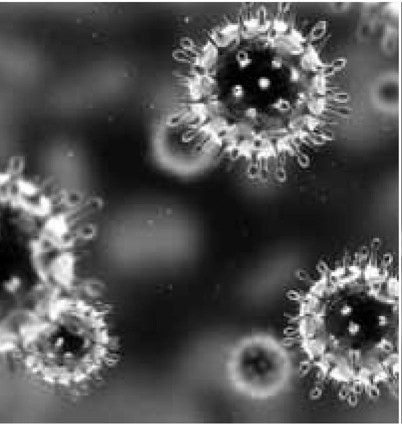
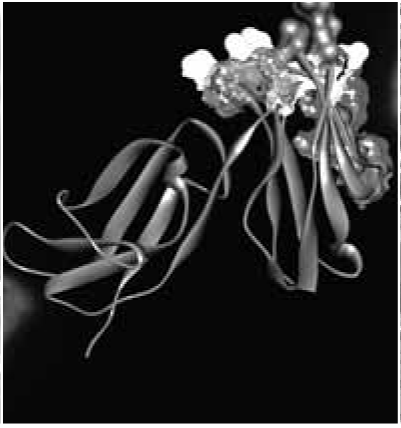
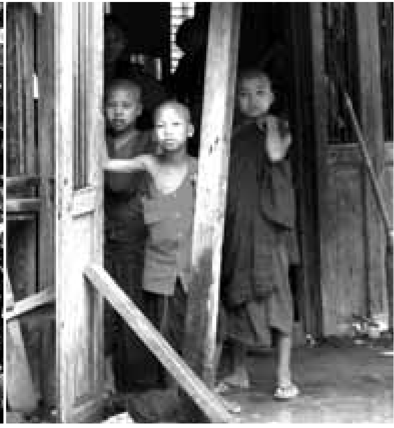


Virology



Immunology

Population Health



International Health

Burnet Institute

Medical Research. Practical Action.

ANNUAL FINANCIAL REPORT 2011

For the year ended 31 December 2011

MACFARLANE BURNET INSTITUTE
FOR MEDICAL RESEARCH AND
PUBLIC HEALTH LTD
A.B.N. 49 007 349 984

Contents

Director and CEO: Professor Brendan Crabb, BSc(Hons), PhD
Deputy Directors: Associate Professor David Anderson, BSc(Hons), PhD; Professor Mike Toole, MBBS, BMedSc
Company Secretary: Mr Peter Spiller, BBus, CPA

Cover: *Children at play, Raginam Village, Morobe Province, Papua New Guinea: Burnet is helping address a number of major health issues facing communities in PNG such as reducing the maternal and newborn death rate, improving the health of women, children and young people, and helping build capacity of the health system.*

Editorial Manager: Gillian Chamberlain
Design: Kelly Watson Design

The Burnet Institute gratefully acknowledges funds received from the Victorian Government principally under its Operational Infrastructure Support Program and from the Federal Government principally through AusAID and NHMRC.

This Annual Financial Report has been prepared in accordance with the requirements set out in the Corporations Act, 2001 and the ACFID Code of Conduct. If you would like to know more about the Code or lodge a complaint, please contact ACFID on (02) 6285 1816 or visit www.acfid.asn.au. Should you wish to lodge a complaint directly to Burnet regarding any of its international development activities, please contact Mr Mark Tennent on (03) 9282 2111. A copy of this Annual Financial Report is available on our website. You may also like to view our Year in Review, which outlines in more detail the activities of the Institute. This publication is also available on our website.

The Burnet Institute is a member of the Association of Australian Medical Research Institutes (AAMRI) which is the peak body representing Australia's pre-eminent independent medical research institutes. All members of AAMRI are internationally recognised as leaders in health and medical research.

Photo Credits: *Brent Balalas, Mark Hogarth, Soe Lin Htut.*

For more detailed information about our work, please visit our website at **burnet.edu.au**.

Our Mission: *To achieve better health for poor and vulnerable communities in Australia and internationally through research, education and public health.*

Our Values: *We are passionate in our commitment to working and growing together to create a healthier world. We value excellence, innovation and social justice, and share a desire to extend the boundaries of knowledge and understanding.*

Burnet Institute is named in honour of Sir Frank Macfarlane Burnet, OM, AK, KBE who received the Nobel Prize for Medicine in 1960. To learn more about how we work, visit **burnet.edu.au**.

About us: *The Macfarlane Burnet Institute for Medical Research and Public Health (Burnet Institute) is an Australian not-for-profit, unaligned and independent organisation whose purpose is to improve the health of disadvantaged, poor or otherwise vulnerable people throughout the world.*

Our Approach

The premise of Burnet's unique approach to link medical research with public health action is that solutions to many of the major global health problems require comprehensive and innovative responses ranging from novel discoveries, such as the development of new vaccines and diagnostic tests, to the better deployment of existing best-practice health interventions.

Our approach to address complex health issues is twofold:

1. *to generate new knowledge and health intervention tools,*
2. *to apply the best available evidence to community-level public health programs.*

As evidence of our combined research and public health approach, the Burnet Institute is formally accredited with both the Australian National Health and Medical Research Council (NHMRC) and the Australian Agency for International Development (AusAID). We are the only organisation in Australia with this dual accreditation.

Scope of our work

We have particular expertise in specific infectious diseases of global health significance (especially HIV and AIDS, hepatitis viruses, influenza, malaria and emerging infectious diseases), and in understanding the immune responses and developing therapies to these infections and other human diseases including some cancers.

Burnet also focuses on drug and alcohol use, both in addressing risky behaviours associated with transmission of infectious diseases and as major health problems in their own right.

Translating new knowledge into health practice is also a major focus of our extensive work with affected communities in Australia and many countries in our region and beyond. While based in Melbourne, the Burnet Institute has long-term offices in: China, Indonesia, Lao PDR, Myanmar (Burma) and Papua New Guinea; as well as activities in a number of other Asia and Pacific countries. Approximately a third of our staff are based in these overseas offices.

Staff expertise and diversity

Our staff comprises medical scientists, clinical researchers, epidemiologists, public health practitioners, educators and administrators. Burnet Institute has many research students studying for their Masters or PhD degrees and numerous postdoctoral graduates in training.

Leadership

The richness and diversity of experience and skills amongst our outstanding leadership team is matched by their dedication and commitment to lead Burnet's mission.

Director and Chief Executive Officer

Professor Brendan Crabb

Chairman

Mr Alastair Lucas AM

Deputy Directors

Associate Professor David Anderson
Head, Office for Business Development, Innovation and Research

Professor Mike Toole
Head, Centre for International Health

Executive Management

Professor Brendan Crabb
Director and CEO

Associate Professor David Anderson
Deputy Director, and
Head, Business Development

Mr Geoff Drenkhahn
Chief Operating Officer

Professor Margaret Hellard
Head, Centre for Population Health

Mr Paul Rathbone
Executive Officer, and
Head, Public Affairs and Communications

Senior Management

Mr Paul Duffy
Head, Human Resources

Associate Professor Bruce Loveland
Head, Research Support and Facilities

Ms Ruth Rosh
Head, Advancement

Mr Peter Spiller
Chief Financial Officer, and
Company Secretary

Mr Paul Stephens
Head, Information Technology

Mr Mark Tennent
General Manager, Centre for International Health

Centre Heads

Professor James Beeson
Head, Centre for Immunology

Professor Suzanne Crowe AM
Co-Head, Centre for Virology

Professor Margaret Hellard
Head, Centre for Population Health

Professor Sharon Lewin
Co-Head, Centre for Virology

Professor Mike Toole
Head, Centre for International Health

Our year at a glance

In 2011, Burnet Institute celebrated its 25-year anniversary with events at Government House, Melbourne and Parliament House, Canberra. This was a great milestone in our history and gave us an opportunity to reflect on our significant achievements over this time and to thank many of those who contributed to this success.

While the celebrations were an opportunity to reflect, we also launched our five-year strategic plan, which will guide us into the next phase of our development.

This plan recognises six themes that are the strategic focus of our work, which will operate across our four Centres. These themes are: Sexual and Reproductive Health; Maternal and Child Health; Young People's Health; Infectious Diseases; Alcohol, Other Drugs and Harm Reduction; and Immunity, Vaccines and Immunisation. These themes will deliver new cross-Centre programs, which address key health issues within each theme.

Key events during the year included the annual Burnet Oration which saw a large crowd hear Nobel Prize winning scientist Laureate Professor Françoise Barré-Sinoussi speak on her identification of HIV and her work since this discovery. Our inaugural Excellence Awards recognised many of Burnet's scientists for their achievements during the year and also gave us an opportunity to recognise and thank the many supporters who provided funds for the Institute's work.

