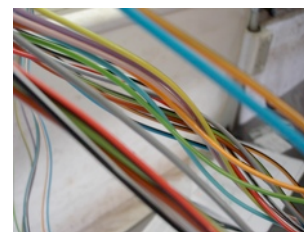




SABRENet Limited

ACN 115 957 090

www.sabrenet.edu.au



2006 Annual Report

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Introduction

About SABRENet

SABRENet Ltd is a non-profit public company formed to oversee the development and management of the South Australian Broadband Research and Education Network (SABRENet). The Members of SABRENet Ltd are Flinders University, the University of Adelaide, the University of South Australia and the South Australian Government.

SABRENet itself is an optical-fibre telecommunications network currently being constructed in metropolitan Adelaide to link the State's major Research and Education (R&E) sites, including university campuses, research precincts and teaching hospitals. The SABRENet project participants are the Members and the Defence Science and Technology Organisation (DSTO).

The SABRENet project began in April 2003 as an informal collaboration between the project participants, overseen by the South Australian Consortium for Information Technology and Telecommunications (SACITT¹). During this period the participants secured project funding, appointed a project manager and conducted an open tender to construct SABRENet. On September 28th 2005 the participants formed SABRENet Ltd as a public company limited by guarantee.

The purpose of building SABRENet is to enable very high-speed and cost-effective broadband for the R&E sector in the Adelaide region. Advanced networking facilities are now fundamental to many forms of research and are becoming critical to South Australia's ability to maintain its participation in e-Research and online education activities that are increasingly conducted on a national and global scale.

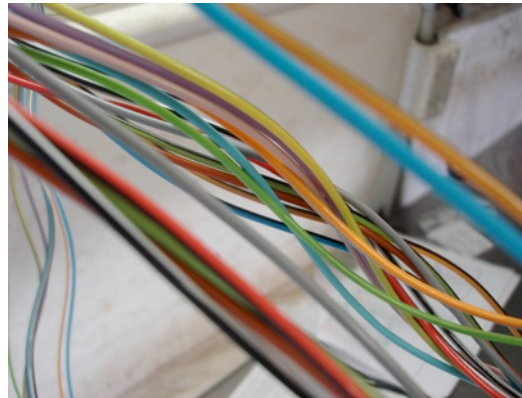
While being constructed primarily for the benefit of the participants, SABRENet will ultimately become a valuable State infrastructure asset with an estimated operational life of

at least 20 years. SABRENet therefore presents a unique opportunity to build an enduring platform for R&E driven innovation and economic development in South Australia.

In the first instance, SABRENet will provide optical fibre connections between 27 'primary sites' in the greater Adelaide metropolitan area. Figure 1 shows the general locations of these sites. Some locations, such as the CBD, comprise multiple primary sites. The network can be considered as comprising four backbones (North, South, East and West)

joining onto a fibre loop in the Adelaide CBD. The fibre loop encircles the University of Adelaide and University of South Australia (City East) campuses on North Terrace.

Scheduled for completion in December 2006, SABRENet will be one of Australia's first and largest purpose-built 'Customer Owned Fibre networks'. Such networks are increasingly seen as best-practice for large, technically adept organisations with very demanding broadband needs – principally because these networks provide an infrastructure base upon which network owners can provision high speed broadband services at very low cost when compared to commercial alternatives.



¹ www.sacitt.asn.au

Objectives

The primary goal of SABRENet Ltd will be to make high-speed broadband, and the applications it enables, more readily available to individuals and institutions across the State's R&E sector, including

- Learning institutions
- Research institutions
- Students and their teachers
- Researchers.

While the Company will focus on the public sector initially, SABRENet Ltd is not limited to servicing public institutions, and it is envisaged that SABRENet will also in time support private sector R&E applications.

In order to realise these goals, the Directors of SABRENet Ltd consider the SABRENet infrastructure as a 'strategic asset' to be managed with an eye to new opportunities and demands as they emerge over the twenty-year life of the network.



About this Report

This is the Company's first Annual Report, covering the twelve-month period from the formation of SABRENet Ltd in September 2005. The enclosed Concise Financial Report relates to the nine months from September 2005 to June 2006.

The release of this report is itself a significant milestone, marking the transformation of SABRENet, over the last three years, from an exciting idea to an effective and efficient joint venture of the State's leading R&E players – one characterised by sound corporate governance, solid financial results and real progress.

