

**INTERIM FINANCIAL REPORT**



**30 June 2018**

The Global Fund to Fight AIDS, Tuberculosis and Malaria  
**Interim Financial Report**

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# The Global Fund to Fight AIDS, Tuberculosis and Malaria Interim Financial Report

## 2018 KEY OPERATIONAL ACTIVITIES

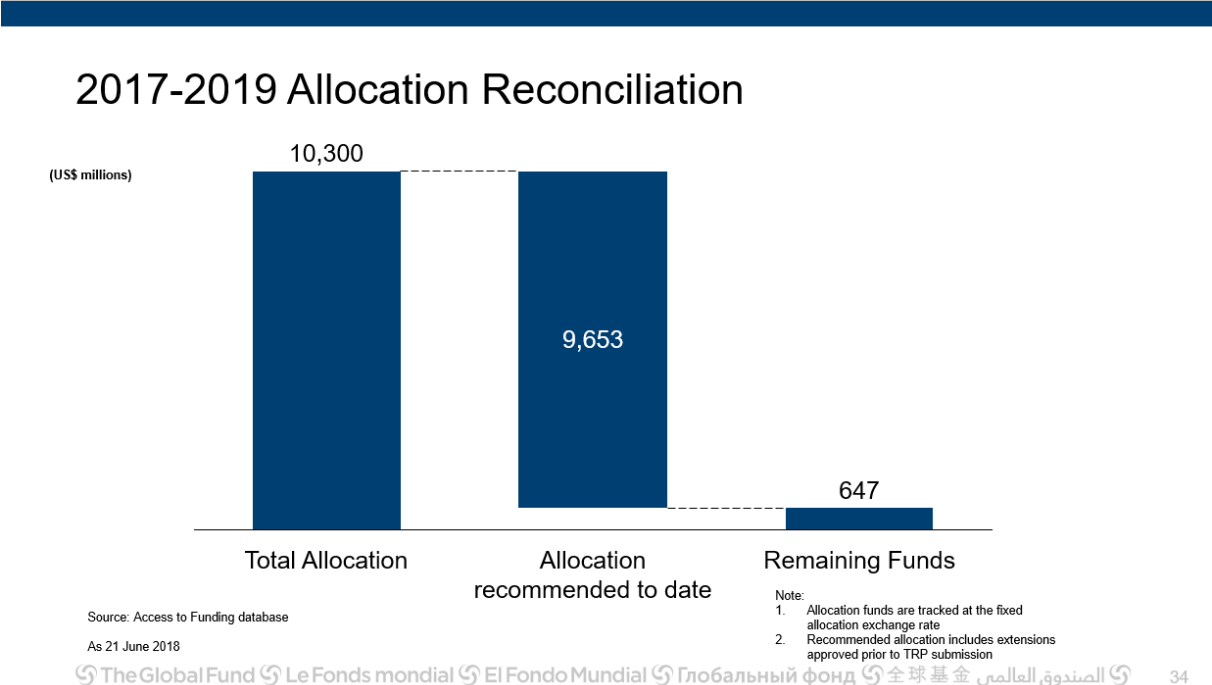
### 1- The Funding Model

#### Update on 2017-2019 Allocation

For the 2017-2019 allocation period, the Global Fund Board has designated USD 10.3 billion in allocation funding and USD 800 million for catalytic funding (GF/B36/DP05). Of this catalytic funding USD 346 million has been designated for Matching Funds and USD 260 million for Multicountry Proposals. The remaining amount of USD 194 million is for Strategic Initiatives, which are managed by the Secretariat.

Applicants can apply for allocation funding, matching funds or multicountry funding, depending on eligibility.

Figure 1 below provides an update on the 2017-2019 allocation:



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## TRP recommended allocation funds by Window

