

**European and Developing Countries
Clinical Trials Partnership
(EDCTP-EEIG)**

Annual Financial Statements
for the year ended 31 December 2011



KPMG Audit
Document to which our report dated

14 MAY 2012

also refers.
Initials for identification purposes
KPMG Accountants N.V.

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General Information for the year ended 31 December 2011

General Assembly: Dr Hannah Akuffo (Chair)
Dr Søren Jepsen (Vice-chair)
Dr Marja Esveld (Vice-chair)
Prof. Patrice Debre (Vice-chair)
Dr Christiane Druml
Prof. Bruno Gryseels
Dr Joachim Krebsler
Prof. Evangelina Ntzani
Dr Teresa Maguire
Prof. Stefano Vella
Dr Carlo Duprel
Mr Arne-Petter Sanne
Dr Ana Maria Faisca
Dr Rafael De Andres-Medina
Dr Isabella Beretta
Dr Mark Palmer
Advocate Bience Gawanas
Ambassador Richard Sezibera
Dr Jean Jacques Moka
Professor John Gyapong

Directors: Prof. Charles Mgone, Executive Director
Mr Abdoulie Barry, Director of Finance and Administration
Dr Michael Makanga, Director South-South Cooperation and Head of Africa Office

Registered offices: EDCTP The Hague office
Laan van Nieuw Oost Indië 334
The Hague, The Netherlands

EDCTP Cape Town Office,
Francie van Zijl Drive
Parowvallei, Cape Town

Auditors: KPMG ACCOUNTANTS N.V.



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Statement of comprehensive income for the year ended 31 December 2011

Expressed in thousands ('000) of euro

	Note	Restricted EC 2011	Restricted Donor 2011	Total 2011	Total 2010
INCOME					
Contributions	7	11,541	24,800	36,341	59,001
Finance income	8	340	410	750	1,086
Total income		11,881	25,210	37,091	60,087
EXPENDITURE					
Grants expenditure	9	(8,156)	(28,557)	(36,713)	(56,049)
Other expenditure	10	(3,547)	(571)	(4,118)	(3,947)
Governance expenditure	12	(257)	(119)	(376)	(331)
Total expenditure		(11,960)	(29,247)	(41,207)	(60,327)
Total comprehensive income for the year		(79)	(4,037)	(4,116)	(240)

All income and expenditure relates to continuing activities.

	2011 €'000	2010 €'000
Result attributable to:		
Restricted reserves EC	(79)	(49)
Restricted reserves Donor	(4,037)	(191)
	(4,116)	(240)



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Statement of Financial Position as at 31 December 2011

Expressed in thousands ('000) of euro

	Note	31 December 2011	31 December 2010
Non-current assets		-	-
Property, Plant & Equipment			
Debtors	13	7,714	17,272
Total non-current assets		7,714	17,272
Current assets			
Debtors and other receivables	13	21,046	22,244
Cash and cash equivalents	14	38,416	50,405
Total current assets		59,462	72,649
Total assets		67,176	89,921
Equity			
Restricted reserve: EC	15	(207)	(128)
Restricted reserve: Donors	16	3,917	7,954
Total equity		3,710	7,826
Non-current liabilities			
Grant payables	17	26,473	39,918
Total non-current liabilities		26,473	39,918
Current liabilities			
Grant payables	17	36,702	42,009
Other payables		291	168
Total current liabilities		36,993	42,177
Total equity and liabilities		67,176	89,921

The financial statements were approved by the Executive Secretariat on behalf of General Assembly by:

Professor Charles Mgone

Dated 14 May 2012



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Statement of Changes in Equity

Expressed in thousands ('000) of euro

	Restricted reserve: EC	Restricted reserve: Donor	Total
Balance as at 1 January 2010	(79)	8,145	8,066
Total comprehensive income for the year	(49)	(191)	(240)
Balance as at 31 December 2010	(128)	7,954	7,826
Total comprehensive income for the year	(79)	(4,037)	(4,116)
Balance as at 31 December 2011	(207)	3,917	3,710

EDCTP has no unrestricted reserves.

The notes on pages 5 to 18 form an integral part of these financial statements.

