

For personal use only

2011 Annual Report





CONTENTS

CHAIRMAN'S REVIEW	1
DIRECTORS' REPORT (INCLUDING CORPORATE GOVERNANCE STATEMENT AND REMUNERATION REPORT)	2
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	23
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	24
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	25
CONSOLIDATED STATEMENT OF CASH FLOWS	26
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	27
DIRECTORS' DECLARATION	62
INDEPENDENT AUDIT REPORT	63
LEAD AUDITOR'S INDEPENDENCE DECLARATION	65
ADDITIONAL ASX INFORMATION	66

CORPORATE INFORMATION

Directors

Mr Justin Milne (*Non Exec. Chairman*)
Mr Craig Ferrier (*Non Exec. Director*)
Mr Peter Gunzburg (*Non Exec. Director*)
Mr Campbell Smith (*Non Exec. Director*)
Mr Bill Zikou (*Non Exec. Director*)

Company Secretary

Mark Pitts

Registered Office

75 Collingwood Street
Osborne Park WA 6017
Telephone: 61 8 9444 9088
Facsimile: 61 8 9444 9022
E-mail: info@pienetworks.com
Website: www.pienetworks.com

Solicitors

Clayton Utz
QV1 Building
250 St Georges Terrace
PERTH WA 6000

Auditors

KPMG
235 St Georges Terrace
PERTH WA 6000

Share Registry

Computershare Investor Services
Level 2
Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000
Telephone: 61 8 9323 2000
Facsimile: 61 8 9323 2033

Home Exchange

Securities Exchange Listings
Australian Stock Exchange limited
2 The Esplanade
PERTH WA 6000

ASX Code: PIE

Dear Shareholder,

The year to 30 June 2011 has been an important year for pieNETWORKS. The company is on the threshold of moving into the commercialisation phase of the pieNETWORKS Hotspot Webphone.

Consumer demand for access to Internet enabled content and services when they're 'on the move' continues to grow exponentially. Businesses are now responding to this customer behaviour by offering better and faster websites and mobile apps via which their customers can interact and transact.

pieNETWORKS' capabilities and expertise in developing and managing public Internet access, media, WiFi and VoIP networks offers businesses an effective means of 'enabling and enhancing' their customer's 'on the move' interaction.

Throughout 2010/2011 the Company continued to invest in product and business development. pieNETWORKS is now building an experienced team capable of executing on the numerous exciting opportunities that are presenting in Australia and in overseas markets.

The successful market assessment by Telstra Corporation Limited ("Telstra") of 50 Webphones in Australia and expansion of the New Zealand Webphone network has been complemented by significant progress in product development, including the release of the 2nd Generation Webphone featuring a large, full function, 22 inch touchscreen.

The prospects for the years ahead are greatly anticipated, with negotiations underway with Telstra for a larger scale roll-out of smart Payphones in Australia. pieNETWORKS is already progressing partnering opportunities in the world's largest payphone markets, and will work to develop formal channel partner arrangements in international markets in 2012 and beyond. Globally there are in excess of 40 million payphones deployed.

Development has begun on other products targeting SME and retail opportunities which take advantage of our core competencies in networks, hardware, software and media management.

In closing I want to thank our hard working and loyal staff and our supportive shareholders.

For and on behalf of the board,



Justin Milne
Chairman

For personal use only

The directors present their report together with the financial statements of the Group comprising of pieNETWORKS Limited (the Company) and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

Contents of directors' report		Page
1.	Directors	3
2.	Company secretary	4
3.	Directors' meetings	4
4.	Corporate governance statement	5
	4.1 Board of directors	5
	4.2 Business ethics	7
	4.3 Communication with shareholders	9
	4.4 Risk management	9
	4.5 Audit and Compliance Committee	10
	4.6 Remuneration and Nomination Committee	10
	4.7 Remuneration report - audited	11
	4.7.1 Compensation policies	11
	4.7.2 Directors' and executive officers' remuneration	14
	4.7.3 Analysis of bonuses included in remuneration	16
	4.7.4 Equity instruments	16
	4.7.4.1 Options over equity instruments granted as compensation	16
	4.7.4.2 Modification of terms of equity-settled share based payment transactions	18
	4.7.4.3 Exercise of options granted as compensation	18
	4.7.4.4 Vesting profile of options granted as compensation	18
	4.7.4.5 Analysis of movements in options	19
5.	Principal activities	19
6.	Operating and financial review	19
7.	Dividends	20
8.	Events subsequent to reporting date	20
9.	Likely developments	20
10.	Directors' interests	20
11.	Share options	21
12.	Indemnification and insurance of officers	21
13.	Non-audit services	22
14.	Lead auditor's independence declaration	22