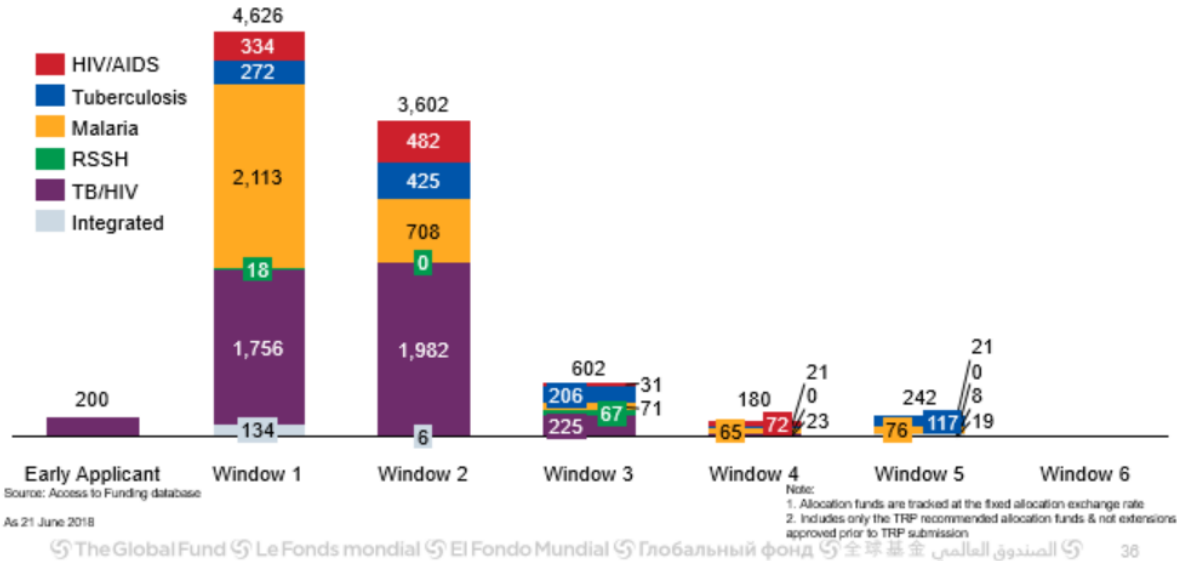


Figure 2: Allocation funding recommended for the period 2017-2019

Five of the six planned Technical Review Panel (TRP) windows have taken place by 30 June 2018 from which the TRP recommended:

- USD 9,653 million allocation funding representing 94% of the total allocation funding including USD 202 million in extensions to ensure program continuity for programs during grant making.
- USD 285 million matching funds catalytic investments representing 91% of the total matching funds catalytic funding.
- USD 204 million multi-country catalytic investments representing 78% of the total multi-country catalytic funding.

After TRP recommendation, the resulting grants are presented to the Grant Approvals Committee and recommended to the Board for approval. As at 30 June 2018, the overall status of 2017-2019 allocation period is as follows:

- The Board approved 247 grants amounting to USD 9,790<sup>1</sup> million which included:
  - Of the USD 10.3 billion in allocation funding, USD 9,194 million for new grants and extensions to ensure program continuity; and
  - Of USD 800 million in catalytic funding:
    - USD 245 million of matching funds,
    - USD 148 million of multicountry funding; and
    - USD 203 million for Strategic Initiatives.

<sup>1</sup> Amounts at Allocation FX rate.

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### 2- Replenishment update

Under its replenishment mechanism, every three years, the Global Fund convenes donors, implementers and other key partners to discuss funding for the succeeding three-year period (the “Replenishment Period”). This mechanism allows for greater predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases.

#### Update on the Fifth Replenishment Results

At the launch of the Global Fund’s Fifth Replenishment in September 2016, donors pledged over USD 12.9 billion<sup>2</sup> for the next three years, demonstrating extraordinary global commitment towards ending the epidemics of HIV/AIDS, tuberculosis and malaria for good.

Ahead of the Sixth Replenishment, the Global Fund is determined to continue its efforts, in collaboration with advocacy partners, to ensure sustained support from major donor countries against the backdrop of a number of significant political transitions and uncertainties. Given the relative scale of contributions, the major donor countries remain the key priority, representing both the principal potential upside in terms of increased financial contributions, and the most significant potential downside, should their commitments to the Global Fund diminish. The Global Fund is also engaged more pro-actively with new/returning OECD-DAC donors. Furthermore, the Global Fund increased dialogue and engagement with emerging economies, such as China with a near-term primary focus on scaling up Chinese co-investment, Argentina in the context of its G20 Presidency and Latin American and Caribbean (LAC) countries, as well as the Gulf States.

The interim period ended 30 June 2018 has seen steady progress in the signing and delivery of contribution agreements linked to the Fifth Replenishment. As of 30 June 2018, over USD 7.3 billion of contributions were signed against the pledges announced for the Fifth Replenishment. A large majority of the public donors have shifted to bilateral contribution agreements with the Global Fund. As of 30 June 2018, the number of public donors expected to sign a bilateral contribution agreement increased to 37 (out of 38), with 34 contribution agreements already signed. The preferred mode of contributions continued to be cash through signed contribution agreements including multi-year payment schedules which significantly enhance the Secretariat’s ability to perform effective cash and foreign-exchange management.

In early 2018, the Global Fund revised its strategy for engaging with High Net-Worth Individuals (HNWIs) towards greater focus on platforms for ‘Strategic Philanthropy’, to offer more attractive and cost-effective engagement options to donors. The flagship platform, (RED), continues to bring in additional resources, and as at 30 June 2018 had contributed USD 80 million out of its USD 100 million 3-year pledge. The Global Fund continues to support (RED)’s expansion to new markets and seek new partnerships for joint resource mobilization. Recently launched partnerships include M2030, Human Crescent and Move Humanity.

The Global Fund has also been working to develop a clearer vision and framework for Innovative Financing, in consultation with partners, the Audit and Finance Committee and the Board, with a view to defining the various types of roles the Global Fund could play in the innovative finance space, ensuring a strong focus on the role of partnerships, and creating an environment that can empower innovation, particularly at the country level.

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<sup>2</sup> The U.S. dollar equivalent value of pledges made in non-U.S. dollar currencies are calculated at an exchange rate based on a five-year moving average, computed on 15 September 2016 from spot rates listed on Thomson Reuters.

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### FINANCIAL COMMENTARY

When compared with the financial position at 31 December 2017, the interim condensed consolidated statement of financial position shows a 38 percent decrease in funds during the first six months of FY 2018. The asset base has decreased by 9 percent and the total liabilities increased by 59 percent. As at the reporting date, the Global Fund holds USD 5.1 billion in current assets of operational cash held in commercial banks, in the Trust Fund and contributions receivable from donors within 12 months. When compared with the current liabilities of USD 3.2 billion towards grants and operating expenses, the net current position stands at a USD 1.9 billion at 30 June 2018.