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Statement of cash flows for the year ended 31 December 2011

Expressed in thousands ('000) of euro

	Note	2011	2010
Cash flows from operating activities			
Result for the year		(4,116)	(240)
Adjustment for:			
Depreciation		0	0
Finance income	8	(750)	(1,086)
		<u>(750)</u>	<u>(1,086)</u>
(Increase) decrease in debtors and other receivables	13	10,756	(16,094)
Increase (decrease) in grant and other payables		(18,629)	2,125
		<u>(12,739)</u>	<u>(15,295)</u>
Cash flows from investing activities			
Interest received	8	792	991
		<u>792</u>	<u>991</u>
Net increase (decrease) in cash and cash equivalents			
		<u>(11,947)</u>	<u>(14,304)</u>
Cash and cash equivalents at 1 January		50,405	64,614
Exchange rate effects	8	(42)	95
		<u>38,416</u>	<u>50,405</u>

The notes on pages 5 to 18 form an integral part of these financial statements.



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Notes to the financial statements

1. Reporting Entity

EDCTP is a company domiciled in The Netherlands. The address of the EDCTP's registered office is Laan van Nieuw Oost Indië 334, The Hague, and The Netherlands.

The European and Developing Countries Clinical Trials Partnership (EDCTP) was created in 2003 as a European response to the global health crisis caused by the three main poverty-related diseases of HIV/AIDS, tuberculosis and malaria.

EDCTP was formed by a European Parliament and European Council decision in order to pool resources, funding and activities to achieve a greater impact against the three poverty-related diseases. It combined political will and defined health priorities of both the developing and developed world. EDCTP is co-funded by the European Commission and European Member States under Article 185 (ex Article 169) of the EU Treaty to promote a more integrated approach to health research among European countries.

EDCTP aims to accelerate the development of new or improved drugs, vaccines, microbicides and diagnostics against HIV/AIDS, tuberculosis and malaria, with a focus on phase II and III clinical trials in sub-Saharan Africa.

EDCTP supports multicentre projects that combine clinical trials, capacity building and networking.

The basis of EDCTP is partnership. It currently unites 14 participating European Union (EU) Member States plus Norway and Switzerland with sub-Saharan African countries. The partnership helps EU Member States to integrate and coordinate their own national research and development programmes and form partnerships with their African counterparts. All EDCTP-funded projects are undertaken in partnership with sub-Saharan countries. The partnership ensures synergy and optimal use of resources, and creates a win-win situation for all parties involved.

EDCTP was set up under the European Commission's Sixth Framework Programme (FP6) for research and technological development, the European Union's main instrument for funding research in Europe. The current EDCTP programme will end in May 2015. It is anticipated that there will be an EDCTP II programme under Horizon 2020, the EU Framework Programme for Research and Innovation (2014 to 2020).

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were authorised for issue by the EEIG General Assembly on 14 May 2012.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention.



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(c) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes to the financial statements (mainly notes 7 and 9).

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Changes in accounting policy

There have been no changes to the accounting policies during the year. However, a statement of comprehensive income has been prepared in 2011 with a different presentation format to the statement of financial activity prepared in 2010. Certain prior year balances have been reclassified to conform to current year's presentation. There is no material effect on the financial statements.

(b) Foreign currency transactions

EDCTP conducts its operations in Euro which is also the currency in which the financial statements are presented. EDCTP does not hold any non Euro bank accounts. All grants are signed in Euro and the vast majority of all operating expenses are in Euro.

Transactions in foreign currencies are translated into Euro at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

(c) Non-derivative Financial instruments

Non-derivative financial assets

Non-derivative financial assets comprise cash and cash equivalents, debtors and other receivables.

EDCTP initially recognises debtors and other receivables on the date that they are originated.

EDCTP derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by EDCTP is recognised as a separate asset or liability.

Debtors and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, debtors and other

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receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and deposits which are repayable on demand. Cash and cash equivalents that can only be useful for a specific purpose are considered restricted.

Non-derivative financial liabilities

Non-derivative financial liabilities comprise grants and other payables.

All financial liabilities are recognised initially on the trade date, which is the date that EDCTP becomes a party to the contractual provisions of the instrument.

EDCTP derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, EDCTP has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(d) Impairment

The carrying values of the EDCTP's assets are reviewed at each statement of financial position date to determine whether there is objective evidence that it is impaired. If any such indication exists, the asset's recoverable amount is estimated. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy.

An impairment loss is recognized whenever the carrying amount of the asset or its cash generating unit exceeds its recoverable amount.

(e) Property, Plant and Equipment (PP&E)

Property, Plant and Equipment is carried at cost less accumulated depreciation and impairment.

The cost of an item of PP&E is recognized as an asset if it is probable that future economic benefits or service potential associated with the item will flow to EDCTP.