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
Justin T. Milne B.A. Chairman Independent Non-Executive Director	58	<p>Justin has had a distinguished career in the Internet and Media arenas. He was CEO of The Microsoft Network, of OzEmail and of Telstra BigPond. He also ran Telstra's considerable media businesses in Australia and China. He is a director of Tabcorp Ltd, Basketball Australia Ltd, and the Sydney Children's Hospital Network. He is active in Chinese Media where he consults to a number of organisations. He is a past board member of the SA Economic Development Board and a past President of the Internet Industry Association.</p> <p>Member of the Audit and Compliance Committee and Remuneration and Nomination Committee.</p> <p>Appointed 1 March 2011 as independent Non-Executive Director.</p> <p>Appointed as Chairman on 26 July 2011.</p>
Peter Abery M.Sc (Elec.Eng), MBA Chairman Independent Non-Executive Director	63	<p>Over 20 years extensive management experience at MD / CEO level. Previous recent roles include CEO of HPM Industries, CEO of Crown Castle UK Ltd and Crown Castle Australia Pty Ltd, and Managing Director of Vodafone Network in Australia and senior roles in Telstra Corporation.</p> <p>He is a director of Nomad Building Solutions Limited (director since 28 July 2008) and a former non-executive director of the Norfolk Group Limited (From 31 May 2007 to 4 August 2010).</p> <p>Member of the Audit and Compliance Committee and Remuneration and Nomination Committee.</p> <p>Appointed 8 May 2007 as Independent Non-Executive Director.</p> <p>Appointed as Chairman on 10 August 2010.</p> <p>Resigned as Chairman and non-executive director on 26 July 2011.</p>
Peter L Gunzburg BComm, ASIA Non-Executive Director	59	<p>Over 20 years experience as a stockbroker. Currently the Chairman of Eurogold Limited (director since 2001), Brinkley Mining PLC and a director of Fleetwood Corporation Limited (director since 2002).</p> <p>Past Director of Resolute Limited, The Australian Securities Exchange Limited, Evers Reed Limited, CIBC World Markets Australia Limited, AIM listed Matra Petroleum PLC and Strike Oil Limited.</p> <p>Member of the Audit and Compliance Committee and Chairman of the Remuneration and Nomination Committee.</p> <p>Appointed 29 April 2002.</p> <p>Held the role of Chairman from 30 July 2002 to 10 August 2010.</p>
Campbell Smith Non-Executive Director	46	<p>Over 20 years experience in finance and sales and marketing. Co-founder and first Managing Director of the Company.</p> <p>Appointed 23 May 1997.</p> <p>Managing Director/Chief Executive Officer 23 May 1997 to 28 September 2011.</p>

For personal use only

1. Directors (continued)

<i>Name, qualifications and independence status</i>	<i>Age</i>	<i>Experience, special responsibilities and other directorships</i>
Craig Ferrier BBus, CPA Non-Executive Director	49	<p>Craig has over 20 years experience in the corporate and financial management of public companies gained as an executive and in advisory roles. He has worked within a broad range of sectors including mining and exploration, venture capital, manufacturing and information technology, including roles within the BHP and Ansett groups. Immediate past positions include the role of CFO with Grange Resources Limited and immediately prior to that, as CFO of Aurox Resources Limited. Craig led the development and successful merger of that entity with ASX 100 Company, Atlas Iron Limited.</p> <p>Company Secretary from May 2001 until 12 March 2008.</p> <p>Chairman of the Audit and Compliance Committee and Remuneration and Nomination Committee.</p> <p>Appointed 10 September 2003.</p>
Bill Zikou BEng, MBA Independent Non-Executive Director	60	<p>Over 35 years experience in the telecommunications industry with 25 years in senior management and executive roles. His previous recent roles include CEO of Ericsson South East Europe (consisting of 9 countries) and CEO of Ericsson Australia, New Zealand and the Pacific islands.</p> <p>Member of the Audit and Compliance Committee and Remuneration and Nomination Committee.</p> <p>Appointed 10 August 2010.</p>