The interim financial results reflect a typical operational cycle of the start of grant implementations under the new allocation period (2017-2019). A majority of the grants have been approved and signed so commitments for funding have increased significantly. This is reflected in the significant increase in grant expenditure during the first half year and the outstanding grant liability at 30 June 2018.

When compared with the financial results of the first half of 2017, the operational income from donor contributions was 24 percent lower over the previous half-year. All encashments are in line with the underlying donor agreements.

Key progress on the following core financial components achieved during the first half year of 2018 has been analysed below:

1. Financial Management framework
2. Donor pledges and contributions
3. Grant commitments and disbursements
4. Operating expenses
5. The Global Fund Provident Fund

#### **1. Financial management framework**

The Global Foreign-Exchange (FX) Management Framework (GF/AFC01/DP02) was designed for the effective management of FX exposures arising from each element included in the Global Fund's asset-liability management framework, as envisaged in the Comprehensive Funding Policy. This includes on-balance sheet items, as well as future assets and liabilities pending the signature and recognition of contribution agreements and grant funding decisions (off-balance sheet items), respectively. The hedging of both on and off-balance sheet items is made on a portfolio level and controlled with a specific risk metrics utilizing value-at-risk (VaR).

FX losses and gains on FX hedging instruments are set against FX losses and gains on on-balance sheet items, i.e. on assets and liabilities, as well as FX effects on off-balance sheet items, which are not reported in the profit and loss accounts. As a result, effects on FX hedging instruments may more than compensate for FX effects on other balance sheet items.

In the period under consideration, the currencies in which the Global Fund's assets and liabilities are denominated generally decreased in value against the Global Fund's functional currency, the U.S. dollar. This led to significant FX losses on assets, as well as more FX gains on liabilities. Conversely, fluctuations in FX rates led to gains on FX hedging instruments. In the period under consideration, and due to the hedging of off-balance sheet items, FX gains on hedging instruments exceeded FX losses on assets and liabilities.

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The figure below provides a comprehensive *Asset-Liability* view of the FX results for the period ended 30 June 2018, which includes the accounting FX results as reported in note 5.5 of the 2018 condensed consolidated interim financial statements and the economic effect on pledges and other off-balance sheet positions:

<b>USD million</b>	<b>Before hedges</b>	<b>Hedge</b>	<b>Net</b>
Accounting FX results (on-balance sheet)	(64)	115	51
Economic FX results (off-balance sheet)	(39)	-	(39)
<b>Total FX effect</b>	<b>(103)</b>	<b>115</b>	<b>12</b>

### 2. Donor pledges and contributions

During the first six months of 2018, the Secretariat recognized USD 1,007 million as net revenue (2017: USD 1,319 million), a reduction of 24 percent. The encashment of all contributions receivable are on track. No additional provision for impairment was deemed necessary for the reporting period.

The contribution income includes USD 1,029 million of gross revenue on new contributions received during the first six months of 2018, reduced by USD 22 million of present value discounting of long-term portions of contribution payment schedules. The gross revenue of USD 1,029 million can be analysed under the following main categories:

- USD 1,008 million from sovereign donor governments (2017: USD 1,275 million);
- USD 10 million from Product (RED) (2017: USD 21 million), of which USD 7 million was received as revenue through the U.S. Fund for the Global Fund. A majority of US based (RED) partners are increasingly contributing directly to the U.S. Fund for the Global Fund in order to benefit from the tax exemptions available for donations made to a domestic US charity. The cash contributions are transferred to the Global Fund on a periodic basis;
- USD 10 million from private foundations (2017: USD 7 million); and
- USD 1 million from corporation (2017: USD 2 million).

### 3. Grant commitments and disbursements

The main elements of the Global Fund grant expenditure of USD 2,882 million (2017: USD 1,121 million) during the first half of 2018 included:

- USD 2,865 million as grant commitments to Principal Recipients for in-country and pooled procurement mechanism (PPM) activities (2017: USD 1,107 million); and
- USD 17 million as Strategic Initiatives project expenses (2017: USD 8 million).

During the first six months of 2018, the Secretariat made new grant commitments for USD 2,865 million, substantially higher than the grant commitments made during the comparative first half of 2017 which was the last year of implementation under the 2014-2016 allocation. This increase was expected given the start of implementation for the new grants approved under the 2017-2019 allocation.

During the first six months of 2018 USD 1,473 million was disbursed in cash to Principal Recipients, their third-party suppliers and PPM Procurement Supplier Agents (2017: USD 1,775 million). This decrease in grant disbursements is in line with the grant cycle for which new commitments have been made in the first half of the year and underlying disbursements will gain momentum after the finalization and reconciliation of in-country cash balances of the 2014-2016 closure exercise for grants at ended on 31 December 2017. Of the total cash disbursements, USD 1,471 million has been applied

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as disbursements under the respective grants. The remaining difference is towards cut-off adjustments made in the financial statements to ensure completeness and will be subsequently applied to respective grants.

### **4. Operating expenses**

During the first half year of 2018 the Global Fund spent USD 136 million (2017: USD 138 million) for its operating expenses, a marginal decrease of 1 percent over 2017 half-year. These results are based upon spot rates in compliance with the accounting policy under the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The Global Fund has continued to closely monitor its operating expenses whilst enabling the implementation of its key strategic priorities and initiatives planned for 2018.