Our strong translational research has seen further development of the Institute's rapid point-of-care tests for CD4 T-cells and for diagnosis of syphilis, and significant progress in the development of a candidate vaccine for hepatitis C.

Peer-reviewed publications were at an all time high and included papers in the world's highest impact journals as well as many in more discipline-specific publications that have made a major contribution to health knowledge. Also, the Centre for Research Excellence into Injecting Drug Use (CREIDU) was formally launched during the year with the aim of improving the health of people who inject drugs.

Burnet's Board along with its research and public health teams were strengthened with new appointments during the year. We welcomed new Board Members Professor Pip Pattison, Ms Mary Waldron and Professor Christina Mitchell. We expanded our research and public health teams with the appointments of Professor James Beeson, Dr Jack Richards, Professor Stanley Luchters, Dr Irina Caminschi, Dr Mireille Lahoud and their respective teams.

Members of our staff and Board were recognised in the Queen's Birthday Honours list with Mr Alastair Lucas, Professor Suzanne Crowe and Ms Natasha Stott Despoja each awarded a Member of the Order of Australia.

Overall 2011 was a year of strong performance across the Institute and we look forward to further successes in 2012.

Research Leadership

Whilst many of Burnet's research and public health activities involve collaborations with partners such as universities, other institutes or other NGOs, our researchers are also taking the lead on several innovative partnerships, such as CREIDU and Compass. In 2011, these partnerships involved complex multi-Centre activities that further illustrated the strong reputation and expertise of our staff.

Centre for Research Excellence in Injecting Drug Use (CREIDU)

CREIDU is a $2.5 million NHMRC-funded Centre of Excellence headed by Professor Margaret Hellard from Burnet's Centre for Population Health. CREIDU is a collaboration between the Burnet Institute, the National Drug and Alcohol Research Centre, the Kirby Institute, Turning Point Alcohol and Drug Centre, the National Drug Research Institute, the University of Queensland, the ACT Corrections Health Program, Anex, Harm Reduction Victoria and Hepatitis Victoria, and its key aims are to build capacity in the sector and effectively communicate and translate research into policy and practice.

Compass Women's and Children's Health Knowledge Hub

Compass is an AusAID-funded program jointly led by the Burnet Institute, the Menzies School of Health Research and the University of Melbourne's Centre for International Child Health, and it synthesises research to strengthen the evidence for effective health interventions for adolescent girls, pregnant women and children.

Australian Association of Medical Research Institutes (AAMRI)

This body represents the 41 independent medical research institutes in Australia and their 8,000 staff and students. Burnet Director and CEO, Professor Brendan Crabb will take up the role of President of AAMRI in late 2012. This coincides with a particularly important time from a national policy perspective with the release of the McKeon Review of health and medical research to be released in the closing months of 2012. This review will provide a blueprint for the Federal Government's next 5-10 year plan with respect to health and medical research, and AAMRI is one of the key advocacy and advisory bodies involved in contributing to this review and its outcomes.

International Development Activities

The Burnet Institute, primarily through its Centre for International Health (CIH), responds to health problems in developing countries through the provision of technical advice and support, organisational capacity-building, applied research, policy analysis and development, and education and training programs.

Through the Centre for International Health, Burnet's expertise spans HIV prevention and care, women's and children's health, sexual and reproductive health, drug use, primary health care, strengthening national health systems, and education across these fields. Innovation, inquiry and influence underpin our public health approach.

Working closely with communities, civil-society organisations, governments, international non-government organisations, and UN agencies, we can respond effectively to local health issues.

In 2011, the Burnet Institute maintained long-term staff in seven countries.

- *Myanmar (Burma)*
- *Papua New Guinea*
- *Lao PDR*
- *Indonesia*
- *Mozambique*
- *Tibet/China*
- *Thailand*

In addition, we maintained an active interest in Southern and Eastern Africa, Timor-Leste, Melanesia (Vanuatu, Solomon Islands), Cambodia, Vietnam, Nepal, Sri Lanka, and Afghanistan/Pakistan.

Expanding our work in Papua New Guinea (PNG)

The significant expansion of our work in Papua New Guinea (PNG) has involved each of the Centres of the Institute. The AusAID-funded East New Britain Sexual Health Improvement Project works through the provincial health system to improve clinic management of sexually transmitted infections and through community mobilisation to increase demand for services. Several studies are exploring male involvement in antenatal care to help reduce parent-to-child transmission of HIV. Through a Global Fund grant, Burnet is helping to strengthen the capacity of the Central Public Health Laboratory to conduct antiretroviral drug resistance testing.

Operational research continued its focus on improving services delivered by Village Health Volunteers and the feasibility of delivering birth-dose hepatitis B vaccination and early postnatal care in remote villages in East Sepik Province. Studies are also being done on the molecular epidemiology of malaria and the development of immunity to malaria in children and pregnant women. We have expanded our efforts to build local capacity in research on drug and alcohol harm reduction. We have worked closely with colleagues in national institutions, such as the Institute for Medical Research, the University of PNG, and the National Research Institute, as well as NGOs such as World Vision, CARE Australia and Save the Children.

Mapping sexual networks

A landmark study to map the sexual networks of men who have sex with both men and women in Vientiane and Hanoi was completed. This was a collaboration between Burnet's Centres for International Health and Population Health. While this modelling method has been used to map networks of people who inject drugs and the clients of sex workers, we believe that this is the first such study of bisexual men. HIV prevalence among men who have sex with men in Vientiane and Hanoi is much higher than among adults in the general population. Men who report sexual contact with women and men and/or transgender people may constitute a bridge between 'high-risk' and 'low-risk' populations for transmission of HIV and other sexually transmitted infections.

Both studies generated a rich set of qualitative data about beliefs and attitudes to sexuality, sexual identity, gender, and sexual health of these men. Men who engage in bisexual behaviour do so for a range of diverse reasons that does not always reflect their primary sexual orientation. In both cities, bisexual men had higher numbers of both female and male partners than men who were exclusively homosexual or heterosexual. Moreover, bisexual men were less likely to use condoms than other men. The following figure represents the sexual network map in Vientiane, Lao PDR.

HIV planning in the Pacific

The National Strategic Frameworks (NSF) Project aims to improve the quality of national strategic HIV and AIDS frameworks in 10 Pacific countries. The NSF Project, funded by the Secretariat of the Pacific Community (SPC), is now 18 months into its implementation. Centre for International Health staff have worked with a broad range of government, United Nations, and civil society partners to review the current status of national strategic plans in each of the nominated 10 countries. Subsequently, we have helped develop new strategic frameworks in the Solomon Islands, Federated States of Micronesia, Marshall Islands and Kiribati. Under a separate mechanism, similar assistance was provided to Fiji.

Promoting health security in the Asia and Pacific regions

One Health is the collaborative effort of multiple disciplines – working locally, nationally and globally – to attain optimal health for people, animals and our environment. The concept derived from joint efforts by the human and animal health sectors to contain outbreaks of emerging infectious diseases (EIDs), such as avian influenza. In February 2011, the inaugural International One Health Conference was held in Melbourne with active participation by Burnet staff. During the year our staff helped develop Vietnam's Integrated National Operational Program on Avian Influenza, Pandemic Preparedness and EIDs (2011-2015) and a Pacific regional health security plan based on the One Health approach.

***One Health** is a collaborative effort – working locally, nationally and globally – to attain optimal health for people, animals and our environment.*

Providing the evidence to support health reform in China

China has a three-year rapid agenda for health system reform. The Burnet Institute manages the innovative AusAID-funded China-Australia Health and HIV Facility (CAHHF), which works in direct partnership with China's Ministry of Health. Of the 39 activities funded up until 2011, 31 (plus a further 11 in 2012) were assessed as having direct health reform policy relevance. Studies have been conducted through partnerships between 23 Chinese agencies and 26 Australian academic institutions and have led to 120 papers published in Chinese health journals and 10 in international journals. CAHHF provided the context for the dialogue between the Australian Health Minister, Nicola Roxon and Chinese Health Minister, Chen Zhu in April 2011 that focused on health care reforms.

Australian Health Minister, Nicola Roxon and Chinese Health Minister, Chen Zhu focus on health care reforms.

Engaging in Indonesia's response to HIV and AIDS

The Burnet Institute has been a partner in AusAID-funded bilateral HIV and AIDS prevention and care projects in Indonesia since 1997. The eight-year HIV Cooperation Program for Indonesia (HCPI), is implemented by GRM International in partnership with Burnet, focusing on people who inject drugs, prisoners, and Papua and West Papua provinces. SUM represents Scaling Up of MARP (most at risk populations) participation. Burnet is working on SUM Phase II in a consortium led by Training Resources Group Inc. to implement this USAID-funded project that focuses on female sex workers, men who have sex with men, and people who inject drugs.