2. Company secretary

Mark Pitts BBus, FCA Company Secretary	49	<p>Over 25 years experience in statutory reporting and business administration. He has been directly involved with, and consulted to, a number of public companies holding senior financial management positions. He is a partner in corporate advisory firm Endeavour Corporate.</p> <p>Appointed 12 March 2008.</p>
--	----	---

3. 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 Company during the financial year are:

Director	Board Meetings		Audit and Compliance Committee Meetings		Remuneration & Nomination Committee Meetings ¹	
	A	B	A	B	A	B
Justin Milne	3	3	-	-	-	-
Peter Abery	13	13	2	2	-	-
Peter L Gunzburg	13	13	2	2	-	-
Campbell Smith	13	13	2	2	-	-
Craig Ferrier	12	13	2	2	-	-
Bill Zikou	11	11	2	2	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

¹ – Committee exists but did not meet during the year

4. Corporate governance statement

The directors of pieNETWORKS Limited ("pie" and the "Company") have established a framework of corporate governance, which they review on a regular basis.

The Company operates in accordance with the principles of corporate governance as set out by the ASX Corporate Governance Council (CGC) and as required by the ASX Listing Rules. The directors have implemented policies and practices which they believe will focus their attention and that of their Senior Executives on accountability, risk management and ethical conduct.

The CGC Principles, in conjunction with the ASX Listing Rules, require companies to disclose whether their corporate governance practices follow the revised CGC Principles on an "if not, why not" basis. This statement outlines the main corporate governance practices in place throughout the year, which comply with the CGC Principles and Best Practice Recommendations, unless otherwise stated.

4.1 Board of Directors

The roles of the Board and management

The role of the Board is to oversee and guide the management of the Company and its business with the aim of protecting and enhancing the interests of its shareholders and taking into account the interests of all stakeholders.

Details of the background, experience and professional skills of each director are set out on page 3 and 4 of this Directors' Report.

In summary the Board is responsible for:

- setting the strategic direction of the Company;
- appointing and removing the managing director;
- ratifying the appointment and/or removal of the Chief Financial Officer and the Company Secretary;
- reviewing and ratifying the systems of risk management, internal control and compliance;
- approving operating budgets;
- approving and monitoring progress of major capital expenditure, capital management, acquisitions and divestments;
- approving the form of and monitoring financial and other reporting; and
- establishing goals for management and monitoring the achievement of those goals.

The Managing Director/Chief Executive Officer is responsible to the Board for the day-to-day management of the Company. The role of management is to support the Managing Director/Chief Executive Officer in the implementation of the agreed strategy in accordance with the delegated authority of the Board. The Chairman liaises regularly with the Managing Director/Chief Executive Officer, at least monthly, to discuss the general performance of the Company and any issues arising.

4. Corporate governance statement (continued)

4.1 Board of Directors (continued)

Board structure and independence

The Company recognises the importance of having a Board comprising of directors with an appropriate range of backgrounds, skills and experience to suit the Company's current and future strategies and requirements. The composition of the board is determined by the application of the following principles:

- persons nominated as non-executive directors shall be expected to have qualifications, experience and expertise of benefit to the Company and to bring an independent view to the Board's deliberations. Persons nominated as executive directors must be of sufficient stature and security of employment to express independent views on any matter;
- the Chairman should ideally be independent, but in any case be non-executive and be elected by the Board based on his suitability for the position;
- all non-executive directors are expected voluntarily to review their membership of the Board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the Company's then current policy and programme, together with the other criteria considered desirable for composition of a balanced Board and the overall interests of the Company; and
- executive directors shall be expected to retire from the Board on the relinquishment of their executive responsibilities.