The foreign exchange impact on operating costs is managed centrally as part of treasury management. At budget rate, actual expenditure incurred during the first six months of the year also amounted to USD 136 million. This represents 87 percent spend rate against the period-to-date operating expenses budget of USD 157 million. Looking forward, the Secretariat projects that the annual operating expenses for FY 2018 will remain within the approved budget of USD 300 million.

### **5. Global Fund Provident Fund**

When measured in the administration currency, Swiss Francs (CHF), the Provident Fund assets fully cover the underlying employee benefit liability.

In the condensed consolidated interim financial statements presented in the functional currency USD, the Provident Fund asset base was USD 156 million as at 30 June 2018 (2017: USD 155 million). This included USD 144 million of Provident Fund investments measured at fair value and USD 12 million in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund constitution. The YTD rate of return on Provident Fund investments is (0.57%).

The liability for employee benefit obligation was USD 157 million as at 30 June 2018 (2017: USD 155 million). This includes USD 156 million in employee benefit reserves and USD 1 million as accumulated actuarial valuation loss. The last annual actuarial valuation was undertaken in 2017.



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### **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

#### **Responsibility for the condensed consolidated interim financial statements**

The Secretariat is responsible for the preparation of the condensed consolidated interim financial statements and related information that is presented in this report. The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

The condensed consolidated interim financial statements include amounts based on estimates and judgments made by the Secretariat. KPMG SA was appointed as the statutory auditors by the Global Fund Board upon the recommendation of its former Audit and Ethics Committee to review the condensed consolidated interim financial statements of the Global Fund.

The Secretariat 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 external reviews.

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

These condensed consolidated interim financial statements were approved by the Audit and Finance Committee of the Global Fund Board on 03 October 2018.

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**Interim Financial Report**

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**Condensed consolidated interim financial statements**

**As at and for the six months ended 30 June 2018**

**(unaudited)**

The Global Fund to Fight AIDS,  
Tuberculosis and Malaria, Le Grand-Saconnex

**Review Report to the Board of the  
Global Fund to Fight AIDS, Tuberculosis and Malaria**

**Condensed Consolidated Interim  
Financial Statements as at 30 June 2018**



# Independent Auditor's Report on the Review of Condensed Consolidated Interim Financial Statements

To the Board of The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex

## Introduction

We have been engaged to review the accompanying condensed consolidated interim statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund") as at 30 June 2018 and the related condensed consolidated interim statements of income and other comprehensive income, financial position, cash flows, changes in funds for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the condensed consolidated interim financial statements") The Global Fund Board and Secretariat are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

KPMG SA

Pierre-Henri Pingeon  
Licensed Audit Expert

Henri Mwaniki

Geneva, 03 October 2018

## Enclosure:

- Condensed consolidated interim financial statements (condensed consolidated interim statement of income, comprehensive income, financial position, cash flows, changes in funds and notes).

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### Condensed consolidated interim statement of income

For the six months ended 30 June	<u>Notes</u>	<u>2018</u>	<u>2017</u>
In millions of USD			
<b>Income</b>			
Contributions	4.1	1,007	1,319
<b>Expenditure</b>			
Grants	3.2	(2,882)	(1,121)
Operating expenses	6.1	<u>(136)</u>	<u>(138)</u>
		<b><u>(3,018)</u></b>	<b><u>(1,259)</u></b>
<b>Net operating (loss)/ income</b>		<b>(2,011)</b>	<b>60</b>
Foreign exchange results, net	5.5	51	(22)
Financial income, net	5.6	<u>11</u>	<u>48</u>
<b>(Decrease)/ increase in funds</b>		<b><u>(1,949)</u></b>	<b><u>86</u></b>

### Condensed consolidated interim statement of comprehensive income

For the six months ended 30 June	<u>2018</u>	<u>2017</u>
In millions of USD		
(Decrease)/ increase in funds	(1,949)	86
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b><u>(1,949)</u></b>	<b><u>86</u></b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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### Condensed consolidated interim statement of financial position

As at	<u>Notes</u>	<u>30.06.2018</u>	<u>31.12.2017</u>
In millions of USD			
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5.1	257	48
Trust Fund	5.2	2,422	3,073
Contributions receivable	4.2	2,464	2,027
Advances for Pooled Procurement Mechanism	3.4	26	47
Derivative financial instruments at fair value	5.4	67	-
Other receivables	4.2	19	55
		<u>5,255</u>	<u>5,250</u>
<b>Non-current assets</b>			
Contributions receivable	4.2	1,212	1,954
Provident Fund investments		144	148
Tangible and intangible assets	6.2	94	12
Other receivables		13	6
		<u>1,463</u>	<u>2,120</u>
<b>Total Assets</b>		<b><u>6,718</u></b>	<b><u>7,370</u></b>
<b>Liabilities and funds</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Grants payable	3.3	3,145	1,625
Derivative financial instruments at fair value	5.4	-	70
Lease liability	6.3	8	-
Other current liabilities		42	52
		<u>3,195</u>	<u>1,747</u>
<b>Non-current liabilities</b>			
Grants payable	3.3	65	252
Employee benefit liabilities		157	155
Derivative financial instruments at fair value	5.4	-	36
Lease liability	6.3	70	-
<b>Total Liabilities</b>		<b><u>3,487</u></b>	<b><u>2,190</u></b>
<b>Funds</b>			
Temporarily restricted funds		18	18
Unrestricted funds		3,213	5,162
<b>Total Funds</b>		<b><u>3,231</u></b>	<b><u>5,180</u></b>
<b>Total liabilities and funds</b>		<b><u>6,718</u></b>	<b><u>7,370</u></b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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### Condensed consolidated interim statement of cash flows

