Gavi Group's donors, in United States dollars:

In Thousands of US\$	Balance as of 31 December 2018	Balance as of 31 December 2017
<u>Multi-Year Pledges to Gavi from sovereign governments:</u>		
Australia, Commonwealth of	98,646	109,295
Canada	146,698	239,031
Denmark, Kingdom of	15,335	-
Germany, Federal Republic of	-	47,922
India, Republic of	6,000	-
Italy, Republic of	64,106	100,635
Korea, Republic of	-	4,000
Luxembourg, Grand Duchy of	1,877	2,947
Monaco, Principality of	343	539
Netherlands, State of the	65,021	111,058
Norway, Kingdom of	318,660	505,962
Qatar, State of	6,000	6,000
Saudi Arabia, Kingdom of	12,500	17,500
Swiss Confederation	407	410
United Kingdom	508,188	814,573
<b>Total Multi-Year Pledges to Gavi from sovereign governments</b>	<b>1,243,781</b>	<b>1,959,872</b>
<u>Multi-Year Pledges to Gavi from corporations, foundations and private individuals:</u>		
Alwaleed Bin Talal Foundation	403	604
Bill & Melinda Gates Foundation	540,000	865,000
China Merchants Group	500	1,000
Comic Relief	635	2,699
IFPW Foundation	723	497
Reckitt Benckiser Group	-	1,349
Serum Institute of India	-	5,802
Sultanate of Oman	1,200	1,800
UPS Foundation	-	500
<b>Total Multi-Year Pledges to Gavi from corporations, foundations and private individuals</b>	<b>543,461</b>	<b>879,251</b>
<u>Multi-Year Pledges to IFFIm:</u>		
Australia, Commonwealth of <sup>1</sup>	122,818	147,407
Australia, Commonwealth of <sup>2</sup>	10,588	17,595
Brazil, Federative Republic of	19,000	-
France, Republic of <sup>3</sup>	101,121	139,169
France, Republic of <sup>4</sup>	602,902	684,937
France, Republic of <sup>3</sup>	171,780	179,805
Italy, Republic of	220,451	263,714
Netherlands, State of the	33,333	50,000
Norway, Kingdom of	34,566	54,879
South Africa, Republic of	8,000	9,000
Spain, Kingdom of	75,955	90,861
Sweden, Kingdom of	6,170	8,979
United Kingdom	1,156,631	1,374,737
<b>Total Multi-Year Pledges to IFFIm</b>	<b>2,563,315</b>	<b>3,021,083</b>
<b>Multi-Year Pledges from AMC donors</b>	<b>331,958</b>	<b>388,500</b>
<b>Total Multi-Year Pledges from donors</b>	<b>4,682,515</b>	<b>6,248,706</b>

<sup>1</sup> Acting through the Australian Agency for International Development.

<sup>2</sup> Acting through the Department of Foreign Affairs and Trade.

<sup>3</sup> Acting through Agence Française de Développement.

<sup>4</sup> Acting through the Ministry of Economy, Industry and Employment.

## SCHEDULE 1.2: RECONCILIATION OF MULTI-YEAR PLEDGES TO CONTRIBUTIONS RECEIVABLE

The following table reconciles Multi-Year Pledges from donors, per Schedule 1.1 above, to the contributions receivable balances reported in the Consolidated Statements of Financial Position on page 24:

In Thousands of US\$	2018	2017
Total Multi-Year Pledges from donors	4,682,515	6,248,706
Grant Payment reduction on Multi-Year Pledges to IFFIm	(240,951)	(353,466)
Unamortised discount on Multi-Year Pledges to Gavi	(18,254)	(36,122)
Unamortised discount on Multi-Year Pledges to IFFIm	(71,879)	(79,532)
Unamortised discount on Multi-Year Pledges from AMC donors	(15,817)	(17,512)
Allowance for doubtful accounts	(6,000)	-
Total recorded contributions receivable	4,329,614	5,762,074