Measuring the prevalence of HIV in Papua New Guinea

Papua New Guinea accounted for 19 of every 20 HIV cases reported in the Pacific region between 1984 and 2007. The media over many years have spoken of an impending 'catastrophe' and the medical literature reported 'an unfolding disaster'. Some research projected adult prevalence to be as high as 18 per cent by 2010. Few claims were based on comprehensive or representative data. The best estimate in 2010, based on testing pregnant women, was 0.7 per cent of the adult population. In order to obtain a representative estimate of HIV prevalence in each of the four regions of PNG, Burnet staff – in partnership with FHI 360 – began planning a national Integrated Bio-Behavioural study to be conducted during 2012.

Advocacy to eradicate polio from the world

In the mid-1980s, around 350,000 people, mainly children, were paralysed and/or died annually due to infection with the wild polio virus. As of 4 January 2012, just 602 cases of polio had been reported during 2011. In India, which only recently had thousands of cases every year, the last case reported was on 13 January 2011. Most cases now occur in just five countries – Pakistan, Chad, DR Congo, Nigeria, and Afghanistan. Between July and November 2011, Burnet partnered with the Global Poverty Project to support The End of Polio campaign, which focused on raising funds from Commonwealth nations during CHOGM in Perth. The outcome was $118 million pledged for polio eradication, including $50 million by Australia.

*Further information about our international development activities can be found on our website at **burnet.edu.au**.*

Directors' Report

The Directors present their report together with the Financial Report of the Macfarlane Burnet Institute for Medical Research and Public Health Limited (Burnet Institute) for the year ended 31 December 2011 and the Audit Report thereon.

Directors

The Directors of the Burnet Institute, all of whom act in an honorary capacity, along with the Executive Directors, who receive remuneration as paid members of staff, held office at any time during or since the end of the financial year are:

Mr Alastair Lucas AM, ***BCom, FCPA***
Chair, *Burnet Institute Board of Directors*
Director since 1998
Chair, *Budget & Investment Committee;*
Member, *Audit, Compliance and Risk Committee;*
Member, *Engagement Committee*
Vice Chair and Managing Director, *Goldman Sachs*
Chair, *Cell Care Australia*
Member, *Advisory Board, Fauna & Flora International Australia*
Member, *Dean's Advisory Board for Monash University, Faculty of Medicine, Nursing and Health Sciences*
Member, *Australian Takeovers Panel*

Professor Brendan Crabb, ***BSc(Hons), PhD***
Executive Director and CEO since March 2008
Member, *Engagement Committee;*
Member, *Budget and Investment Committee*
Secretary, *Research Advisory Committee*
President-Elect and Director, *Australian Association of Medical Research Institutes (AAMRI) Pty Ltd*
Director, *AMREP Animal Services Pty Ltd*
Adjunct Professor, *University of Melbourne*
Adjunct Professor, *La Trobe University*
Adjunct Professor, *Monash University*

Ms Denise Allen
Director since 2006 and resigned February 2011
Chair, *former Investment Committee*
Director, *Medical Research Commercialisation Fund (MRCF)*
Former Chair and Managing Director, *Legg Mason Asset Management Australia Ltd*
Director, *Utilities of Australia*
Director, *AvSuper*

Associate Professor David Anderson, ***PhD***
Executive Director since 2006 and resigned February 2011
NHMRC Senior Research Fellow
Associate Professor, *Department of Microbiology and Immunology, University of Melbourne*
Director, *Hepitope Limited*
Director, *See-D4 Limited*
Executive, *Australian Centre for HIV and Hepatitis Research (ACH2)*

Professor Peter Colman, ***BSc, PhD***
Director since 2011
Chair, *Research Advisory Committee*
Member, *IP & Commercialisation Committee*
Head, *Structural Biology Division, WEHI*
Former Chief, *Division of Biomolecular Engineering, CSIRO*

Mr Ross Cooke, ***BCom, ACA***
Director since 1998
Chair, *Audit, Compliance and Risk Committee*
Director, *Paxton Partners*
Director and President, *Winteringham, and Winteringham Housing Ltd*

Professor Peter Doherty AC, ***FAA, FRS***
Director since 2002 and resigned March 2011
Nobel Laureate, *Department of Microbiology and Immunology, University of Melbourne*

Mr John K Dowling, ***FREI, FAPI***
Director since 2000
Member, *Research Advisory Committee*
Managing Partner, *K L Dowling & Co*

Professor P Mark Hogarth, ***PhD***
Director since 2006 and resigned February 2011
Former Executive Director, *Austin Research Institute*
Adjunct Professor, *University of Melbourne*
Adjunct Professor, *Monash University*
Director, *IgAvax Pty Ltd*

Professor, the Hon Barry O Jones AO, ***FAA, FAHA, FTSE, FASSA, FRSA, FRSV, FAIM***
Director since 2000
Member, *Research Advisory Committee*
Chair, *Vision 2020 Australia*
Chair, *Port Arthur Historic Site Management Authority*
Professorial Fellow, *University of Melbourne*
Former Vice Chancellor's Fellow, *University of Melbourne*
Former Commonwealth Minister for Science
Former Chair, *Victorian Schools Innovation Commission*
Former Australian representative to UNESCO, *Paris*
Director, *Care Australia*

Mr Henry Lanzer, ***BCom, LLB***
Director since 2008
Member, *Budget & Investment Committee*
Managing Partner, *Arnold Bloch Leibler*
Director, *Premier Investments*
Director, *The Just Group*
Director, *Tarrawarra Museum of Art*
President, *Mount Scopus Memorial College Foundation*

Professor James McCluskey, *MBBS, BMedSci, MD, FRACP, FRCPA*
Director since 1998 and resigned March 2011
Former Chair, *Research Advisory Committee*
Pro Vice-Chancellor, *Research Partnerships, University of Melbourne*
Deputy Head, *Department of Microbiology and Immunology, University of Melbourne*
Consultant Immunologist, *Victorian Transplantation and Immunogenetics Service, Australian Red Cross Blood Service*

Mr Robert L Milne, *BEng (Civ), FIE (Aust), CP Eng*
Director since 2000
Chair, *IP & Commercialisation Committee*
Member, *Budget and Investment Committee*
Chair, *Cockram Corporation and subsidiaries*

Professor Christina Mitchell, *MBBS (Melb), PhD, FRACP*
Director since 2011
Head, *School of Biomedical Sciences, Monash University*
Dean, *Faculty of Medicine, Nursing and Health Sciences, Monash University*
Panel Chair, *NHMRC Research Fellowships Peer Review Panel*
Scientific Advisory Committee Member, *Garvan Institute*
Scientific Advisory Board Member, *Peter McCallum Research Institute*
Organising Committee Member, *Hunter Cell Biology Meeting*

Mrs Maria Myers AO, *BA, BSW, LLB*
Director since 2004 and resigned December 2011
Member, *Engagement Committee*
Chairman, *Kimberly Foundation Australia*
Director, *Mary Ward International Australia*
Director, *Australian String Quartet*
Director, *Elisabeth Murdoch Sculpture Foundation*
Director, *Dunkeld Pastoral Company Pty Ltd*
Member, *Loreto College Ballarat School Council*

Ms Mary Padbury, *BA, LLB*
Director since 2011
Member, *IP & Commercialisation Committee*
Chair, *Ashurst*
Panelist, *World Intellectual Property Domain Name*
Director, *Australasian Gastrointestinal Trials Group, GI Cancer Institute*
Member, *Chief Executive Women*
Member, *Commonwealth Attorney-General's International Legal Services Advisory Council*

Professor Philippa Pattison, *BSc, PhD*
Director since 2011
Member, *Research Advisory Committee*
Deputy Vice Chancellor (Academic), *University of Melbourne*
Professor, *Psychological Sciences, University of Melbourne*
Associate Editor, *Social Networks*
Member, *Editorial Board, Journal of Classification*
Member, *Graduate Careers Australia Survey Reference Group*
Member, *Queen's College Council*
Member, *Trinity College Council*
Governor, *University College*
Member of Council, *Melbourne Girls Grammar School*

Ms Natasha Stott Despoja AM
Director since 2008
Chair, *Engagement Committee*
Former Senator for South Australia
Former Leader, *Australian Democrats*
Director, *beyondblue*
Director, *South Australian Museum*
Member, *Advisory council, Museum of Australian Democracy*
Member, *Alumni Advisory Board, University of Adelaide*
Member, *Advertising Standards Board*
Honorary Research Fellow, *University of Adelaide*

Professor Michael Toole, *MBBS, BMedSci, DTM&H*
Executive Director since 2011
Member, *Research Advisory Committee*
Adjunct Professor, *School of Public Health, Monash University*
Board Member, *Three Diseases Fund for Burma/Myanmar*
Member, *Independent Monitoring Board of the Global Polio Eradication Initiative*
Member, *Technical Review Panel, Global Fund to Fight AIDS, TB, and Malaria*
Founding Board Member, *Médecins Sans Frontières Australia.*