EDCTP applies thresholds when considering whether to capitalize PP&E additions. PP&E is recognized as an asset if it has a cost a fair value of €5,000 or more per unit.

Tangible fixed assets are depreciated on a straight line basis over their useful economic lives as set out below:

Computer equipment	3 years
Racking	2 years



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(f) Reserves

Unrestricted reserves are not subject to any legal or third party restriction and can be used as EDCTP sees fit. Unrestricted reserves may be designated by EDCTP for specific purposes to meet future obligations or mitigate specific risks.

Restricted reserves represent the cumulative excess of income, from earmarked contributions, over expenditures on stipulated EDCTP operations. Restricted reserves include the following:

Funds held for EDCTP operations: EC or Donor

Contributions pledged to, or received by EDCTP are earmarked to the extent that EC or donors stipulated that the funds are to be used on EDCTP operations. The cumulative excess of earmarked contributions over stipulated EDCTP operations expenditure is recorded as funds held for EDCTP operations (EC or donors) within restricted reserves. In the event that the funds cannot be spent, EDCTP obtains agreement from the EC or donors for reallocations of those funds for a different use, or reimburses them to the donor, in which case they are recognised as a liability until the effective repayment takes place.

(g) Contributions

Contributions comprise cash or in kind co-funding from European Commission and donors to EDCTP or directly to grantees.

Cash contributions are recognised when a confirmed written pledge has been received from the donor.

In-kind contributions of goods and services and contributions directly by donors to the grantees are recognised on the date of receipt of the goods or services or on the date of contributions directly to the grantees, and are reported as equal contributions and expenses in the Statement of Comprehensive Income. In kind goods and services received and contributions directly to the grantee are measured at fair value.

The fair value of in-kind goods and services are taken as the donor indication of the value (annual signed certificates). This value is tested for reasonableness and adjusted accordingly, by comparing it to the cost that would be incurred by EDCTP, if it were to buy similar goods, in the open market, for the same intended use or if it would directly employ a person in a similar position.

For contributions directly by donor to grantee the donor provides EDCTP with a signed corroborating letter stating the amount of the contributions provided to the grantee institution.

Unrestricted contributions can be used for any purpose to further the objective of the organisation, and are recognised in the Statement of Comprehensive Income as unrestricted income when pledged. At the end of the accounting period, unspent and unrestricted contributions are included in unrestricted reserves.

Restricted contributions can be stipulated by donors for use. Such restricted contributions are fully under the control of EDCTP, and are recognised in the Statement of Comprehensive Income, when pledged. At the end of the accounting period, unspent restricted contributions are included in restricted reserves.

Restricted contributions from EC are recognised at the time of awarding the grant to other organisations.



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(h) Expenditure

Grants to other organisations

The full amounts of all grants awarded by EDCTP are charged to the Statement of Comprehensive Income in the year in which the grant contract is signed.

Other expenditure (excluding employee benefits)

Governance and other costs are inclusive of any VAT which cannot be recovered and is recognised when there is a legal or constructive obligations to pay for the expenditure. All costs have been directly attributed to one of the functional categories of resources expended in the Statement of Comprehensive Income.

(i) Employee benefits

EDCTP does not contribute into any defined benefit schemes for any of its international staff employees; instead a defined contribution plan is operated.

For the local seconded staffs from NWO who are members of a defined benefit scheme the liabilities are the responsibility of the employer NWO. Therefore there is no need for EDCTP to account for these obligations.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the services are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(j) Leases

Payments made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the statement of comprehensive income, using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

4. New Accounting Standards

A number of new standards, amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2011 have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the EDCTP.

5. Fair values

A number of EDCTP's accounting policies and disclosures require the determination of fair value.

Fair values have been determined for disclosure purposes.

Although the IFRS requires the fair value of debtors, other receivables (excluding prepayments), grant and other payables be estimated using the present value of future cash flows, discounted at the market rate of interest at the reporting date. However EDCTP takes the carrying value of these items as good estimates of their fair value.

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When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

6. Operating segments

EDCTP operates through two Secretariat offices - The Netherlands and South Africa- which support each other. The operations and activities of the two offices are the same: to provide grants advertised by open call to foster capacity building and new clinical interventions into the three main poverty related diseases afflicting sub Saharan Africa. The two Secretariats operate in a combined and uniform manner. In the opinion of management, the organisation operates in a single operating segment.