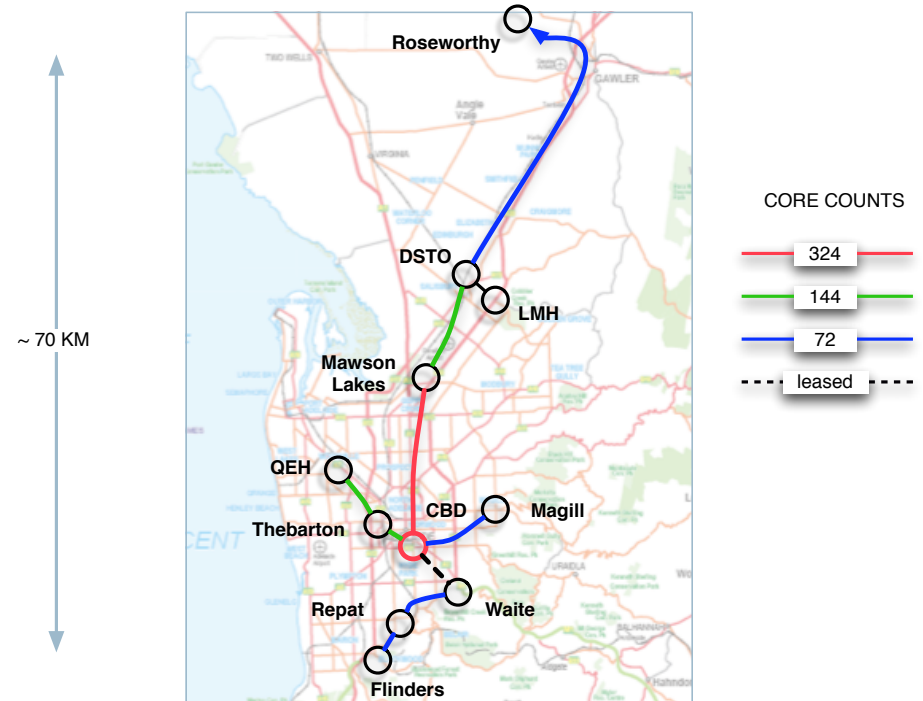


Figure 1 - SABRENet Primary Sites, backbone routes and fibre-optic cable core counts.

Acknowledgments

SABRENet Ltd acknowledges the support of the following organisations and individuals.

- The SACITT Steering Committee, and in particular its Chair, Professor Chris Marlin, for providing crucial leadership during the formative stages of the project.
- The Commonwealth Department for Education, Science and Training (DEST) for funding SABRENet as part of the Australian Government's Systemic Infrastructure Initiative. The construction of SABRENet is largely dependent on this funding and SABRENet Ltd acknowledges the ongoing support and encouragement DEST, and in particular, its staff in the Innovation and Research Systems Group.
- The Technical staff from Flinders University, the University of Adelaide, the University of South Australia, the South Australian Government, DSTO and CSIRO for their expertise in preparing the initial network specification and for providing ongoing operational support to the project.
- The State Department for Further Education, Employment, Science and Technology (DFEEST) for providing early project management funding and secretariat support. DFEEST continues to provide invaluable advice and remains a major supporter of SABRENet.
- The South Australian Partnership for Advanced Computing (SAPAC) for providing office accommodation and administrative services to SABRENet Ltd. SAPAC articulates and promotes the case for SABRENet from a researcher's perspective, and will become a major user of the very high bandwidth services that SABRENet will make possible.
- Peter Nissen, who in his role as National Broadband Advisor for Education in DEST, continues to make life easier for SABRENet and similar projects around the nation.
- VERNET Pty Ltd for sharing experience and documentation during the early stages of the project.
- Sinclair Knight Merz Pty Ltd for providing formal project and contract management services to SABRENet Ltd.

- Amcom Pty Ltd for being a flexible, willing and committed commercial partner.
- Minter Ellison Lawyers for legal advice and deft contractual drafting.