## SCHEDULE 1.3: MULTI-YEAR PLEDGES TO GAVI, IN CURRENCIES OF PLEDGES

The following table presents the activity of Multi-Year Pledges to Gavi, for the year ended 31 December 2018, in the currencies of the pledges:

In Thousands, in Currencies of Pledges	Currency of Pledge	Balance as of 31 December 2017	New Pledges	Payments Received	Balance as of 31 December 2018
<u>Multi-Year Pledges to Gavi from sovereign governments:</u>					
Australia, Commonwealth of	A\$ (AUD)	140,000	-	-	140,000
Canada	C\$ (CAD)	300,000	-	(100,000)	200,000
Denmark, Kingdom of	Dkr (DKR)	-	125,000	(25,000)	100,000
Germany, Federal Republic of	€ (EUR)	40,000	-	(40,000)	-
India, Republic of	US\$ (USD)	-	8,000	(2,000)	6,000
Italy, Republic of	€ (EUR)	84,000	-	(28,000)	56,000
Korea, Republic of	US\$ (USD)	4,000	-	(4,000)	-
Luxembourg, Grand Duchy of	€ (EUR)	2,460	-	(820)	1,640
Monaco, Principality of	€ (EUR)	450	-	(150)	300
Netherlands, State of the	€ (EUR)	92,700	-	(35,900)	56,800
Norway, Kingdom of	Nkr (NOK)	4,154,725	-	(1,385,692)	2,769,033
Qatar, State of	US\$ (USD)	6,000	-	-	6,000
Saudi Arabia, Kingdom of	US\$ (USD)	17,500	-	(5,000)	12,500
Swiss Confederation	SFr (CHF)	400	-	-	400
United Kingdom	£ (GBP)	603,660	-	(203,660)	400,000
<u>Multi-Year Pledges to Gavi from corporations, foundations and private individuals:</u>					
Alwaleed Bin Talal Foundation	US\$ (USD)	604	-	(201)	403
Bill & Melinda Gates Foundation	US\$ (USD)	865,000	-	(325,000)	540,000
China Merchants Group	US\$ (USD)	1,000	-	(500)	500
Comic Relief	£ (GBP)	2,000	-	(1,500)	500
IFPW Foundation	US\$ (USD)	497	1,080	(854)	723
Reckitt Benckiser Group	£ (GBP)	1,000	-	(1,000)	-
Serum Institute of India	US\$ (USD)	5,772	-	(5,772)	-
Serum Institute of India	₹ (INR)	1,880	-	(1,880)	-
Sultanate of Oman	US\$ (USD)	1,800	-	(600)	1,200
UPS Foundation	US\$ (USD)	500	-	(500)	-

## SCHEDULE 1.4: MULTI-YEAR PLEDGES TO IFFIm, IN CURRENCIES OF PLEDGES

The following table presents the activity of Multi-Year Pledges to IFFIm, for the year ended 31 December 2018, in the currencies of the pledges:

In Thousands, In Currencies of Pledges	Currency of Pledge	Balance as of 31 December 2017	GPC Adjustments	New Pledges	Payments Received	Balance as of 31 December 2018
<u>Multi-Year Pledges to IFFIm:</u>						
Australia, Commonwealth of	A\$ (AUD)	211,000	(330)	-	(21,670)	189,000
Brazil, Federative Republic of	US\$ (USD)	-	(15)	20,000	(985)	19,000
France, Republic of	€ (EUR)	116,100	(417)	-	(27,383)	88,300
France, Republic of	€ (EUR)	571,400	(674)	-	(44,266)	526,460
France, Republic of	€ (EUR)	150,000	-	-	-	150,000
Italy, Republic of	€ (EUR)	220,000	(413)	-	(27,087)	192,500
Netherlands, State of the	US\$ (USD)	50,000	(250)	-	(16,416)	33,334
Norway, Kingdom of	Nkr (NOK)	450,000	(2,250)	-	(147,750)	300,000
South Africa, Republic of	US\$ (USD)	9,000	(15)	-	(985)	8,000
Spain, Kingdom of	€ (EUR)	75,800	(142)	-	(9,333)	66,325
Sweden, Kingdom of	Skr (SEK)	73,640	(276)	-	(18,134)	55,230
United Kingdom	£ (GBP)	1,017,568	(1,676)	-	(110,080)	905,812