Ms Mary Waldron, *BEcon &SS, FCPA*
Director since 2011
Member, *Audit, Compliance and Risk Committee*
Australian Managing Partner PwC, *Networks, Strategic Marketing & Communications*
Member, *PwC Australian Firm Executive Team*
Director, *Australian Ireland Fund Limited*
Member, *Advisory Council, Global Foundation*
Advisory member, *European Australian Business Council*

Resigned as Director during 2011 or since year end:

Ms Denise Allen
Director since 2006 and resigned February 2011

Associate Professor David Anderson, *PhD*
Director since 2006 and resigned February 2011

Professor P Mark Hogarth, *PhD*
Director since 2006 and resigned February 2011

Professor Peter Doherty AC, *FAA, FRS*
Director since 2002 and resigned March 2011

Professor James McCluskey, *MBBS, BMedSci, MD, FRACP, FRCPA*
Director since 1998 and resigned March 2011

Mrs Maria Myers AO, *BA, BSW, LLB*
Director since 2004 and resigned December 2011

Directors' Report

Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Burnet Institute during the financial year are:

Directors	Board of Directors		Audit, Compliance and Risk Committee		Engagement Committee		Budgeting and Investment Committee		IP and Commercialisation Committee		Research Advisory Committee	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Alastair Lucas AM	5	5	6	6	1	1	1	1	–	–	–	–
Brendan Crabb	5	5	–	–	1	1	1	1	–	–	–	–
Denise Allen	–	–	–	–	–	–	–	–	–	–	–	–
David Anderson	1	1	–	–	–	–	–	–	–	–	–	–
Peter Coleman	4	3	–	–	–	–	–	–	1	1	–	–
Ross Cooke	5	5	6	6	–	–	–	–	–	–	–	–
Peter Doherty AC	1	0	–	–	–	–	–	–	–	–	–	–
John Dowling	5	5	–	–	–	–	–	–	–	–	–	–
P Mark Hogarth	–	–	–	–	–	–	–	–	–	–	–	–
Barry Jones AO	5	2	–	–	–	–	–	–	–	–	–	–
Henry Lanzer	5	3	–	–	–	–	1	0	–	–	–	–
James McCluskey	1	0	–	–	–	–	–	–	–	–	–	–
Robert Milne	5	4	–	–	–	–	1	1	1	1	–	–
Christina Mitchell	1	1	–	–	–	–	–	–	–	–	–	–
Maria Myers AO	5	4	–	–	1	0	–	–	–	–	–	–
Mary Padbury	4	2	–	–	–	–	–	–	1	0	–	–
Phillipa Pattison	3	2	–	–	–	–	–	–	–	–	–	–
Natasha Stott Despoja AM	5	3	–	–	1	1	–	–	–	–	–	–
Michael Toole	5	3	–	–	–	–	–	–	–	–	–	–
Mary Waldron	3	3	4	4	–	–	–	–	–	–	–	–

(A) Meetings held – reflects the number of meetings held during the time the Director held office during the year.
(B) Meetings attended.

Principal Activities

The principal activities of the Burnet Institute during the financial year were medical research and associated public health activities directed at the diagnosis, treatment and control of infectious diseases and cancer in humans. The Burnet Institute is a not-for-profit organisation combining programs of clinical and laboratory research in virology and immunology with epidemiology, social research and public health programs. The Burnet Institute has been endorsed as a charitable institution by the Australian Taxation Office. As a charitable not-for-profit organisation, the Burnet Institute does not pay dividends and all non-executive directors serve in an honorary capacity. There was no significant change in the nature of this activity during the year.

Operating Results

The Burnet Institute recorded a deficit in the current year of $4,770,321 (2010: surplus $3,296,860). Depreciation and amortisation amounted to $2,364,558 (2010: $2,257,606). *Income tax is not applicable.*

Dividends

The Burnet Institute is limited by guarantee, has no share capital and declares no dividends.

Objectives

The principal objective of the Institute remains improving health of vulnerable communities via research, public health and education. Progress against this objective is reported on at each Board meeting (and via other reporting mechanisms) using a variety of key indicators including the number of research grants awarded, research or project contracts won, fellowships awarded, publications, league table for Operational Infrastructure Support (Victorian State Government) and the progress reports and the achievements made on ongoing grants and projects

State of Affairs

The Burnet Institute had an active and successful year in its core activities of laboratory and field research and delivery of its public health programs in the areas of infectious diseases and related health disciplines. A number of key output indicators, especially the high number of peer-reviewed publications and the awarding of new competitive grants, demonstrate the quality and impact of the Institute's work.

The Institute recorded a financial deficit for 2011, however the majority of this related to non-operational factors including the revaluation of derivatives and the depreciation/amortisation of property assets.

These compounded a not unexpected unfavourable operational result, which reflected the overall tightening and shifts in international health funding programs and the sector's limited capacity to recoup funding for indirect costs so vital in supporting our research and public health activities. Senior management has focused on addressing the challenges of income generation and the ongoing realignment of our international health operations to the economic conditions, including the decision to close both the Asia and Pacific regional offices.

In the opinion of the Directors there were no other significant changes in the state of affairs of the Burnet Institute that occurred during the financial year.

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Burnet Institute, the results of those operations, or the state of the Burnet Institute in future financial years.

Likely Developments

The Institute is currently finalising a broader Alliance Agreement with Monash University which will deliver not only stronger strategic and operational opportunities but will increase the indirect funding linked to our core medical research grants. The Directors of the Burnet Institute do not anticipate any other major changes in the basis of the Burnet Institute's operations.

Directors' Benefits

Since the end of the previous financial year no Director of the Burnet Institute has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable in their capacity as full time employees as shown in the accounts) because of a contract made by the Burnet Institute, its controlled entities or a related body corporate with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial interest.

Indemnification and Insurance of Officers

The Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the Directors' and Officers' liability and legal expenses insurance other than to confirm that a policy is in force.

Rounding Off

The Institute is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 10 and forms part of the Directors' Report for the year ended 31 December 2011.

Dated at Melbourne this 17th day of April 2012.

Signed in accordance with a resolution of the Directors.

Alastair Lucas AM
Director

Ross Cooke
Director

Lead Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Macfarlane Burnet Institute for Medical Research and Public Health Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A Kitchen

Alison Kitchen
Partner

Melbourne

17 April 2012

Statement of Comprehensive Income

(FOR THE YEAR ENDED 31 DECEMBER)

	NOTES	2011 $'000	2010 $'000
Operating revenue	3	42,256	46,684
Other income	3	4,374	3,040
Reversal of impairment		–	2,807
Research and development laboratory consumables expenses		(3,562)	(3,494)
Personnel expenses	4	(22,505)	(20,505)
Depreciation and amortisation expenses		(1,094)	(1,200)
Depreciation and amortisation expenses – property management		(1,270)	(1,058)
Property management operating costs		(201)	(267)
Research and development non-laboratory expenses		(14,056)	(16,363)
Other expenses from ordinary activities	5	(4,547)	(5,101)
Results from operating activities		(605)	4,543
Financial income	7	732	709
Financial expenses	7	(4,897)	(1,955)
Net finance costs		(4,165)	(1,246)
Profit/(Loss) Before Income Tax		**(4,770)**	**3,297**
Income tax expense		–	–
Profit/(Loss) After Income Tax		**(4,770)**	**3,297**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		–	(83)
Income tax on other comprehensive income		–	–
Other comprehensive income for the period net of income tax		–	(83)
Total Comprehensive Income for the Period		**(4,770)**	**3,214**

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 30.

Statement of Financial Position

(AS AT 31 DECEMBER)

	NOTES	2011 $'000	2010 $'000
CURRENT ASSETS			
Cash and cash equivalents	20(i)	17,842	15,574
Trade and other receivables	8	2,189	6,364
Inventories		61	103
Other Assets	10	243	103
TOTAL CURRENT ASSETS		20,335	22,144
NON-CURRENT ASSETS			
Trade and other receivables	8	941	–
Investments	9	2,484	3,020
Property, plant and equipment	11	68,836	70,398
TOTAL NON-CURRENT ASSETS		72,261	73,418
TOTAL ASSETS		92,596	95,562
CURRENT LIABILITIES			
Trade and other payables	12	3,883	3,994
Borrowings	13	318	388
Current tax liabilities	14	100	154
Provisions	15	3,012	3,086
Deferred income	16	10,956	11,133
TOTAL CURRENT LIABILITIES		18,269	18,755
NON-CURRENT LIABILITIES			
Borrowings	13	34,800	34,950
Provisions	15	1,394	920
Deferred income	16	12,490	12,948
Derivatives	17	2,816	392
TOTAL NON-CURRENT LIABILITIES		51,500	49,210
TOTAL LIABILITIES		69,769	67,965
NET ASSETS		**22,827**	**27,597**
EQUITY			
Retained earnings		4,653	7,741
Building reserve		18,174	19,856
Fair value reserve		–	–
TOTAL EQUITY		**22,827**	**27,597**

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 30.