For the six months ended 30 June	Notes	2018	2017
In millions of USD			
<b>Operating activities</b>			
Cash received from donors		1,228	1,683
Grant disbursements		(1,473)	(1,775)
Payments for operating expenses		(145)	(129)
Cash realized on settlement of derivative financial instruments		(59)	30
<b>Net cash flow used in operating activities</b>		<b>(449)</b>	<b>(191)</b>
<b>Investing activities</b>			
Financial income received, net		11	47
Sale/ (Purchase) Provident Fund investment, net		1	(21)
Purchase of tangible and intangible assets		(8)	(3)
Net cash flow from investing activities before Trust Fund movements		4	23
Net cash rebalancing between commercial banks and Trust Fund		651	(146)
<b>Net cash flow from/ (used in) investing activities</b>		<b>655</b>	<b>(123)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>206</b>	<b>(314)</b>
<b>Cash and cash equivalents</b>			
- at beginning of the period	5.1	48	509
Effect of exchange rate changes on cash		3	16
<b>- at end of the period</b>	5.1	<b>257</b>	<b>211</b>

In addition to the cash and cash equivalents reported in the statement of cash flows presented above, the Global Fund considers the Trust Fund as an integral part of the cash management for its core operations. The following table provides an overall operational cash management position:

	Notes	30.06.2018	31.12.2017
Amounts held in commercial banks	5.1	257	48
Amounts held in Trust Fund	5.2	2,422	3,073
<b>Total operational cash balance</b>		<b>2,679</b>	<b>3,121</b>

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### Condensed consolidated interim statement of changes in funds

In millions of USD

	Foundation <sup>3</sup> capital	Temporarily restricted funds	Unrestricted funds	Total
<b>As at 1 January 2018</b>	-	18	5,162	5,180
Decrease in funds	-		(1,949)	(1,949)
<b>At 30 June 2018</b>	-	18	3,213	3,231
<b>As at 1 January 2017</b>	-	10	4,310	4,320
(Decrease)/ increase in funds	-	(2)	88	86
<b>At 30 June 2017</b>	-	8	4,398	4,406

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<sup>3</sup> The Global Fund has nominated and maintains a foundation capital of CHF 50,000 by virtue of being registered as a non-profit foundation under the laws of Switzerland.



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### Notes to the condensed consolidated interim financial statements

## Section 1: Activities and organization

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The Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”) is an international financing institution recognized as an international organization that fights HIV/AIDS, tuberculosis and malaria with a 21st century approach applying four core principles: country ownership, partnership, transparency and performance-based funding. The Global Fund has been accorded the status of an international organization pursuant to its Headquarters Agreement with the Swiss Federal Council, prior to which it registered as an independent, non-profit foundation under the laws of Switzerland on 22 January 2002. Foundations are subject to monitoring by the Swiss Federal Supervisory Board for Foundations.

## Section 2: Basis of reporting

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### Statement of compliance

These unaudited condensed consolidated interim financial statements as at and for the six months ended on 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

They do not include all the information and disclosures presented in the annual consolidated financial statements, and should therefore be read in conjunction with the audited consolidated financial statements as at and for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Global Fund’s financial position and performance since the last annual financial statements. All amounts in the notes are presented in millions of USD, unless otherwise stated.

This is the first set of financial statements for the Global Fund in which IFRS 16 Leases and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described below.

These condensed consolidated interim financial statements were authorised for issue by the Audit and Finance Committee of the Global Fund Board (the AFC) on 03 October 2018.

### Changes in significant accounting policies, estimates and judgments

Except as described below, the accounting policies adopted in the preparation of the condensed consolidated interim financial statements and all significant accounting estimates and other management judgments are consistent with those followed in the preparation of the consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the consolidated financial statements as at and for the year ending 31 December 2018.

The Global Fund has initially adopted IFRS 9 Financial Instruments (see A) and IFRS 16 Leases (see B) from 01 January 2018. The effect of initially applying these standards is described in the respective sections below.

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### **A. IFRS 9 Financial Instruments**

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Global Fund's accounting policies related to financial liabilities.

In the context of the Global Fund financial statements, the major changes introduced by IFRS 9 is at the point of remeasurement of financial assets in assessing potential impairment of financial assets in terms of expected credit loss ("ECL"). No significant impacts are expected as a result of the adoption.

### **B. IFRS 16 Leases**

Under the new Standard, IFRS 16, a lessee recognizes a right-of-use ("RoU") asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The standard is effective for annual reporting periods beginning on or after 01 January 2019 but the Global Fund has elected to early adopt it effective 01 January 2018. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

The decision to early adopt is direct linked with the Global Fund's move to its new office premises called the Global Health Campus ("GHC") effective February 2018. The early adoption of the standard in 2018 enables the accounting of the GHC contract under IFRS 16 from its inception.