## SCHEDULE 1.5: ANNUAL CONTRIBUTIONS FROM DONORS

The following schedule details Annual Contributions received from donors during the year ended 31 December 2018, in both the currencies of the contributions and United States dollars:

In Thousands	Currency of Contribution	2018	2017	2018, in US\$	2017, in US\$
<u>Annual Contributions from sovereign governments:</u>					
Canada	C\$ (CAD)	-	20,000	-	16,122
China, People's Republic of	US\$ (USD)	500	1,000	500	1,000
European Union	€ (EUR)	19,998	10,000	23,096	10,573
Germany, Federal Republic of	€ (EUR)	95,015	90,205	108,439	103,857
Iceland, Republic of	US\$ (USD)	1,000	-	1,000	-
Ireland, Republic of	€ (EUR)	3,000	3,000	3,414	3,479
Japan	US\$ (USD)	19,179	19,167	19,178	19,166
Korea, Republic of	US\$ (USD)	-	4,000	-	4,000
Netherlands, State of the	€ (EUR)	2,329	1,580	2,703	1,857
Sweden, Kingdom of	Skr (SEK)	350,000	300,000	42,441	33,187
United States of America	US\$ (USD)	290,000	275,000	290,000	275,000
Total Annual Contributions from sovereign governments				490,771	468,241
<u>Annual Contributions from corporations, foundations and private individuals:</u>					
Bill & Melinda Gates Foundation	US\$ (USD)	54,456	50,990	54,456	50,990
Elogøy	US\$ (USD)	200	-	24	-
Red Nose Day Foundation	US\$ (USD)	1,900	4,500	1,900	4,500
The Church of Jesus Christ of Latter-day Saints	US\$ (USD)	-	1,000	-	1,000
The "la Caixa" Foundation	€ (EUR)	1,503	2,435	1,671	2,588
Other contributions	US\$ (USD)	1,245	5,807	1,245	5,807
Total Annual Contributions from corporations, foundations and private individuals				59,296	74,385
Total Annual Contributions				550,067	542,626

## SCHEDULE 1.6: RECONCILIATION OF ANNUAL CONTRIBUTIONS TO CONTRIBUTION REVENUE

The following table reconciles Annual Contributions per Schedule 1.5 above to contribution revenue reported in the Consolidated Statements of Activities on page 25 of the consolidated financial statements:

In Thousands of US\$	2018	2017
Total Annual Contributions	550,067	542,626
Initial fair value of new Multi-Year Pledges received during the year <sup>1</sup>	38,897	205,604
Total recorded contribution revenue <sup>2</sup>	588,964	748,230

<sup>1</sup> In accordance with its accounting policy, the Gavi Group recorded the fair value of each new Multi-Year Pledge as contribution revenue on the date the recognition criteria are met. Therefore, this amount is included in the contribution revenue amount in the Gavi Group's Consolidated Statement of Activities.

<sup>2</sup> This amount represents the aggregate of unrestricted and donor-restricted contribution revenue, including contributed goods and services, as presented in the Gavi Group's Consolidated Statement of Activities. Annual Contributions in foreign currency are translated to United States dollars in accordance with the Gavi Group's methodology described in the *Foreign Currency Transactions* section of Note 2 to the consolidated financial statements.