The Company considers that the Board should have at least four directors and will aim to have a majority of independent directors (as required) but acknowledges that this may not be possible at all times due to the size of the Company.

Directors are expected to bring independent views and judgement to the Board's deliberations. In determining each director's independence the Board will use the guiding principle that an independent director is independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. In applying the guiding principle, the Board will take into consideration the definition in the revised CGC Principles and Recommendations and appropriate materiality.

During the year, the Board comprised of five non-executive directors, including the Chairman, and one Executive Director, namely, the Managing Director. The current Board comprised three directors that would not be regarded as independent against the CGC criteria. They are:

- Mr. Peter Gunzburg, Non-Executive Director, who is a substantial shareholder of the Company;
- Mr. Campbell Smith, Non-Executive Director, who is a significant shareholder and held the office of Managing Director/Chief Executive Officer until 28 September 2011; and
- Mr. Craig Ferrier, Non-Executive Director, who provides corporate finance and project management consultancy services to the Company.

Mr. Justin Milne, Mr. Peter Aberly and Mr. Bill Zikou, all Non-Executive Directors of the Company during the financial year, are regarded to be independent based on the criteria set out above.

Subsequent to the year end, Mr. Justin Milne has assumed the role of Non-Executive Chairman of the Board following the resignation of Mr. Peter Aberly.

Under the Company's Constitution, the minimum number of directors is three. At each Annual General Meeting, one third of the directors (excluding the Managing Director) must resign, with directors resigning by rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election.

4. Corporate governance statement (continued)

4.1 Board of Directors (continued)

As at 30 June 2011, the Company has not met the CGC Recommendations 2.1 (majority of independent directors). However the Board considers that both its structure and composition are appropriate given the size of the Company and that the interests of the Company and its shareholders are well met.

Meetings of the board

The Board meets formally at least eight times a year and on other occasions, as required. The agenda for meetings is prepared by the Company Secretary in consultation with the Managing Director/Chief Executive Officer. Standard items include the Managing Director's report, financial reports, strategic matters and governance and compliance matters. Executives are available to participate in Board discussions as required.

Board access to information and independent advice

All directors have unrestricted access to all employees of the group and, subject to the law and the terms of Deeds of Access, Insurance and Indemnity, access to all Company records.

Consistent with CGC Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee. The Company will reimburse the director for the reasonable expense of obtaining that advice.

4.2 Business Ethics

Code of conduct

The Board has adopted a Company Code of Conduct to promote ethical and responsible decision-making by all employees (including directors). The Code embraces the values of honesty, integrity, accountability and equality and to strive to enhance the reputation and performance of the Company. In summary, the overriding principles are:

- All employees must conduct their duties honestly and in the best interests of the Company as a whole;
- Treat other stakeholders fairly and without discrimination;
- Respect confidentiality and do not misuse Company information or assets;
- Conduct themselves in accordance with both the letter and spirit of the law; and
- Maintain a safe working environment.

Diversity Policy

The Board has implemented a Diversity Policy in accordance with best practice and governance guidelines. The Company believes that the promotion of diversity on its Boards, in senior management and within the organisation generally is good practice and strengthens its decision making.

The Diversity Policy operates to confirm existing employment practices which seek to attract and retain people by promoting an environment where employees are treated with fairness and respect and have equal access to opportunities as they arise. Diversity within the workforce includes such factors as religion, race, ethnicity, language, gender, disability and age.

4. Corporate governance statement (continued)

4.2 Business Ethics (continued)

Gender Diversity

The Corporate Governance recommendation 3.2 is effective from 1 July 2011 and requires the Board to set 'measurable objectives' for achieving gender diversity and to report against them on an annual basis. The Board is currently reviewing its practices and aims to have measures to assess the success of the policy in place during the coming financial year.

Securities trading policy

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees. The policy prohibits trading by all employees and directors of the Company and its related entities at all times where the transaction is intended for short term or speculative gain or where the person is in possession of price sensitive information. All Directors and employees (including their immediate family or any entity for which they control investment decisions), must ensure that any trading in securities issued by the Company is undertaken within the framework set out in the Securities trading policy.