Accordingly the Global Fund has reviewed all contracts entered into before 01 January 2018 to determine if these qualify as leases within the new standard. The main eligible contract is that of the Global Fund office space in GHC. The lease agreement is effective for an initial period of 10 years starting February 2018. The Global Fund is the primary lessee of the entire building but its occupancy ratio will be limited up to 60 percent. The remaining campus would be used as office space by other public health partners. Their occupancy ratios are contractually agreed through respective sub-lease agreements between the Global Fund and the sub-tenants. Given this arrangement, the Global Fund acts in dual capacity, i.e. as a lessee for the GHC head lease agreement and as a lessor for sub-lease agreements with other sub-tenants.

All other leases identified were of low value to which the Global Fund recognises the payments associated with these items as an expense on a straight-line basis.

#### ***As a lessee***

The Global Fund recognizes the right-of-use of asset and a lease liability at the commencement date. The right-of-use asset is measured at cost, which includes the initial amount of the lease liability, initial direct costs incurred to restore the underlying asset and less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or end of the lease term which is 10 years.

The lease liability is recognized as a financial liability on the statement of financial position, initially measured at the present value of the unpaid portion of lease. The details of the GHC head lease are included in Note 6.2.

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### *As a lessor*

The Global Fund acts as a lessor for part of GHC sublet to other international public health organizations. These sub-leases are classified as operating leases because the Global Fund in its role as the primary lessor, centralizes the risks and rewards to the ownership of the underlying asset from the head lease. Under this arrangement, the Global Fund recognises the operating lease payments as income on a straight-line basis.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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### Section 3: Grant activities

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#### 3.1 Contingent liability

The first point of recognition for grants is at the point of the Global Fund Board approval, where the maximum liability of the grant becomes clear and is agreed with the Principal Recipient. A management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

Once a grant commitment is made through the annual funding decision process, the constructive obligation to the Principal Recipient is recognized as a grant payable and recorded as an expenditure in the consolidated statement of income.

The following table summarizes the position of contingent liability for grants that will become future grants payable through the annual funding decision process.

<b>By category</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
Grants approved but not signed	437	2,584
Grants signed but not committed	6,528	5,402
<b>Total</b>	<b>6,965</b>	<b>7,986</b>

#### 3.2 Grant expenditure

	<b>2018</b>	<b>2017</b>
For the six months ended 30 June		
<b>By category</b>		
Grants to Principal Recipients	2,401	738
Grants for PPM orders	464	369
Private Sector co-payments	-	6
Strategic Initiatives	17	8
<b>Total</b>	<b>2,882</b>	<b>1,121</b>

#### 3.3 Grants payable

The following table summarizes grants payable at:

	<b>30.06.2018</b>	<b>31.12.2017</b>
<b>By ageing</b>		
Disbursements due within 12 months	3,145	1,625
Disbursements due after 12 months	65	252
	<b>3,210</b>	<b>1,877</b>

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<b>By grant category</b>		
Grants to Principal Recipients	3,190	1,824
Grant under recovery, net	18	52
Others	2	1
	<u>3,210</u>	<u>1,877</u>
<b>By grant source currency</b>		
USD	2,798	1,654
EUR	345	149
ZAR	119	556

Grants under recovery from Principal Recipients are recognized at nominal value upon a formal notification to the Principal Recipient and subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors.

### 3.4 Advances for pooled procurement mechanism

The Global Fund facilitates the procurement of health products for Principal Recipients through the Procurement Service Agents (PSAs) for the Pooled Procurement Mechanism (PPM) for which the liability and expenditure recognition follow the same accounting policy as grants directly administered by Principal Recipients.

As at 30 June 2018, USD 25 million (31 December 2017: USD 47 million) of PPM advances were outstanding with two PSAs. The outstanding advances are considered good and fully recoverable. Accordingly no provision for impairment is deemed necessary.

The following table summarizes advances for the PPM at:

	<u>30.06.2018</u>	<u>31.12.2017</u>
Opening working capital advance	46	41
Advances issued during the year	29	599
Advances reconciled as disbursement charge back to grants	(50)	(594)
<b>Total</b>	<u>25</u>	<u>46</u>
Other non-PPM working capital advances	1	1
<b>Advances for pooled procurement mechanism</b>	<u>26</u>	<u>47</u>

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### Section 4: Donor activities

The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. At the time of replenishment, donors make public announcements called pledges of their intended future contributions. The following notes provide the summary of accounting results of revenue recognition policy during the reporting period.