SABRENet Ltd also acknowledges the cooperation and assistance of the following organisations:

- Adelaide City Council
- Campbelltown City Council
- City of Charles Sturt
- City of Marion
- City of Mitcham
- City of Norwood Payneham and St Peters
- City of Playford
- City of Port Adelaide Enfield
- City of Prospect
- City of Salisbury
- City of West Torrens
- Light Regional Council
- Town of Gawler
- TransAdelaide
- Transport SA
- SA Water
- The Australian Rail Track Corporation



The Year in Review

The first nine months of the Company's existence have seen two major themes of activity. Firstly, the Company has begun the task of constructing SABRENet, and at the end of the reporting period, has made significant progress. At the same time, the Company has worked to establish governance and business systems befitting the Company's position as a public company charged with investing over \$8 million of taxpayer's money

Milestones

September 2005	SABRENet Ltd is constituted as a public company limited by guarantee.
November 2005	SABRENet Ltd executes agreements with Perth based telecommunications carrier Amcom Pty Ltd to build and operate SABRENet. SABRENet web site launched.
December 2005 to March 2006	The SABRENet Ltd office and administrative systems are established, and the Company begins to operate as a stable, effective and efficient vehicle for realising the Members' goals.
January 2006	Physical construction of SABRENet begins.
April 2006	A full-time Chief Executive Officer is appointed.
May 2006	Fibre splicing in the CBD loop begins
June 2006	The company releases a comprehensive report to the Members covering its first six months in operation. A public version of the report is also released.
September 2006	The first Annual General Meeting of the Members is held.

Construction

Overall the network construction program has proceeded at a satisfactory pace through the reporting period, with civil construction of SABRENet in the inner metropolitan area nearing completion.

Construction Progress



Note that these figures are derived from payment claims submitted by the construction subcontractor and certified by the contract superintendent, and do not include work completed but not yet certified.

Construction formally began on 23rd January 2006, and at the end of the financial year Amcom had claimed progress payments for

87% of the CBD loop,

66% of the East backbone,

64% of the South backbone,

14% of the North backbone, and

5% of the West backbone.



Land Access

SABRENet is being constructed on public land controlled by twelve local councils and a number of public utilities, including TransAdelaide (rail corridor), Transport SA (major roads), SA Water (easements) and the Australian Rail Track Corporation (rail corridor).

In each case, access agreements and work permits must be obtained before any SABRENet infrastructure can be installed.

This task has been facilitated by Amcom's ability to obtain access to land as a licensed carrier under the Telecommunications Act (1997).

Notwithstanding Amcom's statutory powers however, the land access process has also been assisted by landowners' recognition of SABRENet's clear public benefit, and the project has thus obtained welcome cooperation from many organisations. In particular, SABRENet Ltd recognises the assistance of TransAdelaide and Transport SA in providing access to major transport corridors.



Business Activities

Contract Oversight

By far the most important immediate task of SABRENet Ltd is to ensure that the SABRENet Design and Construct contract is carried through to completion on time and within budget.

SABRENet Ltd has engaged Sinclair Knight Merz Pty Ltd to act as Superintendent over the construction of SABRENet. The SABRENet Design and Construct contract is based on the AS4902 standard, which describes in detail the specific roles and responsibilities of the Superintendent, including site inspection, safety compliance audit and certifying payment claims. Consequently, while SABRENet Ltd itself is relieved of the day-to-day technical administration of the construction contract, the Company does take the role of Principal under the contract, and is thus ultimately responsible for all key decisions.



Participant Sites

Amcom is also being engaged under the Design and Construct contract to construct additional 'tail' connections from the main SABRENet trunk network into Member sites. The task of coordinating and scheduling this work is a major focus for the Company at present.



Other

Other business activities conducted during the reporting period include:

Financial Management	Managing the Company accounts and cash-flow.
Strategic Planning	The Company has embarked on the process of planning for the long-term management and use of its assets.
Company Administration	Managing the meetings, reports and regulatory compliance procedures of the Company.
Business Development	The Company will pursue new opportunities to extend or enhance SABRENet as they arise. This will however be a secondary focus of the Company during the start-up phase.
Consulting	The Company undertakes some consulting work relating to ICT and telecommunications. Consulting assignments are subject to the Board's approval.



The Year Ahead

As the Company moves from the establishment phase into a more operational role it will begin to undertake an expanded range of business activities. Until the end of 2006 however, the construction of SABRENet will remain the Company's primary focus.

Completion of the Primary Network

The construction program will remain the primary focus of the Company through to the end of 2006.

Participant Connection Program

The SABRENet construction contract requires the network to be built to the boundaries of the 27 primary sites. Tails from the boundary points into Participants' premises are also being constructed at some primary sites, and are being commissioned as variations to the main construction contract. Tails so constructed will become part of SABRENet, and maintained by Amcom. In order for Participants to make use of SABRENet however, the Company will need to

- Finalise the SABRENet Access Policy
- Execute Access Agreements with each Participant
- Establish operational procedures for the operation and maintenance of the network.