The Securities trading policy does not prevent Directors or employees (including their immediate family or any entity for which they control investment decisions) from participating in any share plan or share offers established or made by the Company. However, Directors or employees are prevented from trading in the securities once acquired if the individual is in possession of price sensitive information not generally available to all security holders.

In keeping with recent listing rule amendments, additional restrictions are placed on trading by Directors, Executives and other key management personnel as determined by the Chairman and Company Secretary from time to time ('Restricted Employees').

In addition to the overriding prohibition against dealing in the Company's securities when a person is in possession of inside information, Restricted Employees and their associated parties are at all times prohibited from dealing in the Company's securities during **prescribed 'closed' periods**. The Company has nominated closed periods to run from the end of the financial quarter up to the day after the release date of the quarterly report. Restricted Employees must also obtain written consent from the Chairman or Managing Director/Chief Executive Officer prior to trading in the Company's securities.

The Securities trading policy also includes a clause prohibiting Directors and Executives from entering into transactions in associated products which operate to limit the economic risk of security holdings in the Company over unvested entitlements.

Financial reporting

The Board requires the persons performing the roles of chief executive officer and financial controller to state in writing to the Board that the Company's financial reports represent a true and fair view, in all material respects, of the Company's financial condition and operational results in accordance with the relevant accounting standards.

The Board has established an Audit & Compliance Committee ("A&CC"). The role of the A&CC is set out in a charter and its responsibilities include reviewing all published accounts of the group; reviewing the scope and independence of external audits; monitoring and assessing the systems for internal compliance and control, legal compliance and risk management; and advising on the appointment, performance and remuneration of the external auditors.

The Company's auditor is KPMG. Consistent with CGC Principle 6, KPMG attend, and are available to answer questions at, the Company's annual general meeting.

4. Corporate governance statement (continued)

4.2 Business Ethics (continued)

Continuous disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings and media communications. The Company Secretary has responsibility for coordinating disclosure of information to the Australian Securities Exchange.

The Company's continuous disclosure policy is reviewed periodically and updated as required and is consistent with ASX Principle 5.

4.3 Communication with shareholders

The Company places considerable importance on effective communication with shareholders to ensure their access to timely and relevant information. The Company communicates information on its activities and financial performance through the issue of the annual and half-year financial reports, quarterly reports on activities and cash flows and through other announcements released to the Australian Securities Exchange.

The Company posts all reports, ASX announcements, media releases and copies of newspaper reports on the Company's website at www.pienetworks.com. The website contains an archive of ASX announcements and annual reports for at least the last 3 years. The Company will, wherever practicable, take advantage of new technologies that provide greater opportunities for more effective communications with shareholders.

The Company will ensure that the annual general meeting is held in a manner that enables as many shareholders as possible to attend and encourages effective participation by shareholders. The Company requires the attendance of the external auditor at the Company's annual general meeting and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

4.4 Risk management

Management is ultimately responsible to the Board for the Group's system of internal control and risk management. The Audit & Compliance Committee assists the Board in monitoring this role.

The Company is committed to the identification, monitoring and management of risks associated with its business activities and has established various financial and operational reporting procedures and other internal control and compliance systems in this regard. These include:

- delegated authority limits in respect of financial expenditure and other business activities;
- a comprehensive annual insurance programme;
- internal controls to safeguard the Company's assets and ensure the integrity of business processes and reporting systems;
- regular cashflow reporting and capital adequacy monitoring;
- annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends;
- appropriate due diligence procedures for acquisitions and divestments; and
- disaster recovery procedures and crisis management systems.

4. Corporate governance statement (continued)

4.5 Audit and Compliance Committee

The Audit & Compliance Committee assists the Board by:

- reviewing with management the adequacy and effectiveness of internal control systems, expenditure controls and reporting systems;
- reviewing all published financial statements of the Group;
- reviewing the scope and independence of external audits;
- advising on the appointment, performance and remuneration of external auditors;
- reviewing and evaluating risk management policies in the light of the Company's business strategy, capital strength, legal compliance requirements and overall risk tolerance;
- reviewing the adequacy of its insurance policies; and
- periodically reviewing the adequacy of accounting, financial, legal and other personnel resources.