Total recorded contribution revenue is comprised of:

In Thousands of US\$	2018	2017 As Adjusted
Contributions from governments and private donors without donor restrictions	350,519	323,578
Contributions from governments and private donors with donor restrictions	238,445	424,652
<b>Total recorded contribution revenue</b>	<b>588,964</b>	<b>748,230</b>

## SCHEDULE 1.7: CASH RECEIPTS FROM DONORS, IN UNITED STATES DOLLAR

The following schedule details Gavi's cash received from donors during the year ended 31 December 2018, in United States dollar:

In Thousands of US\$	Contribution Payments Received in 2018		
	For 2018 Pledges <sup>1</sup>	For Multi-Year Pledges <sup>2</sup>	Total Received
<u>Sovereign governments:</u>			
Canada	-	79,330	79,330
China, People's Republic of	500	-	500
Denmark, Kingdom of	-	3,820	3,820
European Union	23,096	-	23,096
Germany, Federal Republic of	108,439	47,409	155,848
Iceland, Republic of	1,000	-	1,000
India, Republic of	-	2,000	2,000
Ireland, Republic of	3,414	-	3,414
Italy, Republic of	-	32,418	32,418
Japan	19,178	-	19,178
Korea, Republic of	-	4,000	4,000
Luxembourg, Grand Duchy of	-	940	940
Monaco, Principality of	-	184	184
Netherlands, State of the	2,703	40,817	43,520
Norway, Kingdom of	-	168,082	168,082
Saudi Arabia, Kingdom of	-	5,000	5,000
Sweden, Kingdom of	42,441	-	42,441
United Kingdom	-	288,095	288,095
United States of America	290,000	-	290,000
<b>Total cash receipts from sovereign governments</b>	<b>490,771</b>	<b>672,095</b>	<b>1,162,866</b>
<u>Corporations, foundations and private individuals:</u>			
Alwaleed Bin Talal Foundation	-	201	201
Bill & Melinda Gates Foundation	54,456	325,000	379,456
China Merchants Group	-	500	500
Comic Relief	-	1,899	1,899
Elogøy	24	-	24
IFPW Foundation	-	854	854
Reckitt Benckiser Group	-	1,386	1,386
Red Nose Day Foundation	1,900	-	1,900
Serum Institute of India	-	5,799	5,799
Sultanate of Oman	-	600	600
The "la Caixa" Foundation	1,671	-	1,671
UPS Foundation	-	500	500
Other contributions	1,245	-	1,245
<b>Total cash receipts from corporations, foundations and private individuals</b>	<b>59,296</b>	<b>336,739</b>	<b>396,035</b>
<b>Total cash receipts</b>	<b>550,067</b>	<b>1,008,834</b>	<b>1,558,901</b>

<sup>1</sup> Amounts received in 2018 to fulfil pledges for 2018.

<sup>2</sup> Amounts received in 2018 to fulfil pledges for multi-years.

## SCHEDULE 1.8: CASH RECEIPTS FROM DONORS, IN CURRENCIES OF RECEIPTS

The following schedule details Gavi's cash received from donors during the year ended 31 December 2018, in currencies of receipts:

In Thousands, in Currencies of Receipts	Currency of Receipt	Contribution Payments Received in 2018		
		For 2018 Pledges <sup>1</sup>	For Multi-Year Pledges <sup>2</sup>	Total Received
<u>Sovereign governments:</u>				
Canada	C\$ (CAD)	-	100,000	100,000
China, People's Republic of	US\$ (USD)	500	-	500
Denmark, Kingdom of	Dkr (DKR)	-	25,000	25,000
European Union	€ (EUR)	19,998	-	19,998
Germany, Federal Republic of	€ (EUR)	95,015	40,000	135,015
Iceland, Republic of	US\$ (USD)	1,000	-	1,000
India, Republic of	US\$ (USD)	-	2,000	2,000
Ireland, Republic of	€ (EUR)	3,000	-	3,000
Italy, Republic of	€ (EUR)	-	28,000	28,000
Japan	US\$ (USD)	19,178	-	19,178
Korea, Republic of	US\$ (USD)	-	4,000	4,000
Luxembourg, Grand Duchy of	€ (EUR)	-	820	820
Monaco, Principality of	€ (EUR)	-	150	150
Netherlands, State of the	€ (EUR)	2,329	35,900	38,229
Norway, Kingdom of	Nkr (NOK)	-	1,385,692	1,385,692
Saudi Arabia, Kingdom of	US\$ (USD)	-	5,000	5,000
Sweden, Kingdom of	Skr (SEK)	350,000	-	350,000
United Kingdom	£ (GBP)	-	203,660	203,660
United States of America	US\$ (USD)	290,000	-	290,000
<u>Corporations, foundations and private individuals:</u>				
Alwaleed Bin Talal Foundation	US\$ (USD)	-	201	201
Bill & Melinda Gates Foundation	US\$ (USD)	54,456	325,000	379,456
China Merchants Group	US\$ (USD)	-	500	500
Comic Relief	£ (GBP)	-	1,500	1,500
Elogøy	Nkr (NOK)	200	-	200
IFPW Foundation	US\$ (USD)	-	854	854
Reckitt Benckiser Group	£ (GBP)	-	1,000	1,000
Red Nose Day Foundation	US\$ (USD)	1,900	-	1,900
Serum Institute of India	US\$ (USD)	-	5,772	5,772
Serum Institute of India	₹ (INR)	-	1,880	1,880
Sultanate of Oman	US\$ (USD)	-	600	600
The "la Caixa" Foundation	€ (EUR)	1,503	-	1,503
UPS Foundation	US\$ (USD)	-	500	500
Other contributions	US\$ (USD)	1,245	-	1,245

<sup>1</sup> Amounts received in 2018 to fulfil pledges for 2018.

<sup>2</sup> Amounts received in 2018 to fulfil pledges for multi-years.

## EXPENSES SCHEDULES

Schedules 2.1 to 2.4 provide details of the following categories of Gavi Group's expenses:

- **Country Programme Expenses:** Gavi directly incurs expenses to procure and distribute vaccines to countries (e.g. the cost of vaccines, freight and insurance) and related to Gavi's core vaccine and cash programmes and investment cases.
- **Partner Programme Expenses:** Gavi incurs expenses to provide funding to partners through the partners' engagement framework (PEF). In June 2015, the Board approved the structure for the PEF, which came into force in 2016. Through PEF, Gavi provides funding to partners and allows the partners to support countries' immunisation programmes. Support under PEF is divided into three areas: targeted country assistance, strategic focus areas, and foundational support. Most PEF funding is allocated to targeted country assistance. PEF gives priority to the 22 countries that face the most severe immunisation challenges and aims to meet the specific needs of each country. In 2017 and 2018, the priority countries were the Islamic Republic of Afghanistan, Republic of Chad, Federal Republic of Nigeria, Republic of Uganda, Islamic Republic of Pakistan, Republic of Indonesia, Democratic Republic of the Congo, Republic of India, Republic of Kenya, Federal Democratic Republic of Ethiopia, Republic of the Niger, Central African Republic, Republic of the Union of Myanmar, Republic of Haiti, Federal Republic of Somalia, Republic of Yemen, Republic of Mozambique, Independent State of Papua New Guinea, Republic of Madagascar, Republic of South Sudan, Republic of the Sudan, and the Republic of Mali.
- **Professional Fees:** The Gavi Group incurs expenses to engage external technical and expert advisors and consultants as needed.

### SCHEDULE 2.1: COUNTRY PROGRAMME EXPENSES, BY RECIPIENT COUNTRY

The following schedule details country programme expenses, by recipient country, incurred by the Gavi Group during the years ended 31 December 2018 and 2017:

In Thousands of US\$	2018			2017		
	Vaccine Support <sup>1</sup>	Cash Grants	Total	Vaccine Support <sup>1</sup>	Cash Grants	Total
Afghanistan, Islamic Republic of	39,301	18,085	57,386	14,795	18,485	33,280
Angola, Republic of	1,723	-	1,723	4,671	3,215	7,886
Armenia, Republic of	128	-	128	454	203	657
Azerbaijan, Republic of	-	-	-	441	-	441
Bangladesh, People's Republic of	57,222	12,532	69,754	59,046	3,148	62,194
Benin, Republic of	9,255	-	9,255	8,844	6,596	15,440
Bhutan, Kingdom of	90	-	90	30	-	30
Bolivia, Plurinational State of	1,559	-	1,559	-	283	283
Burkina Faso	23,209	392	23,601	15,178	4,644	19,822
Burundi, Republic of	16,377	27,451	43,828	5,611	-	5,611
Cambodia, Kingdom of	7,310	6,882	14,192	6,081	1,049	7,130
Cameroun, Republic of	12,971	775	13,746	12,480	760	13,240
Central African Republic	4,365	1,519	5,884	2,340	7,425	9,765
Chad, Republic of	1,077	-	1,077	2,271	749	3,020
Comoros, Union of the	127	1,670	1,797	67	-	67
Congo, Republic of the	550	-	550	914	957	1,871
Congo, Democratic Republic of the	50,677	22,095	72,772	51,952	3,187	55,139
Côte d'Ivoire, Republic of	30,354	622	30,976	29,978	14,735	44,713
Cuba, Republic of	286	-	286	79	-	79
Djibouti, Republic of	304	-	304	350	1,396	1,746
Eritrea, State of	5,610	4,286	9,896	3,375	1,115	4,490
Ethiopia, Federal Democratic Republic of	95,931	24,480	120,411	49,190	5,641	54,831
Gambia, Republic of the	3,820	1,880	5,700	1,257	774	2,031
Georgia	-	-	-	230	172	402
Ghana, Republic of	29,093	5,623	34,716	10,256	223	10,479
Guinea, Republic of	1,003	-	1,003	9,852	18,906	28,758

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In Thousands of US\$	2018			2017		
	Vaccine Support <sup>1</sup>	Cash Grants	Total	Vaccine Support <sup>1</sup>	Cash Grants	Total
Guinea Bissau, Republic of	1,264	187	1,451	613	-	613
Guyana, Co-operative Republic of	122	4	126	85	100	185
Haiti, Republic of	6,975	850	7,825	2,161	-	2,161
Honduras, Republic of	1,102	-	1,102	244	1,199	1,443
India, Republic of	118,573	1,475	120,048	85,543	61,013	146,556
Indonesia, Republic of	14,723	-	14,723	11,118	-	11,118
Kenya, Republic of	32,437	11,679	44,116	12,205	1,708	13,913
Kiribati, Republic of	18	-	18	14	-	14
Korea, Democratic People's Republic of	2,390	14,880	17,270	1,620	2,622	4,242
Kyrgyz Republic	2,854	3,066	5,920	932	-	932
Lao People's Democratic Republic	4,607	366	4,973	1,770	3,528	5,298
Lesotho, Kingdom of	564	26	590	336	639	975
Liberia	3,446	2,649	6,095	4,319	7,906	12,225
Madagascar, Republic of	9,097	5,713	14,810	16,874	-	16,874
Malawi, Republic of	25,034	9,419	34,453	5,640	27,602	33,242
Mali, Republic of	21,419	6,653	28,072	12,587	-	12,587
Mauritania, Islamic Republic of	4,244	99	4,343	3,125	2,375	5,500
Moldova, Republic of	493	-	493	433	203	636
Mongolia	67	-	67	186	-	186
Mozambique, Republic of	27,283	-	27,283	26,470	10,358	36,828
Myanmar, Republic of the Union of	10,570	36,222	46,792	5,472	-	5,472
Nepal, Federal Democratic Republic of	10,216	9,059	19,275	6,761	514	7,275
Nicaragua, Republic of	1,432	-	1,432	536	240	776
Niger, Republic of the	21,970	7,766	29,736	15,433	700	16,133
Nigeria, Federal Republic of	106,245	13,723	119,968	52,831	8,186	61,017
Pakistan, Islamic Republic of	123,053	21,350	144,403	118,558	40,837	159,395
Papua New Guinea, Independent State of	1,722	-	1,722	1,276	1,969	3,245
Rwanda, Republic of	9,183	2,955	12,138	4,723	1,011	5,734
São Tomé	180	-	180	171	1,085	1,256
Senegal, Republic of	24,713	3,913	28,626	13,608	5,044	18,652
Sierra Leone, Republic of	9,945	3,166	13,111	6,101	7,747	13,848
Solomon Island	1,392	2,051	3,443	204	1,381	1,585
Somalia, Federal Republic of	2,855	-	2,855	2,486	12,632	15,118
Sri Lanka, Democratic Socialist Republic of	687	-	687	1,353	417	1,770
South Sudan, Republic of	4,472	19,374	23,846	4,582	1,188	5,770
Sudan, Republic of the	59,914	15,530	75,444	19,178	-	19,178
Tajikistan, Republic of	2,796	2,395	5,191	1,804	-	1,804
Tanzania, United Republic of	58,792	10,432	69,224	39,412	390	39,802
Timor-Leste, Democratic Republic of	115	-	115	77	2,732	2,809
Togolese Republic	6,064	-	6,064	7,598	6,381	13,979
Uganda, Republic of	48,557	13,480	62,037	26,460	13,181	39,641
Uzbekistan, Republic of	7,356	9,820	17,176	4,322	-	4,322
Vietnam, Socialist Republic of	5,121	118	5,239	901	-	901
Yemen, Republic of	22,851	2,978	25,829	13,687	3,360	17,047
Zambia, Republic of	15,812	2,201	18,013	11,377	-	11,377
Zimbabwe, Republic of	10,166	705	10,871	15,150	862	16,012
<b>Total country programme expenses</b>	<b>1,235,233</b>	<b>362,596</b>	<b>1,597,829</b>	<b>850,078</b>	<b>322,773</b>	<b>1,172,851</b>