It is also expected that some additional tails to Participant sites will be commissioned once the works under the construction contract have been completed.



Infrastructure Development Program

The Company's 2006/07 budget estimates foreshadow a capital surplus once construction of the primary SABRENet network is completed. This surplus, if realised, may be available to fund (or part-fund) extensions to the network in line with the Company's objectives. The Board has identified a number of potential projects for further evaluation and potential initiation during the coming period.

Business Development Program

Whereas the Company will retain a primary focus on successfully connecting the Members to SABRENet, it will also investigate opportunities to develop new users from within the R&E community.

Public Launch

The Company hopes to launch SABRENet at an event to be held early in 2007.



The Company

Members and Participants

The SABRENet Ltd Constitution allows for two classes of legal engagement in the Company: full Membership and contractual Participant status. The current Members are Flinders University, the University of Adelaide, the University of South Australia and the South Australian Government. At the time of writing, DSTO was seeking approval to become a Participant.

New Participants may be admitted to the Company by a majority vote of the existing Members. Once admitted, Participants may also elect at any time to become Members with no further approval being required of the other Members.

The principal difference between Members and Participants is that the latter do not enjoy voting rights in the Company's affairs. Members and Participants are required to contribute to the Company's expenses on equal terms, and enjoy equal rights to use SABRENet infrastructure. The two classes of engagement were created principally to allow participant organisations to 'join' SABRENet even if their organisational rules or policies do not allow them to become full legal members of an incorporated entity.

Governance and Key Personnel

SABRENet Ltd is governed by its Board of Directors.

The current Board of Directors replaces an Interim Board formed under the SABRENet Constitution to oversee the Company prior to the first Annual General Meeting of the SABRENet Members (AGM). The current Board was appointed at the AGM held on September 12th 2006.

Each of the current Board members is an appointee of one of the SABRENet Members.

Board of Directors

Paul Sherlock BE, MBA, MAICD (Chair)

Paul is the current Director of the Information Strategy and Technology Services Unit for the University of South Australia. He is responsible for the delivery of a wide range of ICT services across the University, which support the key business functions of teaching and learning, research and consultancy and administration. Paul has previously held senior IT management roles at the Defence Science and Technology Organisation and BHP Steel International. In 1997 he was awarded the "Network World" Masters Award for his contribution to the establishment of the first high speed ATM network in Australia. Paul is the Chair of SABRENet Ltd.

Carolyn Anderson LLM, MBA, GDLP *

Carolyn is a qualified solicitor and barrister and was admitted to the Supreme Court of South Australia on 2 February 1988. Carolyn worked in private legal practice before joining the Crown Solicitor's Office in 1992 in the Commercial Section. Following a stint as the in house counsel for Transport SA she joined the Information Economy Policy Office as a policy adviser in 1999. Carolyn is currently the Director of the Information Economy Directorate in the Department of Further Education, Employment, Science and Technology and is responsible for advising the South Australian government on information economy policy and implementing programs and projects in the areas of telecommunications, digital access, ICT skills, industry and community development and online content.

Mark Legg BSc, MSc, FAICD

Mark is currently Director, Information Services at Flinders University where he is responsible for the management of 70 staff. He has over 40 years experience in the tertiary education sector both as an academic and as an administrator. He has held the senior IT position at Flinders University for 32 years.

Clive Martis BA, MBA

Clive holds the position of General Manager Information Technology Services, University of Adelaide. This involves managing an organisation providing integrated services in support of all networking, telecommunications, teaching, research and administrative functions to staff and students across four primary campuses in South Australia. He has been a director of a number of IT related entities.

* Ms Anderson replaced Dr Craig Fowler as the South Australian Government's appointee on 17th August 2006.

The Interim Board operated to some degree as a board of management; in the early stages of the Company it was largely responsible for overseeing the formation of the Company's operational systems and procedures, and played a major part in finalising contract negotiations with Amcom Pty Ltd. It is expected that the current Board will continue to take an active role in the Company's operations over the coming year as construction is completed and Participants are connected to the network.

During its first 12 months of operation the Company held 14 Directors meetings and three General Meetings of the Members.

Management and Administration

James Tizard is the Chief Executive Officer of SABRENet Ltd, and is currently its sole employee.

The Company has negotiated an office accommodation agreement with the South Australian Partnership for Advanced Computing (SAPAC), under which SABRENet Ltd receives office accommodation and administrative support within the SAPAC office suite on the University of Adelaide campus.