Consistent with the requirements of CGC Principles 4 and 7, the persons performing the roles of chief executive officer and financial controller must state in writing to the Board that the Company's and the Group's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. Additionally, the persons performing the roles of chief executive officer and financial controller are required to state in writing that this is based on a sound system for risk management and internal compliance and control which implements the policies adopted by the Board and is operating efficiently and effectively in all material respects.

In view of the size of the board, the Audit & Compliance Committee comprised all directors during the year ended 30 June 2011. Mr Craig Ferrier is chairman of the committee. The external auditors and the financial controller are invited to committee meetings at the discretion of the committee.

4.6 Remuneration and Nomination Committee

Nomination

The Board has established a Remuneration & Nomination Committee that is comprised of all Non-Executive Directors. The committee reviews its composition as required to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate expertise and experience are considered. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. No formal meetings of the committee were held during the year.

The Chairman reviews the performance of all directors each year. Directors whose performance is unsatisfactory are counselled and encouraged to improve their performance. If the Chairman believes their performance has not adequately improved, they are asked to retire.

4. Corporate governance statement (continued)

4.6 Remuneration and Nomination Committee (continued)

Remuneration

During the financial year, the Remuneration and Nomination Committee comprised Messrs Milne, Abery, Gunzburg, Ferrier and Zikou. The role of the Remuneration & Nomination Committee is to ensure that appropriate remuneration policies are in place and that they meet the needs of the Company and enhance corporate and individual performance. No formal meetings of the committee were held during the year.

The Remuneration & Nomination Committee is responsible for reviewing:

- executive remuneration and incentive policies;
- the remuneration packages of senior management;
- the Company's recruitment, retention and termination policies and procedures for senior management;
- superannuation arrangements;
- the performance management system operating within the organisation and its effectiveness; and
- the remuneration framework for directors.

During the 2011 year, the role of the Remuneration and Nomination Committee was undertaken by the full Board.

Remuneration levels are competitively set to attract suitably qualified and experienced directors and senior executives, having regard for Company performance. Shareholders in general meeting have approved a directors' fee pool limit of \$200,000 from which non-executive directors' fees may be paid.

The performance of the Managing Director/Chief Executive Officer and other executive directors is reviewed by the Remuneration & Nomination Committee. The performances of the other executives and staff are reviewed on an annual basis by the Managing Director/Chief Executive Officer.

4.7 Remuneration report - audited

4.7.1 Compensation policies

Remuneration is referred to as compensation throughout this report.

Overview of compensation policies

Compensation levels for directors of the Company are competitively set to attract and retain appropriately qualified and experienced directors.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Other than the directors and executives identified in 4.7.2, no other person is concerned in, or takes part in, the management of the Company ("senior manager") or has authority and responsibility for planning, directing and controlling the activities of the entity. As such, during the financial year, the Company did not have any other persons that would meet the definition of "key management personnel" for the purposes of AASB 124 or "company executive", or "relevant group executive" for the purposes of section 300A of the Corporations Act 2001 ("Act").

Compensation packages may include a mix of fixed and variable compensation and short and long-term performance-based incentives.

The Group does not provide non-cash benefits to key management personnel other than statutory superannuation contributions.

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.1 Compensation policies (continued)

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Compensation levels are reviewed by the Remuneration and Nomination Committee through a process that considers individual, segment and overall performance of the consolidated entity. The Remuneration and Nomination Committee has regard to compensation levels external to the group to ensure the director's compensation is competitive in the market place.

Performance linked compensation

Performance linked compensation may include both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI), when in place, is intended to be an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares in the Company.

Short-term incentive bonus

There is currently no short term incentive bonus plan currently in place.

Long-term incentive

In general meeting on 11 April 2008, shareholders "renewed" the pieNETWORKS OIP.

On 27 November 2009, shareholders approved the grant of 16,500,000 options to directors. The options are exercisable at 1 cent and have an expiry date of 30 November 2014. The options were issued in three tranches with share price performance hurdles of 3 cents, 5 cents and 7 cents and vesting periods of 12 months, 24 months and 36 months, respectively.