7. Contributions

Expressed in thousands ('000) of euro

	2011 EC	2011 Donors	2011 Total	2010 Total
Cash contributions to EDCTP				
EC for period 4 of the grant agreement	11,541	-	11,541	30,620
Member state & 3 rd party re grant contributions	-	414	414	7,404
Member state & 3 rd party re programme activities	-	132	132	154
Member state & 3 rd party re governance	-	-	-	4
Total cash contributions	11,541	546	12,087	38,182
In kind & direct contributions				
Member state & 3 rd party re grant contributions	-	23,886	23,886	20,458
Member state & 3 rd party re programme activities	-	232	232	234
Member state & 3 rd party re support activities	-	26	26	26
Member state & 3 rd party re governance	-	110	110	101
Total cash & in kind and direct contributions	-	24,254	24,254	20,819
Total contributions	11,541	24,800	36,341	59,001

8. Finance income

Expressed in thousands ('000) of euro

	2011 Restricted: EC	2011 Restricted: Donors	2011 Total	2010 Total
Finance income	340	452	792	991
Net foreign exchange gain (loss)	-	(42)	(42)	95
Total finance income	340	410	750	1,086

9. Grants expenditure

Expressed in thousands ('000) of euro

	2011 Restricted: EC	2011 Restricted: Donors	2011 Total	2010 Total
Cash cofunding	8,156	4,671	12,827	35,591
In kind & direct payable cofunding	-	23,886	23,886	20,458
Total grants expenditure	8,156	28,557	36,713	56,049

10. Other expenditure

Expressed in thousands ('000) of euro

	Note	2011 Restricted EC	2011 Restricted Donors	2011 Total	2010 Total
Personnel expenses	11	2,381	83	2,464	2,651
Travel and subsistence		174	16	190	161
Member states co funded		-	204	204	187
Secretariat costs					
Support costs		282	26	308	395
Other expenses		710	242	952	553
Total other expenditure		3,547	571	4,118	3,947

Other expenditures are incurred by EDCTP directly in carrying out its programme and comprise all costs except governance and grants expenditure. This includes both direct and indirect support costs.

The support costs include costs such as housing costs (rent, service charges and parking), telephone costs, catering, office cleaning, etc.

11. Personnel expenses

Expressed in thousands ('000) of euro

	2011 EC	2011 Donors	2011 Total	2010 Total
Wages and salaries	1,872	63	1,935	2,203
Compulsory social security contributions	131	20	151	121
Contributions to defined contributions plans	123	-	123	152
Staff costs seconded from NWO/MRC & DOH	255	-	255	175
Total personnel expenses	2,381	83	2,464	2,651

Wages and salaries include staff costs seconded for NWO and MRC.

The average number of full time equivalent employees (including casual and part-time staff) was as follows:

	2011	2010
Secretariat (EDCTP staff)	18.67	20.12
Secretariat (seconded from NWO/MRC & DOH)	4.00	2.75
Total	22.67	22.87



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12. Governance expenses

Expressed in thousands ('000) of euro

	2011	2011	2011	2010
	Restricted:	Restricted:	Total	Total
	EC	Donor		
GA	23	115	138	112
PB	76	-	76	89
DCCC	106	-	106	112
Audit fees	52	4	56	18
Total governance expenses	257	119	376	331

These represent the costs attributable to the strategic planning bodies of EDCTP; the General Assembly (GA), the Partnership Board (PB) and the Developing Countries Coordinating Committee (DCCC).

Also included are the costs of generating information required for public accountability such as external audit fees.

13. Debtors and other receivables

Expressed in thousands ('000) of euro

	2011	2010
	Total	Total
EC owed funds	26,222	34,881
Donor owed funds	2,090	4,221
Others	439	406
Prepayments	9	8
Total debtors and other receivables	28,760	39,516
Non-current	7,714	17,272
Current	21,046	22,244
Total debtors and other receivables	28,760	39,516

The company's exposure to credit and currency risks, and impairment losses relating to debtors and other receivables, excluding prepayments, is disclosed in note 19.



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14. Cash and cash equivalents

Expressed in thousands ('000) of euro

	2011	2010
Bank balances	38,415	50,404
Cash in hand	1	1
Total cash and cash equivalents	38,416	50,405

15. Restricted reserve: EC

Expressed in thousands ('000) of euro

	Balance 31 December 2010	Incoming resources	Outgoing resources	Balance 31 December 2011
Restricted reserve: EC	(128)	11,881	(11,960)	(207)
	(128)	11,881	(11,960)	(207)

16. Restricted reserve: Donors

Expressed in thousands ('000) of euro

	Balance 31 December 2010	Incoming resources	Outgoing resources	Balance 31 December 2011
Restricted reserve: Donor	7,954	998	(5,035)	3,917
	7,954	998	(5,035)	3,917



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17. Grant and other payables

EDCTP exposure to currency and liquidity risk related to grant payables and other payables is disclosed in note 19.