<sup>1</sup> Vaccine support includes support for new vaccine and cold chain equipment.

## SCHEDULE 2.2: PARTNER PROGRAMME EXPENSES

The following schedule details partner programme expenses during the years ended 31 December 2018 and 2017:

In Thousands of US\$	2018	2017
World Health Organization	85,080	32,390
United Nations Children's Fund	80,597	51,048
Living Goods	5,449	-
The World Bank	5,437	9,346
Centers for Disease Control and Prevention	5,089	5,156
JSI Research and Technologies	4,561	2,013
CDC Foundation	4,016	3,672
Last Mile Health	3,469	-
Program for Appropriate Technology in Health	3,132	1,708
Dalberg Global Development Advisors	2,678	411
Catholic Relief Services	2,030	3,347
Acasus Ltd	1,951	-
John Hopkins University	1,621	928
Clinton Health Access Initiative	1,412	858
GroupM Media India Private Ltd	1,400	142
PricewaterhouseCoopers	1,140	187
Shifo Foundation	1,104	-
London School of Hygiene & Tropical Medicine	1,071	1,618
Imperial College of Science Technology and Medicine	976	390
Murdoch Childrens Research Institute	975	1,373
University of Oslo	966	-
Freight in Time Ltd.	787	-
Swiss Tropical and Public Health Institute	780	559
Yale University	695	116
University of Oxford	680	1,159
VillageReach	679	451
The Aspen Institute	676	-
Sabine Vaccine Institute	661	512
REPAOC	643	-
Agence Européenne pour le Développement et la Santé	636	791
CREDES	597	154
Itad Ltd	532	-
Energize the Chain	500	-
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	469	-
GFA Consulting Group GmbH	468	68
Nexleaf Analytics	455	734
Bureau d'Audit et de Gestion des Entreprises	407	-
Orange Cote d'Ivoire	356	-
Emory University	331	1,016
International Federation of Red Cross and Red Crescent Societies	295	-
Agence de Médecine Préventive	285	180
EY Ford Rhodes	277	-
United Nations Development Program	271	-
International Centre for Diarrhoeal Disease Research	268	1,413
Cardno Emerging Markets USA Ltd.	255	-
Results for Development	219	318
IRD Global Limited	198	190
KIT Royal Tropical Institute	180	-
MB Consulting Ltd	179	107
mHealth and eHealth Expert Learning Program NPC	165	-
Private Sector Health Alliance of Nigeria	156	-
GIE Vaccilog	143	-