Business Model

SABRENet Participants will be allocated passive optical transmission paths connecting pairs of sites on the network. It will be the responsibility of Participants to provide their own active services across these paths.

The operating costs of SABRENet Ltd will be met by the Participants through an annual subscription, levied in proportion to each Participant's allocation of fibre paths.

SABRENet Ltd has engaged Amcom Pty Ltd, to build SABRENet, and once built, to operate and maintain the network under a long-term Operation and Maintenance deed. In return, Amcom will receive commercial access rights to some fibres on the network.

Once constructed, SABRENet will represent a significant asset with potential transmission capacity in excess of the Participants' immediate needs. SABRENet Ltd will examine future R&E related opportunities arising from this potential. In keeping with its non-profit charter, revenue thus raised will be used to offset Participant subscription costs and to pursue the goals of the Company.

Finance

The Company's financial position and forward budget estimates have been presented to the Members in the form of audited financial statements and a 2007/08 Business Plan. A Concise Financial Report for the nine months to 30th June 2006 is attached to this report.

Capital Funds

SABRENet Ltd has secured approximately \$8 million² to fund the construction of SABRENet.

Operating Funds

It is anticipated that the Company's primary source of operating funds will take the form of annual subscriptions levied on the Participants. While the Board anticipates that the Company will earn some revenue, which will offset Participants subscriptions to some extent, it is clear that for the first few years at least, the Company will remain largely dependent on Participants' subscriptions.

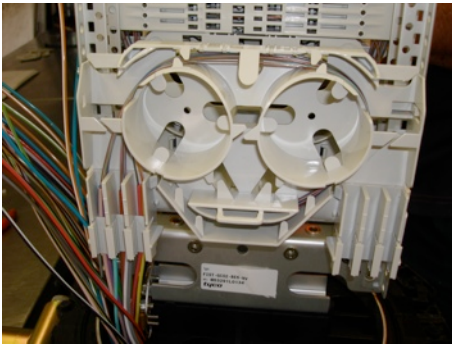
² Comprising grant funding from DEST and capital contributions by the Participants



Nominated Carrier Declaration

The Telecommunications Act (1997)³ requires that telecommunications infrastructure used to carry communications between two discrete entities (as will be the case with SABRENet) must be operated by a licensed telecommunications carrier.

As SABRENet Ltd is not itself a licensed carrier, and has no immediate plans to become one, it has entered into an arrangement under its Operation and Maintenance agreement with Amcom, whereby Amcom will obtain a 'Nominated Carrier Declaration' (NCD) over the SABRENet infrastructure. Once the NCD is in place, Amcom will assume the regulatory rights and responsibilities assigned under the Act with respect to the SABRENet infrastructure.



At the end of the reporting period, the NCD had been successfully issued, published in the Commonwealth Government Gazette and listed on the ACMA web site⁴.

Keeping Stakeholders Informed

Reporting to the Members and Participants

Under the Company Constitution, SABRENet Ltd is required to

- submit a business plan for approval by the Members following the establishment of the Company, and at each AGM thereafter
- provide the Participants with quarterly management reports.

The Directors receive reports from the CEO and, for the duration of the construction program, the SKM project manager at each Board meeting.

A Technical Reference Group has been formed, comprising Participants' technical staff, the SABRENet Ltd CEO and the SKM project manager. The Group provides a two-way channel for communication at an operational level between the Participants and the construction program.

Web site

The Company's web site (www.sabrenet.edu.au) is the primary means by which it communicates with its external stakeholders.

The public web site provides

- Company news and announcements
- Answers to Frequently Asked Questions
- Corporate and contact information
- Photographs and video clips of the SABRENet construction
- An RSS news feed

The web site also provides a private download area for use by the Directors, Technical Reference Group, contractors and support staff.

³ Telecommunications Act (1997) – <http://www.scaleplus.law.gov.au>

⁴ <http://www.acma.gov.au>



Concise Financial Report

The concise financial report is an extract from the full financial report for the nine months ended 30th June 2006. The financial statements and disclosures in the concise financial report have been derived from the 2006 Financial Report of SABRENet Ltd. The concise report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities for the entity as the financial report. A copy of the full financial report has been presented to the Members of SABRENet Ltd.

The discussion and analysis is provided to assist members in understanding the concise financial report. The discussion and analysis is based on SABRENet Ltd financial statements and the information contained in the concise financial report has been derived from the full 2006 Financial Report of SABRENet Ltd.