18. Taxation

EDCTP itself is exempt from Dutch corporate income tax as laid down in article 40 of the EEC Council regulation adopted in 1985, as clarified in a ruling from the Dutch Secretary of Finance issued 1 March 1990. However it is liable for all wages and social security taxes in The Netherlands.

A special VAT exemption has been granted by the Dutch Ministry of Finance for all invoices which have a gross value in excess of EUR 250. This results in an amount of irrecoverable Dutch VAT every year which is ineligible expenditure under the terms of the EC agreement and is therefore repayable by the members.

EDCTP is also exempt from paying VAT in South Africa following a ruling from South African Revenue Service (SARS) in 2007. An application was made for exemption from income taxes on EDCTP in 2008 in South Africa which is still pending, although the effect of this will be minimal even if granted as EDCTP has no taxable income or profits in South Africa.

19. Financial instruments

Because of largely the non trading nature of EDCTP activities and the way it is financed, financial instruments play a limited role in its operating activities.

Risk management is carried out by EDCTP's Management Team under the direction of the Executive Director.

The three major types of financial risks are credit, liquidity and market (currency and interest rate) risks.

Credit risk

Credit risk is the potential financial loss due to default of one or more debtors/obligors either to EDCTP itself or to a grantee whom EDCTP has entered into a contract with. EDCTP has credit risk in the form of receivables from member state government organisations and like minded organizations like BMGF.

All pledged amounts of cash cofunding to EDCTP are confirmed in writing, by letter or contract, and management judges that there is no risk of non-payment.

The carrying amount of financial assets (note 13) represents the maximum credit exposure.

EDCTP's management considers the risk of non-payment to be low and therefore makes no provision in the accounts.

As at 31 December 2011 the donor debt profile was as shown below:

	€'000
Public sector debt	27,584
Private sector debt	728
	<hr/>
Total donor debt	28,312

In relation to grants made by EDCTP the grantee is required to submit annual financial reports and if the final financial report shows costs to have been less than the total value of the grant EDCTP contracted for, then the excess will be deducted from the 10% which EDCTP retains until the grant has ended. As at 31 December 2011 no grantee owed EDCTP any returnable funds.



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Liquidity risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. EDCTP's net resource requirements are funded by EC or donors. EDCTP evaluates and follows continuously the amount of liquid funds required to meet operational requirements.

EDCTP minimizes this risk by only maintaining instantly accessible bank deposits based on the projected net cash requirement for a rolling one year period.

The following are the contractual maturities of financial liabilities, including estimated interest payments in thousands of euro:

	Carrying amount	Contractual cash-flows	6 months or less	6-12 months	1-2 years	2-5 years	> 5 years
Non-derivative financial assets							
Debtors	28,760	28,760	18,956	2,090	7,714	-	-
Cash and cash equivalents	38,416	38,416	38,416	-	-	-	-
	<u>67,176</u>	<u>67,176</u>	<u>57,372</u>	<u>2,090</u>	<u>7,714</u>	<u>-</u>	<u>-</u>



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Currency risk

Currency risk is the potential loss due to adverse movements in foreign exchange rates. To minimise this risk, EDCTP signs all grants in Euro and receives the vast majority of its income in Euro. Where income is received from donors in other currencies, EDCTP in most cases enters into a fixed exchange rate contract with the donor against the Euro. Where this is not possible, any grants made against it will assume a very conservative future exchange rate to minimise any potential liability to EDCTP arising when it is received and converted into Euro. All foreign currency receipts are translated into Euro as soon as they are received. The situation is monitored regularly to check that such a shortfall does not arise. EDCTP does not hedge any foreign exchange risk as it is deemed unnecessary.

The vast majority of EDCTP operating costs are also in Euro which reduces any risk to minimal in that area.

Any foreign exchange losses incurred by grantees with whom EDCTP have signed a contract, are ineligible for charging back to EDCTP and must be covered by their own financial resources.