The Macfarlane Burnet Institute for Medical Research and Public Health Limited is a signatory to the Australian Council for International Development (ACFID) Code of Conduct. The Code requires members to meet high standards of corporate governance, public accountability and financial management. In accordance with the ACFID code of conduct, the Institute had nil balances in the following categories as at the end of the financial year which are required to be disclosed separately:

- Current Assets: assets held for sale, and other financial assets;
- Non-Current Assets: other financial assets, investment property, intangibles, and other non-current assets;
- Current Liabilities: other financial liabilities and other current liabilities;
- Non-Current Liabilities: trade and other payables, other financial liabilities and other non-current liabilities.

Statement of Changes in Equity

(AS AT 31 DECEMBER)

	Retained Profits $'000	Building Reserve $'000	Fair Value Reserve $'000	Total $'000
Balance at 1 January 2010	7,281	17,019	83	24,383
Fair value adjustment	–	–	(83)	(83)
Total other comprehensive income for the period	–	–	(83)	(83)
Operating profit/(loss)	460	2,837	–	3,297
Total comprehensive income for the period	460	2,837	(83)	3,214
Balance at 31 December 2010	**7,741**	**19,856**	**–**	**27,597**
Total other comprehensive income for the period	–	–	–	–
Operating profit/(loss)	(3,088)	(1,682)	–	(4,770)
Total comprehensive income for the period	(3,088)	(1,682)	–	(4,770)
Balance at 31 December 2011	**4,653**	**18,174**	**–**	**22,827**

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 30.

Statement of Cash Flows

(FOR THE YEAR ENDED 31 DECEMBER)

	NOTES	2011 $'000	2010 $'000
Cash Flows from Operating Activities			
Cash receipts in the course of operations		51,949	50,344
Cash payments in the course of operations		(47,450)	(52,790)
Cash generated from operating activities		4,499	(2,446)
Interest received		732	698
Interest paid		(2,473)	(1,912)
Net cash provided by /(used in) operating activities	20(ii)	2,758	(3,660)
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(926)	(630)
Payment for construction in progress		–	(5,781)
Interest payments capitalised in construction in progress		–	(135)
Proceeds from disposal of property, plant and equipment		128	52
Distribution received on winding up of investment		528	–
Proceeds from sale of investments		–	58
Net cash provided by /(used in) investing activities		(270)	(6,436)
Cash Flows from Financing Activities			
Payment of finance lease liabilities		(70)	(65)
Proceeds from/(repayment of) borrowings		(150)	9,404
Net cash provided by /(used in) financing activities		(220)	9,339
Net increase /(decrease) in cash held		2,268	(757)
Cash at the beginning of the financial year		15,574	16,331
Cash at the End of the Financial Year	20(i)	**17,842**	**15,574**

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 15 to 30.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

1. Reporting Entity

The Macfarlane Burnet Institute for Medical Research and Public Health Limited (Burnet Institute) is a company limited by guarantee and is domiciled in Australia. The address of the Burnet Institute's registered office is 85 Commercial Road, Melbourne, Victoria, Australia 3004. The Burnet Institute is primarily involved in medical research and associated public health activities directed at the diagnosis, treatment and control of infectious diseases and cancer in humans.

1.1. Basis of Preparation

(i) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements were authorised for issue by the Board of Directors on 17 April 2012.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- derivative financial instruments are measured at fair value;
- income securities are measured at fair value.

The method used to measure fair values is discussed further in Note 1.2.

During the preparation of the Financial Report the Directors made an assessment of the ability of the Burnet Institute to continue as a going concern, which included an assessment of the continuity of business operations, realisation of assets and settlement of liabilities in the normal course of business. The Directors also assessed the loan interest and principal repayments, swap and cap arrangements, and rental income over the next five to ten years and the obligations associated with the various loan covenants. The Directors also considered the likelihood of financial support and funding from the State and Federal Governments on which the Burnet Institute is dependent for its ongoing operations. As a result of their review they are of the opinion that the going concern basis of accounting is appropriate in the preparation of the Financial Report.

(iii) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the functional currency of the Burnet Institute. The Burnet Institute is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(iv) Use of estimates and judgements

The preparation of the financial statements in conformity with AASBs 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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following Notes:

- Note 1.11 – Impairment
- Note 15 – Provisions

(v) Changes in accounting policies

The accounting policies applied by the Burnet Institute in this report are the same as those applied in the Financial Report for the year ended 31 December 2010. There were no additional standards applicable to the Burnet Institute which have a material effect from 1 January 2011.

1.2 Financial Instruments

(i) Non-derivative financial assets

The Burnet Institute initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Burnet Institute becomes a party to the contractual provisions of the instrument.

The Burnet Institute 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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Burnet Institute is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Burnet Institute 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.

The Burnet Institute has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

Financial assets at fair value through profit or loss
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Burnet Institute manages such investments and makes purchase and sale decisions based on their fair values in accordance with the Burnet Institute's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables
Loans and 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 loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and at call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities
The Burnet Institute initially recognises financial liabilities on the trade date, which is the date that the Burnet Institute becomes a party to the contractual provisions of the instrument. The Burnet Institute derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Burnet Institute 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.

The Burnet Institute classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Derivative financial instruments
The Institute has chosen to hedge its interest rate risk exposure on the ACS2 loan facility by a cap and swap transaction (refer Note 17). This is the only derivative financial instrument that the Institute is involved in and is considered by the Directors to be a prudent means to manage risk associated with fluctuations in interest rates.

The derivative financial instrument does not qualify for hedge accounting. Derivatives are recognised initially at fair value, attributable transaction costs are recognised in the Statement of Comprehensive Income when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognised immediately in the Statement of Comprehensive Income. The fair value of interest rate swaps and caps is based on lender quotes.

1.3 Inventories

Inventories are comprised of laboratory materials and are valued at the lower-of-cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

1.4 Property, Plant and Equipment

(i) Owned assets
Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy Note 1.11). Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases in terms of which the Burnet Institute assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy Note 1.11). The cost of self-constructed assets under lease arrangements includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs

(see below). Lease payments are accounted for as described in accounting policy Note 1.8(ii).

Other leases are operating leases and are not recognised in the Statement of Financial Position.

(iii) Subsequent costs
The Burnet Institute recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Burnet Institute and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense when incurred.

(iv) Depreciation
Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Burnet Institute will obtain ownership by the end of the lease term. The depreciation rates used for the current and comparative years are as follows:

Buildings	2% to 2.5%
Plant and equipment	10% to 20%
Computer equipment	33.3%
Motor vehicles	20%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.5 Employee Benefits

(i) 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 will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefits expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

(ii) Long-term service benefits
The Burnet Institute's net obligation in respect of long-term service benefits, other than defined benefit plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the Balance Sheet date which have maturity dates approximating to the terms of the Burnet Institute's obligations.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Burnet Institute expects to pay as at reporting date including related on-costs, such as workers compensation insurance.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Burnet Institute as the benefits are taken by the employees.

Termination benefits are recognised as an expense when the Burnet Institute is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate an employee before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Burnet Institute has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

1.6 Revenue Recognition

(i) Contract R&D revenue/consultancies
R&D contract income is recognised in the Statement of Comprehensive Income to the extent that R&D expenditure to which it relates has been incurred. Until this time, funds drawn down in accordance with the relevant R&D funding agreement are recognised in the Statement of Financial Position as deferred income.

(ii) Grant income
Reciprocal grants
Grants received on the condition that specified services be delivered, or conditions fulfilled, are considered reciprocal. Such grants are initially recognised in the Statement of Financial Position as deferred income and revenue is recognised as services are performed or conditions are fulfilled.

Non-reciprocal grants
Where a grant is received where there is no performance obligation or return obligation, revenue is recognised when the grant is received or receivable.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

(iii) Government contributions towards capital works (capital grants)
Government contributions to assist in the acquisition or construction of non-current assets are recognised as an asset and revenue when all conditions of the grants have been satisfied.

(iv) Donations
Donations are recognised as income in the Statement of Comprehensive Income, as and when received, unless they are for specific purposes in which case they will be recognised when the conditions are fulfilled.

(v) Interest and other income
Interest and other income is recognised in the Statement of Comprehensive Income as it accrues, taking into account the effective yield on the financial asset.