#### 4.1 Contribution income / Revenue recognition

The first point of revenue recognition is the signing of a formal contribution agreement with a donor. All contributions governed by a written contribution agreement that do not have any substantive conditionality bearing on future receipts are recorded as income at the date of signature of the agreement. For the purposes of cash flows, contributions are considered as received when remitted in cash or cash equivalent. The following table summarizes the sources of revenue recognized:

For the six months ended 30 June	<u>2018</u>	<u>2017</u>
<b>By donor category</b>		
Governments	1,008	1,275
Foundations	10	7
Product (RED)	10	21
Corporations	1	2
Gross revenue	<u>1,029</u>	<u>1,305</u>
Discounted	(22)	14
<b>Total</b>	<u><b>1,007</b></u>	<u><b>1,319</b></u>

#### 4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognized but the cash has not been received.

Promissory notes and contributions receivable maturing later than one year after the date of the consolidated statement of financial position are discounted at fair value (LIBOR rates for GBP, EUR and USD) and subsequently measured using the amortized cost method. The following table summarises contributions receivable at:

As at	<u>30.06.2018</u>	<u>31.12.2017</u>
Promissory notes maturing within one year	419	428
Contributions receivable within one year	<u>2,045</u>	<u>1,599</u>
Total	2,464	2,027
Contributions receivable after one year	<u>1,212</u>	<u>1,954</u>
<b>Total value of contributions receivable</b>	<u><b>3,676</b></u>	<u><b>3,981</b></u>

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Receivable within one year	2,464	2,027
Receivable within two years	627	1,346
Receivable after two years	768	768
Gross contribution receivable	3,859	4,141
Discounted	(183)	(160)
<b>Net present value of contributions receivable</b>	<b>3,676</b>	<b>3,981</b>

The accounting policy on recognition and measurement for contributions receivables is also applicable to assets classified as Other Receivables. Other receivables of USD 32 million include (USD 19 million current and USD 13 million non-current):

- i. USD 18 million of Grants under recovery based on the demand letters formally issued to PRs (2017: USD 52 million). This is net of expected credit loss of USD 4 million given the uncertainty of future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol;
- ii. USD 9 million of Security deposit for office lease (2017: Nil)
- iii. USD 5 million in prepaid expenses for Opex and Strategic Initiatives (2017: USD 9 million).

## Section 5: Management of funds

The Global Fund is a financing institution and hence the management of its financial assets and liabilities is integral to the successful mission of the organization. The Global Fund engages with commercial banks and the World Bank to manage its financial assets and provide appropriate liquidity and risk management.

### 5.1 Cash and cash equivalents

The following table summarizes cash and cash equivalents at:

	<u>30.06.2018</u>	<u>31.12.2017</u>
Amounts held in commercial banks	257	48

Amounts are held in commercial banks that have a long-term credit rating of A or higher.

### 5.2 Trust Fund

The World Bank acts as the Trustee for the Global Fund Trust Fund. Assets held in trust by the World Bank are held in a pooled cash and investments portfolio, hereinafter called “the Pool”, established by the Trustee for all trust funds administered by the World Bank Group. The funds held in the Trust Fund qualify as a single asset and as such are presented separately in the statement of financial position but form an integral part of the operational cash management. The following table summarizes the Global Fund Trust Fund allocation across World Bank investment tranches:

<b>Tranche</b>	<u>30.06.2018</u>	<u>31.12.2017</u>
Tranche 0 USD	253	332
Tranche 5 USD	2,169	2,559
Tranche 0 EUR	-	182
<b>Total</b>	<u>2,422</u>	<u>3,073</u>



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The Trust Fund's assets consist of the Global Fund's share of cash and investments in the Pool, which is actively managed and invested in accordance with the investment strategy established for all trust funds administered by the World Bank Group. Given that the Trust Fund's share in the pool is not traded in any market it qualifies as a Level 2 asset given the observability and significance of the fair values of the underlying instruments and the fact that no adjustments for rights and obligations inherent with regard to ownership or frequency at which the organization can redeem its interests exists.

There were no changes in the first six months of the year in the valuation techniques used for the Trust Fund's assets and the methodology and techniques as disclosed in Note 5.2 of the 2017 annual consolidated financial statements were applied consistently. There were no significant transfers from one level to the other and the allocation to Level 1 and 2 as at the interim reporting date is similar to the allocation as at 31 December 2017. There are also no Level 3 financial instruments included in the Trust Fund's assets as at 30 June 2018 (31 December 2017: NIL).

The following table shows the Trust Fund's share of financial instruments held in the Pool measured at fair value:

Financial instruments	30.06.2018	31.12.2017
Government and agency obligations	1,082	1,530
Asset and mortgage-backed securities	676	515
Equity	300	298
Time deposits	474	531
Repurchase/ resale agreements	(35)	(1)
Derivatives, net	14	(27)
Cash receivables and payables	(89)	227
<b>Total</b>	<b>2,422</b>	<b>3,073</b>

### 5.3 Foreign exchange exposures

In preparing the financial statements, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions, which creates an exposure to foreign exchange risk for these particular assets or liabilities. At the end of each reporting period, monetary items such as contributions receivable in currencies other than USD and grants payable denominated in EUR are retranslated at the rates prevailing at that date. The following table summarizes exchange rates for significant foreign currency positions at the reporting dates indicated:

	30.06.2018	31.12.2017	% FX fluctuation
AUD	0.7404	0.7802	(5)
CAD	0.7612	0.7950	(4)
CHF	1.0094	1.0263	(2)
EUR	1.1685	1.1998	(4)
GBP	1.3211	1.3514	(2)
NOK	0.1228	0.1218	(1)
SEK	0.1118	0.1219	(8)

[Source: Thompson Reuters FX rates subscription]

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### 5.4 Foreign exchange risk management

The Global Fund uses derivative financial instruments including forwards and swaps to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. The forward and swap contracts used by the Global Fund to mitigate foreign exchange risk are recognized at fair value with subsequent movements in value reported through the consolidated statement of income. As at 30 June 2018 the forward contracts were fair valued as Level 2 financial instruments.