Discussion and Analysis of the Financial Statements

Income Statement

The profit attributable to members for the nine-month period was \$7,648,403. This was primarily due to significant one off contributions from members to form the company and allow the network backbone to be constructed. The construction project is expected to be completed by January 2007. Once completed, the company will move into an operational mode, whereupon it expects to see a reduced income, in the order of \$300,000 per annum.

Balance Sheet

Total assets rose to \$8,254,672. This was due in the main to significant one off contributions from the members.

Total Liabilities are \$606,269, significantly less than total assets. These consist of subscriptions received in advance, as well as various sundry creditors and accruals.

Cash Flow Statement

Cash flows were quite significant during the period. Large cash receipts were brought in from the initial contributions from the members, as well as their yearly subscriptions. There were also significant cash outflows in the form of progress payments for the construction of the network, which will form the backbone of operations in years to come.

Income Statement

For the nine months ended 30 June 2006

Revenues from ordinary activities	\$8,132,849
Expenses from ordinary activities	
Employee benefits expense	\$24,662
Occupancy expenses	\$15,000
Insurance	\$35,490
Depreciation expenses	\$1,290
Professional fees	\$387,963
Other expenses from ordinary activities	\$20,040
	<hr/>
	\$484,446
Profit attributable to members of the entity	\$7,648,403
Income tax expense	\$-
Net profit from ordinary activities after income tax expense attributable to members of the company	\$7,648,403

Balance Sheet

As at 30th June 2006

Assets

Current Assets

Cash	\$4,851,116
Receivables	\$666,571
Total Current Assets	\$5,517,687

Non Current Assets

Property plant and equipment	\$2,736,985
Total Non Current Assets	\$2,736,985

Total Assets **\$8,254,672**

Liabilities

Current Liabilities

Payables	\$606,269
Total Current Liabilities	\$606,269

Non Current Liabilities

Payables	\$-
Total Non Current Liabilities	\$-

Total Liabilities **\$606,269**

Net Assets **\$7,648,403**

Equity

Retained earnings	\$7,648,403
Total Equity	\$7,648,403

Cash Flow Statement

For the nine months ended 30 June 2006

Cash flows from operating activities

Contributions and subscriptions	\$8,318,154
Other sundry debtors	\$74,032
Interest Received	\$116,877
Payments to suppliers and employees	\$(919,672)
Income tax paid	\$-
Net cash flows from operating activities	\$7,589,392

Cash flows from investing activities

Purchase of property plant and equipment	\$(2,738,276)
Proceeds from sale of property plant and equipment	
Proceeds from investments	
Net cash flows used in investing activities	\$(2,738,276)

Cash flows from financing activities

Net cash flows used in financing activities	\$-
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Net Increase / (Decrease) in cash held	\$4,851,116
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Cash at beginning of the nine month period	\$-
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Cash at end of the nine month period	\$4,851,116
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Statement of Changes in Equity

For the nine months ended 30 June 2006

	Reserves	Retained Earnings	Total Equity
Balance at 1 July 2005	\$-	\$-	\$-
Profit attributable to equity	\$-	\$7,648,403	\$7,648,403
Balance at 30 June 2006	\$-	\$7,648,403	\$7,648,403

Director's Statement

The directors of SABRENet Ltd declare that the concise financial report of SABRENet Ltd for the nine months ended 30 June 2006, as set out on pages 1 to 5:

1. Complies with the Accounting Standard AASB 1039: Concise Financial Reports; and
2. Is an extract from the full financial report for the year ended 30 June 2006 and has been derived from and is consistent with the full financial report of SABRENet Ltd.

This declaration is made in accordance with a resolution of the Board of Directors.



Paul Sherlock
Chair



Clive Martis
Director

12th September 2006

Auditor's Statement

Independent Audit Report to the Members of SABRENet Ltd

Scope

We have audited the concise financial report of SABRENet Ltd for the nine months ended 30 June 2006 as set out on pages 1 to 5, in order to express an opinion on it to the members of the company. The company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. We have also performed an independent audit of the full financial report of SABRENet Ltd for the year ended 30 June 2006. Our audit report on the full financial report was signed on 23rd August 2006, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosure which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

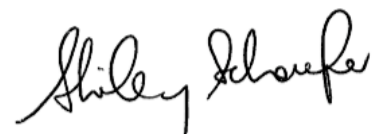
The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion, the concise financial report of SABRENet Ltd complies with Accounting Standard AASB 1039 "Concise Financial Reports".

BDO

Chartered Accountants



Shirley Schaefer

Partner

1st September 2006