(vi) Asset sales
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised as other income or other expenses in the Statement of Comprehensive Income.

(vii) Rental income
Rental income is recognised as income in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

1.7 Finance Income and Expenses

Finance income comprises interest income of funds invested and gains on revaluation of investments. Interest income is recognised as it accrues in the Statement of Comprehensive Income, using the effective interest method.

Finance expenses comprise interest expense on borrowings and changes in the fair value of derivative financial instruments. All interest expense on borrowings is recognised in the Statement of Comprehensive Income, using the effective interest method.

1.8 Expenses

(i) Operating lease payments
Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments
Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Borrowing costs
Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to those borrowings, net of any interest earned on those borrowings. Where funds are borrowed for the acquisition of a qualifying asset, borrowing costs are capitalised using a weighted average.

1.9 Income Tax

The Burnet Institute is exempt from paying income tax under Section 50-5 of the Income Tax Assessment Act, 1997.

1.10 Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the Balance Sheet. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.11 Impairment

(i) Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Burnet Institute on terms that the Burnet Institute would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and adverse changes in the payment status of borrowers or issuers in the Burnet Institute.

The Burnet Institute considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for any impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Burnet Institute uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflect in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the profit or loss.

(ii) Non-financial assets

The carrying amounts of non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are recognised as a reduction in the carrying amounts of the assets in the CGU on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Under AASB 136, the Institute can elect to have the carrying amount of non-current assets' impairment reviewed at each reporting date using a depreciated replacement cost valuation. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Reversal of a previously recorded impairment will be recorded in the Statement of Comprehensive Income where appropriate. In respect of not-for-profit entities, where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits, value in use shall be determined as the depreciated replacement cost of the asset.

1.12 Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as current period figures.

1.13 Segment Reporting

The Institute determines and presents operating segments based on the information that is internally presented to the CEO, who is the Institute's chief operating decision maker. An operating segment is a component of the Institute that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Institute's other components. All operating segments' operating results are regularly reviewed by the Institute's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

2. New Standards and Interpretations Not Yet Adopted

There are no standards, amendments to standards and interpretations which have been identified as those which may impact the entity in the period of initial application.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

3. Revenue

	2011 $'000	2010 $'000
Grants – operating	16,930	16,948
Grants – Victorian Government operational infrastructure support	4,174	4,410
Donations	4,781	5,941
Contract R&D consultancies	15,855	18,871
Other income – miscellaneous	516	514
Operating Revenue	42,256	46,684
Rental income	3,730	2,169
Prepaid rent amortisation	644	871
Other Income	4,374	3,040

4. Personnel Expenses

	2011 $'000	2010 $'000
Salary and wages	21,197	19,068
Employee entitlements	1,308	1,437
	22,505	20,505

5. Other Expenses

	2011 $'000	2010 $'000
Net loss on disposal of property, plant and equipment	22	–
Operating lease rental expenses	217	318
Facilities and laboratory support	2,026	2,899
Other administration	2,282	1,884
	4,547	5,101

6. Auditors' Remuneration Audit Service

	2011	2010
KPMG Australia:	$	$
Audit and review of financial reports	48,000	45,000
Other regulatory audit services	26,223	33,085
	74,223	78,085

7. Net Financing Costs	NOTES	2011 $'000	2010 $'000
Interest income		732	698
Gain on revaluation of investments		–	11
Financial Income		732	709
Decrease in fair value of derivatives		(2,424)	(43)
Interest expense		(2,473)	(1,912)
Financial Expenses		(4,897)	(1,955)
Net Financing Costs		(4,165)	(1,246)

8. Trade and Other Receivables Notes

Current			
Funds on deposit		–	3,500
Trade receivables		2,189	2,889
Less: allowance for doubtful debts		–	(25)
	27	2,189	6,364
Non-Current			
Lease receivables	27	941	–

9. Investments

Non-Current Investments			
• Income Securities of National Australia Bank and Macquarie Bank, fair valued at 31 December		219	240
• Investment held by the Sir Zelman Cowen Foundation for Medical Research and Public Health (SZCF) valued at fair value of the net assets of the Foundation		–	515
• Investment in AMREP AS Pty Ltd – animal facility 306 fully paid shares at cost		2,265	2,265
• Fully paid ordinary shares in IgAvax Pty Ltd and 4G Vaccines Pty Ltd valued at cost		–	–
	27	2,484	3,020
Reconciliation:			
Total investments opening balance		3,020	3,064
Proceeds on sale of Select Vaccines shares		–	(58)
Write up/(down) of income securities to fair value		(21)	11
(Decrement)/increment in value of Select Vaccines shares		–	(25)
Increase in value of investment in SZCF to fair value		13	28
Transfer of assets of SZCF to the Institute		(528)	–
Total Investments Closing Balance		2,484	3,020

As at 31 December 2011, the Institute controlled 17.1% (2010:17.1%) of IgAvax Pty Ltd. The amount of investment in this company was $nil and the contribution to the surplus of the Institute was $nil.
As at 31 December 2011, the Institute controlled 25.7% (2010: 28.6%) of 4G Vaccines Pty Ltd. The amount of investment in this company was $nil and the contribution to the surplus of the Institute was $nil.

10. Other Assets			
Prepayments		243	103

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

11. Property, Plant and Equipment	Leasehold buildings $'000	Plant and equipment $'000	Total $'000
Cost			
Balance at 1 January 2010	16,319	9,666	25,985
Acquisitions	4,173	630	4,803
Transfers from construction in progress	48,003	–	48,003
Reversal of impairment	2,807	–	2,807
Disposals	–	(641)	(641)
Balance at 31 December 2010	71,302	9,655	80,957
Balance at 1 January 2011	71,302	9,655	80,957
Acquisitions	34	892	926
Disposals	–	(679)	(679)
Balance at 31 December 2011	71,336	9,868	81,204
Depreciation			
Balance at 1 January 2010	(2,372)	(6,534)	(8,906)
Depreciation charge for the year	(1,467)	(791)	(2,258)
Disposals	–	605	605
Balance at 31 December 2010	(3,839)	(6,720)	(10,559)
Balance at 1 January 2011	(3,839)	(6,720)	(10,559)
Depreciation charge for the year	(1,699)	(666)	(2,365)
Disposals	–	556	556
Balance at 31 December 2011	(5,538)	(6,830)	(12,368)
Carrying amounts			
At 1 January 2010	13,947	3,132	17,079
At 31 December 2010	67,464	2,934	70,398
At 1 January 2011	67,464	2,934	70,398
At 31 December 2011	65,798	3,038	68,836

The existing leasehold within the Burnet Tower is subject to a 50 year lease ending in 2060. A peppercorn rent is payable each year. The Alfred Centre Stage 2 (ACS2) leasehold building floors are subject to a 40 year lease for levels 4 to 6 (ending 2050) and a 50 year lease for level 7 (ending 2060). A peppercorn rent is payable each year.

The Burnet Institute completed the construction of the ACS2 project which comprises 14,490 square metres of net lettable area contained in levels 4 to 7 of the ACS2 project. The carrying value of the Burnet Institute's interest in the ACS2 project is based on the March 2010 valuation of the future cash flows, discounted to their present value. The final carrying value was transferred to fixed assets as at 4 March 2010, the date of practical completion.

Capitalised interest during the year ended 31 December 2011 was $nil (2010: $135,323).

12. Trade and Other Payables

	2011 $'000	2010 $'000
Trade creditors	989	641
Other payables	2,894	3,353
	3,883	3,994

13. Borrowings

This Note provides information about the contractual terms of the Burnet Institute's interest-bearing loans and borrowings which are measured at amortised cost.

	2011 $'000	2010 $'000
Current		
Finance lease liabilities	18	88
Current portion of secured bank loans (ACS2)	300	300
	318	388
Non-current		
Non-Current portion of secured bank loans (ACS2)	34,800	34,950

Finance lease liabilities

Finance lease liabilities are payable as follows:

31 December 2011 ($'000)	Minimum Lease Payments	Interest	Principal
Less than one year	19	1	18
Between one and five years	–	–	–
More than five years	–	–	–
	19	1	18

31 December 2010 ($'000)	Minimum Lease Payments	Interest	Principal
Less than one year	74	4	70
Between one and five years	19	1	18
More than five years	–	–	–
	93	5	88

Financing arrangements

Bank loans

Interest rate on finance lease liabilities was 7.40% (2010: 7.40%). The lease liability was paid in full in March 2012.

During 2008, the Institute entered into an arrangement with its bank to borrow $35.25 million at the prevailing 90-day BBSW plus 0.85 per cent line fee. This bank loan is secured by a fixed and floating charge over all of the Burnet Institute's assets. The loan is for a period of ten years effective May 2011. Refer Note 17 for details of the swap and cap associated with this loan. The Burnet Institute is compliant with all bank covenants. One of the bank covenants requires the Institute to maintain an investment balance of at least $5 million, which as at 31 December 2011 and 31 December 2010 is all invested in short-term deposits.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

14. Current Tax Liabilities	NOTES	2011 $'000	2010 $'000
FBT Provision	27	100	154

There are no income tax liabilities as the Institute is a tax exempt entity.