The methodology and techniques applied for the fair valuation of the derivative financial instruments remain consistent with Note 5.6 of the 2017 annual consolidated financial statements.

The following table presents the notional value and the fair value of derivative financial instruments by currency. During the first six months of 2018, fair valuation of the derivative financial instruments resulted in a net gain (31.12.2017: net loss), thereby resulting in an asset (31.12.2017: a liability) on the statement of financial position:

Fair valuation of derivative financial instruments	30.06.2018	31.12.2017
Settlement due within 12 months	67	(70)
Settlement due beyond 12 months	-	(36)
<b>Total</b>	<b>67</b>	<b>(106)</b>

#### At 30 June 2018

<i>Currency (Level 2)</i>	<i>Notional value in millions</i>	<i>Forward contracts at fair value in USD millions</i>
AUD	175	7
CAD	527	13
CHF	(164)	-
EUR	864	(10)
GBP	845	49
NOK	950	5
SEK	600	3
<b>Net asset for derivative financial instruments at fair value</b>		<b>67</b>

#### At 31 December 2017

<i>Currency (Level 2)</i>	<i>Notional value in millions</i>	<i>Forward contracts at fair value in USD millions</i>
AUD	175	(1)
CAD	501	(10)
CHF	(174)	(3)
EUR	975	(63)
GBP	822	(21)
NOK	1,300	(1)
SEK	1,450	(7)
<b>Net liability for derivative financial instruments at fair value</b>		<b>(106)</b>

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### 5.5 Foreign exchange results

For the six months ended 30 June	<u>2018</u>	<u>2017</u>
<b>By net position</b>		
Foreign exchange (losses)/ gains before derivative instruments	(64)	169
Fair valuation gains/ (losses) on derivative financial instruments	115	(191)
<b>Net foreign exchange gain/ (loss)</b>	<u>51</u>	<u>(22)</u>

### By currency

For the six months ended 30 June	<u>2018</u>	<u>2017</u>
CAD	4	(13)
CHF	1	(5)
EUR	33	(15)
GBP	5	6
NOK	5	(5)
SEK	-	12
Others	3	(2)
<b>Net foreign exchange gain/ (loss)</b>	<u>51</u>	<u>(22)</u>

### Section 5.6 Financial income

The financial income on Trust Fund and Provident Fund investments, net of financial costs, are summarized in the table below:

For the six months ended 30 June	<u>2018</u>	<u>2017</u>
Trust Fund gains, net	12	49
Trustee fees	(1)	(1)
<b>Total</b>	<u>11</u>	<u>48</u>

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### Section 6: Operating activities

#### 6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund for maintaining a sustainable administrative structure in order to deliver the Global Fund's mission. The following table summarizes the operating costs under the main categories of expenditure:

For the six months ended 30 June	<b>2018</b>	<b>2017</b>
Staff	75	72
External assurance	16	19
Professional fees	14	14
Others	31	33
<b>Total</b>	<b>136</b>	<b>138</b>

#### 6.2 Tangible and Intangible assets

<i>Asset category</i>	<i>Carrying amount at 01 Jan 2018</i>	<i>Additions</i>	<i>Depreciation/ Amortization</i>	<i>Carrying amount at 30 June 2018</i>
<i>Leased assets</i>				
<i>Head lease: ROU-GHC</i>	-	78	(1)	77
<i>Tangible assets</i>	2	6	-	8
<i>Intangible assets</i>	10	-	(1)	9
<b>Total</b>	<b>12</b>	<b>84</b>	<b>(2)</b>	<b>94</b>

The Global Fund moved its headquarters office to the new Global Health Campus in February 2018. The Global Fund is the primary lessee for the right-to use the GHC. Accordingly the head lease has been fully recognized as an asset in the Global Fund statement of financial position. The occupancy is limited up to 60 percent. The remaining space is sub-leased to other partner organizations.

The sub-leases are treated as operating leases. During the first six months of 2018, USD 1.4 million has been recognized as miscellaneous income grouped under operating expenses towards the sub-lease rentals from sub-tenants.

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### 6.3 Lease liability

The financial liability represents the Global Fund's liability for future lease payments towards the head lease agreement for the right to use GHC as its office space. The operational set up of the GHC lease has been explained in detail in Section 2B: IFRS 16 Leases on pages 18-19.

The following table outlines the undiscounted value of the maturity profile of GHC lease recognized as a financial liability of the unpaid portion of lease.

<b>Maturity period</b>	<b>Financial lease outflows</b>	<b>Sub-lease inflows</b>	<b>Net outflows</b>
Within one year	8	3	5
Within two and five years	32	15	17
After five years	38	15	23
<b>Total</b>	<b>78</b>	<b>33</b>	<b>45</b>

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### GLOSSARY

AFC	Audit and Finance Committee
AUD	Australian Dollar
CAD	Canadian Dollar
CHF	Swiss Franc
ECL	Expected Credit Loss
EUR	Euro
GBP	Pound Sterling
GHC	Global Health Campus
NOK	Norwegian Krone
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
PPM	Pooled Procurement Mechanism
PSA	Procurement Service Agent
RoU	Right-of-use
SEK	Swedish Krona
USD	United States Dollar