EDCTP's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2011			31 December 2010		
	EUR €'000	USD €'000	SEK €'000	EUR €'000	USD €'000	SEK €'000
Debtors	27,584	728	-	36,287	1,622	1,607
Current liabilities	(36,759)	-	-	(42,009)	-	-
Non-current liabilities	(26,764)	-	-	(40,086)	-	-
Net exposure	<u>(35,939)</u>	<u>728</u>	<u>-</u>	<u>(45,808)</u>	<u>1,622</u>	<u>1,607</u>

The following significant exchange rates applied during the year:

	Average rate		Reporting date Spot rate	
	2011	2010	2011	2010
USD	1.3924	1.3275	1.2939	1.3362
ZAR	10.0644	9.6906	10.4830	8.8625
CHF	1.2336	1.3828	1.2156	1.2504
SEK	9.0262	9.5432	8.9120	8.9655



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Interest rate risk

Under the terms of the grant agreement with the EC, EDCTP is not allowed to borrow any funding and hence interest rate risk is of no concern, neither does EDCTP charge interest on any of its grants; and EDCTP does not invest cash in money markets. EDCTP has a low level of exposure to interest rate fluctuations, any excess funds are maintained in short term deposit account, as part of its banking arrangement.

At the reporting date the interest rate profile of EDCTP's interest-bearing financial instruments was:

	2011 €'000	2010 €'000
Variable rate instruments		
Financial assets	38,416	50,405
	<hr/>	<hr/>
	38,416	50,405
	<hr/>	<hr/>

Operational Risk

Operational risks include all aspects of risk-related exposure other than those falling within the scope of credit, market and liquidity risks including specifically the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk.

EDCTP relies largely on internal controls and standard operating procedures for operational risk management. The risk management continued to be monitored regularly and adjusted as necessary by EDCTP management.

20. Conditional asset

The grant agreement signed between the EC and EDCTP stipulates that a total sum of EUR 200 million is receivable by EDCTP over eleven years commencing on the 15 September 2003. The receipt of full amount is contingent on awarding grants payable and members states contributing an equal amount either to EDCTP directly or to EDCTP focused projects.

EDCTP has awarded (€'000) 168,662 as at 31 December 2011 (was 156,781 as at 31 December 2010), resulting in a contingent asset of (€'000) 31,338 (was 43,219 as at 31 December 2010) which has not been recognised in the accounts. The total amount to be received (including EC owed funds) is as a result (€'000) 57,560 (was 78,100 as at 31 December 2010).

In the year of signing the grant, the full value of EC funding in respect of the grant signed is recognised in the accounts of that year, whilst the outstanding balances not received is treated as a debtor.

21. Related parties

The basis of EDCTP is partnership. It unites 14 participating European Union (EU) Member States plus Norway and Switzerland with sub-Saharan African countries. The partnership helps EU Member States to integrate and coordinate their own national research and development programmes and form partnerships with their African counterparts. The member states qualify under IAS 24 as related parties. EDCTP receives income in cash and in-kind from member states. In note 2 EDCTP disclosed the nature and size of the transactions with the member states.

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22. Remuneration of governing bodies

The Assembly is not paid any honorariums or per diems in respect of attending meetings in 2011. Member states are encouraged to pay for their own travel costs and only reimbursed where this is not possible.

The Partnership Board members are no longer paid an annual honorarium except for the EUR 10,000 to the Chair, in addition to this they are also entitled to a supplementary honorarium of EUR 1,665 per meeting (up to a maximum of four meetings per year) attended prorated down if less than the full session is attended. In 2011 the total payments to the Partnership Board in respect of honorariums amounted to EUR 36,640 (was EUR 36,640 in 2010).

The Developing Countries Coordinating Committee members were paid no annual honorarium, but they are entitled to a daily honorarium of EUR 200 per day for each two days meetings plus two travel days (up to a maximum of four meetings per year) attended. In 2011 the total payments to the DCCC in respect of honorariums amounted to EUR 23,008 (was EUR 23,200 in 2010).



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Other information

Independent auditor's report

To: the General Assembly of EDCTP-EEIG

We have audited the accompanying financial statements of EDCTP-EEIG, The Hague, which comprise the statement of financial position as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to EDCTP-EEIG's preparation and fair presentation of the 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 EDCTP-EEIG's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements give a true and fair view of the financial position of EDCTP-EEIG as at 31 December 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Hague, 14 May 2012
KPMG ACCOUNTANTS N.V.

C. den Besten RA



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Provisions governing the appropriation of result

There are no provisions governing the appropriation of result.

Proposal of appropriation of result

The Assembly will be asked to approve the following appropriation of the 2011 result: an amount of EUR 79,000 to be deducted from the restricted reserve: EC and an amount of EUR 4,116,000 to be deducted from the restricted reserve: donor. This proposal has been incorporated in the financial statements.



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