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In Thousands of US\$	2018	2017
GaneshAID	136	23
Speak Up Africa	127	30
Centre for Infectious Disease Research in Zambia	125	-
Jhpiego	120	-
Duke University	112	-
Foundation for Innovative Diagnosis - FIND	110	-
Captiva Africa	103	-
Rocque Advisory Sarl	100	-
Maha	88	-
EpiLinks	82	-
University Research Co., LLC	77	120
ALMACO Management Consultants Ltd	77	-
Global Health Development	67	-
IOD PARC	61	-
Abt Associates	59	-
Girl Effect	46	4,932
Global Development Support	44	-
Field Epidemiology Society	42	-
Expertise France AFETI	29	-
A.M. Lehibib	28	-
Consortium of Christian Relief and Development Associations	26	-
one23 Partnership	26	-
Civil Society Human and Institutional Development Programme	24	-
Skillsoft NETg GmbH	20	-
Common Thread Communications, Inc	19	-
MMGH Consulting GmbH	17	-
KPMG East Africa	16	-
Health Research for Action	9	-
Edes & Associates Consultants Ltd	8	-
Matter Solutions Limited	6	-
Aga Khan University	-	794
Bangladesh Rural Advancement Committee	-	32
Deloitte Consulting LLP	-	352
Groupement d'Intérêt économique de Vaccinologie et Logistique	-	2
Imperial Health Sciences	-	50
Khushi Baby Inc	-	500
Mott MacDonald	-	33
Pharos Global Health Advisors	-	227
Royal Tropical Institute	-	95
Union of National African Paediatric Societies and Associations	-	36
University of Rwanda	-	429
University of Washington	-	30
<b>Total partner programme expenses</b>	<b>229,201</b>	<b>130,040</b>

## SCHEDULE 2.3: RECONCILIATION OF COUNTRY AND PARTNER PROGRAMME EXPENSES TO PROGRAMME EXPENSES

The following table reconciles country programme expenses, per Schedule 2.1 above, and partner programme expenses, per Schedule 2.2 above, to programme expenses reported in the Consolidated Statements of Activities on page 25 of the consolidated financial statements:

In Thousands of US\$	2018	2017
Total country programme expenses	1,597,829	1,172,851
Total partner programme expenses	229,201	130,040
Provision for country programme expenses	63,356	245,403
Recovery of prior year grants	(95,858)	(15,287)
Allocated operating expenses	59,960	60,571
Total programme expenses	1,854,488	1,593,578

## SCHEDULE 2.4: PROFESSIONAL FEES

The following schedule details professional fees incurred by the Gavi Group during the years ended 31 December 2018 and 2017:

In Thousands of US\$	2018	2017
Consulting services	14,006	14,564
Information technology	6,676	7,293
IFFIm's treasury management fees	1,934	1,961
Temporary staffing	1,195	1,452
Audit and accounting	1,402	1,142
Legal services	411	387
In-kind services	555	661
Total professional fees	26,179	27,460

## **Independent Auditors' Report on Supplementary Information**

The Board of Directors  
**GAVI Alliance, Geneva**

We have audited the consolidated financial statements of GAVI Alliance as of and for the year ended 31 December 2018, and have issued our report thereon dated 20 August 2019 which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Pledges and Contributions Schedules 1.1 to 1.8 and Expenses Schedules 2.1 to 2.4 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

### **Other Matter**

The consolidated financial statements and the supplementary information of the entity as of and for the year ended 31 December 2017 were audited by other auditors whose report, dated 31 August 2018, expressed an unmodified opinion on those statements.

### **Opinion**

In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte SA



Fabien Bryois  
Partner



Lisa Watson  
Director

Geneva, Switzerland, 20 August 2019