15. Provisions		
Current		
Liability for long-service leave	1,899	2,006
Liability for annual leave	1,113	1,080
	3,012	3,086
Non-current		
Liability for long-service leave	1,394	920

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	3.1%	3.1%
Average discount rate	3.4%	5.3%
Settlement term (years)	9	9
Number of employees		
Number of employees at year end (FTE)	194	209

Superannuation plans

The Institute contributes to various accumulation style superannuation plans. Employer contributions are at the rate required to satisfy its obligations under the Superannuation Guarantee legislation, currently 9% of salary. The Institute may make additional contributions by agreement with employees.

16. Deferred Income	2011 $'000	2010 $'000
Current		
Other grants	8,861	9,619
Deferred Donations	1,266	500
Rentals received in advance	829	1,014
	10,956	11,133

General research operating grants are deferred where there is an obligation to repay amounts which are not spent in accordance with the conditions specified.

Non-current		
Rentals received in advance	12,490	12,948

The rentals received in advance relate to: The Baker IDI Heart and Diabetes Institute's contribution to the ACS2 project which covers a 21 year lease of part of level 4; and to Monash University in respect of space given up in the Burnet Tower in exchange for 13 years rent free space in the ACS2 project.

17. Derivatives	2011 $'000	2010 $'000
Interest rate swap liability/(asset)	2,426	(22)
Interest rate cap	390	414
	2,816	392

The Institute entered into an interest rate swap transaction in 2008 whereby $6.8 million of the secured bank loan to finance ACS2 is fixed at an interest rate of 6.07% (before line fees) until 31 December 2013. The Institute also entered into an interest rate cap transaction whereby $27.2 million of the secured bank loan to finance ACS2 is subject to a capped BBSW rate of 7.5% per annum for a fixed rate of 0.58% until 31 December 2015. In 2010, the Institute entered into another interest rate swap transaction whereby $20.4 million of the secured bank loan to finance ACS2 is fixed at an interest rate of 6.025% (before line fees) until 30 September 2020. The cap and swap transactions were taken out to provide long-term protection from exposure to rising interest rates.

18. Capital and Reserves

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investments are derecognised or impaired.

Building reserve

The building reserve relates to building and relocation grants received and expenses incurred in connection with the premises occupied by the Institute. Where a building is permanently vacated the related reserve will be derecognised.

19. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals payable:		
Less than one year	74	210
Between one and five years	135	209
More than five years	–	–
	209	419

Leases as lessor

The Institute leases out space that it controls to third parties.

Non-cancellable operating lease rentals receivable:		
Less than one year	2,852	2,752
Between one and five years	12,556	12,072
More than five years	53,776	57,112
	69,184	71,936

During the year $4.4 million was recognised as rental income in the profit or loss (2010: $3.0 million)

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

20. Notes to the Statement of Cash Flows

(i) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	NOTES	2011 $'000	2010 $'000
Cash	27	17,842	15,574

(ii) Reconciliation of operating profit/(loss) after income tax to net cash from operating activities:

Cash flows from operating activities			
(Loss)/Profit for the period		(4,770)	3,297
Adjustments for:			
Depreciation	11	2,365	2,257
Amortisation of rent in advance		(644)	(871)
Lease revenue not billed		(941)	–
(Reversal of impairment)/impairment of construction in progress	11	–	(2,807)
Change in fair value of derivatives	7	2,424	42
(Gain)/loss on revaluation of investments	9	8	(39)
(Gain)/loss on sale of shares	9	–	(58)
Amounts set aside in provisions		400	245
Provision for doubtful debts	8	–	25
(Gain)/loss on disposal of property, plant and equipment		(4)	(16)
Operating profit before changes in working capital and provisions		(1,162)	2,075
(Increase)/decrease in trade and other receivables		4,175	(1,544)
(Increase)/decrease in inventories		42	10
(Increase)/decrease in other assets		(140)	(51)
(Decrease)/increase in grant deferred income		8	(3,235)
(Decrease)/increase in trade and other payables		(111)	(929)
(Decrease)/increase in current tax liabilities		(54)	14
Net Cash from Operating Activities		2,758	(3,660)

21. Remuneration of Key Management Personnel

	2011 $	2010 $
Short-term employee benefits	1,426,000	1,360,000
Termination benefits	–	–
	1,426,000	1,360,000

22. Particulars in Relation to Controlled Entities

The Burnet Institute has an interest in a number of subsidiary companies which were originally formed to manage R&D projects in partnership with other parties. Other than intellectual property these companies have no material assets or liabilities. As there is no reliable measure of the value of this intellectual property, the carrying value of the investment in the following companies is recorded as $nil:

22. Particulars in Relation to Controlled Entities (Continued)

Entity	Interest Held 2011 %	Interest Held 2010 %	Amount of Investment 2011 $	Amount of Investment 2010 $
Macfarlane Burnet Syndicate No. 1 Pty Ltd	100	100	–	–
Macfarlane Burnet Syndicate No. 2 Pty Ltd	100	100	–	–
Hep R&D Pty Ltd	100	100	–	–
Actract Pty Ltd	100	100	–	–
Hepitope Pty Ltd	–	100	–	–

The Burnet Institute commenced winding up Hepitope Pty Ltd during 2010. Deregistration occurred in March 2011. There was no financial effect to the Institute.

23. Related Party Transactions

The Institute purchased services from AMREP AS Pty Ltd during the year on normal commercial terms amounting to $356,000 (2010: $409,000).

24. Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Burnet Institute, the results of those operations, or the state of the Burnet Institute in future financial years.

25. Segment Information

The Institute has two reportable segments, as described below, which represent the two main focuses of the Institute. For each segment the CEO reviews internal management reports on a quarterly basis. The following summary describes the operations in each of the Institute's reportable segments.

- Property Management – Includes rental income and expenses associated with the space leased
- Medical Research and Public Health – Includes activities around the conduct of medical research and the provision of public health work

Information regarding the results of each reportable segment are included below. Performance is measured based on segment surplus or deficit in addition to a number of non-financial metrics.

Information about reportable segments **($'000)**	Property Management 2011	Property Management 2010	Medical Research & Public Health 2011	Medical Research & Public Health 2010	Total 2011	Total 2010
External revenues	4,374	3,040	42,256	49,502	46,630	52,542
Inter-segment revenue	–	–	–	–	–	–
Interest income	314	231	418	467	732	698
Interest expense	(2,473)	(1,872)	–	(40)	(2,473)	(1,912)
Depreciation and amortisation	(1,270)	(1,058)	(1,095)	(1,200)	(2,365)	(2,258)
Reportable segment profit/(loss)	(1,682)	460	(3,088)	2,837	(4,770)	3,297
Other material non-cash items						
• Reversal of impairment loss on building	–	2,807	–	–	–	2,807
• Fair value adjustment of derivative	(2,424)	(43)	–	–	(2,424)	(43)
Reportable segment assets	55,987	55,740	36,609	39,822	92,596	95,562
Investment in associates	–	–	2,265	2,265	2,265	2,265
Capital expenditure	–	5,916	926	630	926	6,546
Reportable segment liabilities	51,743	50,042	18,026	17,923	69,769	67,965

The Institute operates in one geographical area, Australia.

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

26. Financial Risk Management

Overview

The Institute has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- interest-rate risk

This Note presents information about the Institute's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this Financial Report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is also responsible for developing and monitoring risk management policies. Risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board oversees how management monitors compliance with the Institute's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

Credit risk

Credit risk is the risk of financial loss to the Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash on deposit and from the Institute's receivables from customers and investment securities. In relation to credit risk arising from cash on deposit, the Institute only deposits with highly rated counterparties as approved by the Board.

Trade and other receivables

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. Work is only undertaken for another entity once a contract for services has been signed. The demographics of the Institute's debtor base, including the default risk of the industry and country in which debtors operate, have less of an influence on credit risk. Approximately 53% (2010: 49%) of the Institute's revenue is attributable to transactions with a single debtor. However, geographically there is no concentration of credit risk. Most of the Institute's debtors have been transacting with the Institute for a number of years, and losses have occurred infrequently. In monitoring debtor credit risk, debtors' ageing profiles are reviewed as well as any existence of previous financial difficulties. The Institute has established an allowance for impairment that represents its estimate of possible losses in respect of trade and other receivables. This allowance is the aggregate of specific possible losses from identified debtors.

Investments

The Institute limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a solid credit rating in consultation with the Board and other advisors. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations as they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation. Management monitor cash flow requirements on a daily basis to optimise its cash return on investments. Typically the Institute ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations without the need to draw down from its investments; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Institute maintains the following line of credit:

- $250,000 overdraft facility that is secured against the assets of the Institute. Interest would be payable at the base lending rate plus 0.75% margin.

Capital risk management

During 2008, the Institute entered into an arrangement with its bank to borrow $35.25 million at the prevailing 90-day BBSW plus 0.85 per cent line fee. This bank loan is secured by a fixed and floating charge over all of the Burnet Institute's assets. The loan translated from a construction facility to a term facility in May 2011 and is for a period of 10 years. Refer to Note 17 for details of the swap and cap associated with this loan. Principle is repaid over the course of the term facility according to an agreed schedule as set out in the Loan Agreement. Management monitor the loan facility on a regular basis to ensure that all loan covenants and reporting requirements are met.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Institute can enter into derivatives in order to manage market risks in consultation with the Board and other advisors. As explained above, the only derivative financial instrument the Institute is currently involved in is a cap and swap transaction (Note 17) to manage potential interest rate fluctuations on the ACS2 loan facility. Institute risk is also minimised due to limited holdings of foreign currency and equities.

26. Financial Risk Management (continued)

Interest rate risk

The Institute has adopted a policy to mitigate its interest rate risk by entering into interest rate swaps and caps to manage its overall exposure. Refer Note 17.

27. Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of the Institute's financial assets represents the maximum credit exposure. The Institute's maximum exposure to credit risk at the reporting date was:

Carrying amount	NOTES	2011 $'000	2010 $'000
Investments	9	2,484	3,020
Receivables	8	3,130	6,364
Cash and cash equivalents	20(i)	17,842	15,574
		23,456	24,958

The Institute's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Carrying amount	2011	2010
Australia	2,753	2,498
Asia	287	210
North America	16	49
Europe	74	107
	3,130	2,864

Impairment losses: The aging of the Institute's trade receivables at the reporting date was:

Carrying amount	2011	2010
Not past due	2,666	2,466
Past due 0-30 days	202	113
Past due 31-60 days	90	52
More than 60 days past due	172	258
Less allowance for doubtful debts	–	(25)
	3,130	2,864

There was no impairment loss recognised on investments. The allowance accounts in respect of trade receivables are used to record impairment losses unless the Institute is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly.

Liquidity risk

The following are the contractual maturities of financial liabilities measured at amortised cost, including estimated interest payments and excluding the impact of netting agreements:

31 December 2011 ($'000)	Carrying amount	Contractual cash flows	6 mths or less	6–12 mths	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	35,100	56,521	1,406	1,406	2,790	8,533	42,386
Trade and other payables	3,883	3,883	3,883	–	–	–	–
Current tax liabilities	100	100	100	–	–	–	–
Finance lease liabilities	18	19	19	–	–	–	–
	39,101	60,523	5,408	1,406	2,790	8,533	42,386

Notes to the Financial Statements

(FOR THE YEAR ENDED 31 DECEMBER)

27. Financial Instruments (continued)

31 December 2010 ($'000)	Carrying amount	Contractual cash flows	6 mths or less	6–12 mths	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	35,250	59,354	1,416	1,416	2,812	8,306	45,404
Trade and other payables	3,994	3,994	3,994	–	–	–	–
Current tax liabilities	154	154	154	–	–	–	–
Finance lease liabilities	88	93	37	37	19	–	–
	39,486	63,595	5,601	1,453	2,831	8,306	45,404

Contractual cash flows for the secured bank loan are estimated assuming an average interest rate of 7.21% over the life of the loan with principal repayments as set out in the loan agreement.

Foreign currency risk

The Institute is exposed to foreign currency risk on revenue, purchases and bank accounts that are denominated in a currency other than the functional currency of the Institute. The currency giving rise to this risk is primarily US dollars (USD). At any point in time the Institute has a natural hedge on USD transactions as it holds a USD bank account to pay USD denominated expenses.

Sensitivity analysis

For the year ended 31 December 2011, it is estimated that a general increase of one percentage point in interest rates would have increased the Institute's profit by approximately $107,000 (2010: $34,000).

As at 31 December 2011, it is estimated that a general increase of ten percentage points in the value of the AUD against other foreign currencies would have decreased the Institute's profit by approximately $52,000 (2010: $56,500).

Fair values

The fair value of relevant recognised assets and liabilities are approximate to the values shown in the Statement of Financial Position.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2011 ($'000)				
Financial assets at fair value through the profit or loss	219	–	–	219
Derivative financial liabilities	–	2,816	–	2,816
31 December 2010 ($'000)				
Financial assets at fair value through the profit or loss	240	–	–	240
Derivative financial liabilities	–	392	–	392

Burnet Institute International Development Activities Operating Statement *(FOR THE YEAR ENDED 31 DECEMBER)*

	2011 $'000	2010 $'000
Revenue		
Donations and gifts – monetary	181	218
Donations and gifts – non-monetary	–	–
Bequests and legacies	–	–
Grants:		
• AusAID	12,715	14,978
• Other Australian	120	302
• Other Overseas	1,829	1,767
Investment Income	–	–
Other Income	1,144	1,762
Revenue for international political or religious proselytisation programs	–	–
Total revenue	15,989	19,027
Expenditure		
International aid and development programs expenditure		
International programs:		
• Funds to international programs	12,902	13,286
• Program support costs	1,445	1,854
Community education	–	–
Fundraising costs:		
• Public	3	10
• Government, multilaterals and private	445	365
Accountability and administration	682	1,214
Non-monetary expenditure	–	–
Total international aid and development programs expenditure	15,477	16,729
Expenditure for international political or religious proselytisation programs	–	–
Domestic programs expenditure	2,102	3,331
Total expenditure	**17,579**	**20,060**
Excess/(Shortfall) of revenue over expenditure	**(1,590)**	**(1,033)**

Notes:

No single appeal or form of fundraising for a designated purpose generated 10% or greater of the Burnet Institute's total income.

This operating statement represents IFRS financial information and is extracted specifically for the operations of the Centre for International Health as required by the ACFID Code of Conduct.

ACFID CODE

integrity · values · accountability

The Macfarlane Burnet Institute for Medical Research and Public Health Limited is a signatory to the Australian Council for International Development Code of Conduct. The Code requires members to meet high standards of corporate governance, public accountability and financial management. More information about the ACFID Code of Conduct can be obtained from ACFID.

www.acfid.asn.au
Tel: (02) 6285 1816
Fax: (02) 6285 1720

Directors' Declaration

1. In the opinion of the Directors of the Burnet Institute:

   (a) the Financial Statements and Notes, set out on pages 11 to 31, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Burnet Institute at 31 December 2011 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Burnet Institute will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this

17th day of April 2012

Signed in accordance with a resolution of the Directors:

Alastair Lucas AM
Director

Ross Cooke
Director

Independent Auditor's Report

KPMG

Independent auditor's report to the members of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd

Report on the financial report

We have audited the accompanying financial report of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd (the Company), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and the Burnet Institute International Development Activities Operating Statement for the year ended on that date, notes 1 to 27 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion, the financial report of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

KPMG

KPMG

Alison Kitchen
Partner

Melbourne

17 April 2012

Burnet Institute
Medical Research. Practical Action.

AUSTRALIA
Head Office
85 Commercial Road, Melbourne,
Victoria 3004
Tel: +61 3 9282 2111
Fax: +61 3 9282 2100
Email: info@burnet.edu.au
www.burnet.edu.au
A.B.N. 49 007 349 984

The Macfarlane Burnet Institute for Medical Research and Public Health Ltd is an accredited Australian not-for-profit, unaligned and independent organisation whose purpose is to improve the health of disadvantaged, poor or otherwise vulnerable people throughout the world.

Overseas Offices
The Institute has offices in South East Asia, the Pacific region and China (Tibet). For more information about our work overseas or to contact our international offices, please email info@burnet.edu.au or call us on +61 39282 2111

BURMA (MYANMAR)
No 226, 4th Floor,
226 Wizaya Plaza U Wisara Road,
Bahan Township Yangon, Myanmar

CHINA (TIBET)
Baofa Hotel, No 6 Hong Qi Road
Lhasa 850000, TAR China

INDONESIA
Bali
Jalan Raya Bypass Ngurah Rai
No. 287 Sanur, Bali 80228 Indonesia

LAO PDR
SCC Co Ltd, Building No. 006, Ban Sihom,
Room 4B/01a, Vientiane, Lao PDR

PAPUA NEW GUINEA
Port Moresby
3 Mile, School of Medicine,
Medical Sciences Building,
University of PNG
Kokopo
PO Box 1458, Kokopo Post Office
East New Britain