On 8 July 2010, shareholders approved the grant of 17,600,000 options to employees under the Company's Employee Option Incentive Plan. The options are exercisable at 1 cent each and have an expiry date of 30 June 2015. The options were issued in three tranches with share price performance hurdles of 3 cents, 5 cents and 7 cents and vesting periods of 12 months, 24 months and 36 months, respectively.

On 24 November 2010, shareholders approved the grant of 4,000,000 share options to Messrs Peter Abery and Bill Zikou. The options, which vested immediately upon grant, were issued with an exercise price of 3 cents each and an expiry date of 30 November 2014. Subsequent to the end of the financial year, 3,000,000 of these options have since lapsed following the resignation of Mr Peter Abery in accordance with their terms.

The grant of options to directors and employees is designed to encourage the recipients to have a greater involvement in the achievement of the Company's objectives and to provide an incentive to directors and employees by participating in the future growth and prosperity of the Company through share ownership. The ability to compensate directors and employees by way of a grant of options enables the Company to provide a means of non-cash compensation and thereby reduce the amount that would otherwise have to be paid in cash.

The Group has a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would arise from share price decreases.

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.1 Compensation policies (continued)

As per the Securities trading policy Directors and Executives are not allowed to enter into transactions in associated products which operate to limit the economic risk of security holdings in the Company over unvested entitlements.

In addition, the Company operates an Employee Share Acquisition Scheme ("ESAS"). Participation in the ESAS is available to all Australian employees other than directors. There were no shares issued under the ESAS during or since the end of the financial year (2010: Nil).

Consequences of performance on shareholders wealth

In considering the Group's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee has regard to the following indices in respect of the current financial year and the previous four financial years.

	2011	2010	2009	2008	2007
Net (loss)	(3,361,578)	(2,074,815)	(2,307,611)	(2,042,111)	(1,230,764)
Loss per share (cents per share)	(0.38)	(0.30)	(0.55)	(0.72)	(0.51)
Dividends paid	-	-	-	-	-
Change in share price - (decrease)/ increase	\$0.002	\$0.011	(\$0.03)	(\$0.07)	\$0.071
Return on capital	-	-	-	-	-
Net cash (used in) operations	(2,943,081)	(1,964,165)	(1,977,364)	(2,030,394)	(1,337,701)

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long term creation of shareholder wealth, the Board has had regard to the stage of development of the Company's business and given consideration to each of the indices outlined above. In relation to long term incentives, a share price exceeding the option exercise price is required before holders can realise any value from Directors' Options or options issued under the pieNETWORKS OIP.

Service agreements

On 25 February 2000, pieNETWORKS Limited, Gocom Pty Ltd and Campbell Smith entered into a Consultancy Agreement pursuant to which the Company agreed to engage Gocom Pty Ltd as consultant to provide the services of Campbell Smith as managing director of the Company for a fixed term of 3 years. The contract was extended for a 3 year fixed term to 25 February 2006. The contract remained in force subject to a term to the effect that either party may terminate the contract on 30 days written notice. During the 2011 financial year, the Board agreed to increase the fee to be paid to Gocom Pty Ltd to \$220,000 per annum beginning 1 August 2010. On 28 September 2011 the Company gave notice of the termination of the Consultancy Agreement with Gocom Pty Ltd and the engagement of Mr Smith as Managing Director/Chief Executive Officer of the Company.

On 15 April 2005, the Company entered into a contract for services with Atamo Pty Ltd, a Company of which Mr S. Snell and Mr P. Barrow are directors and shareholders. The contract is for the provision of services of Mr Snell as Chief Operating Officer and Mr Barrow as Product Development Manager. The contract was for an initial period of 2 years and fees payable on the contract are based on market rates. Through mutual agreement the contract remains in force and either party can terminate the agreement on 3 months notice.

In March 2008, the Company entered into a contract for services with Endeavour Corporate Pty Ltd, a Company of which Mr Mark Pitts is a partner, for the provision of company secretarial services. The contract is for no fixed term and fees payable are based on market rates for these types of services and are payable on a monthly basis for the duration of the contract. The contract may be terminated by either party on 30 days written notice.

For personal use only

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.1 Compensation policies (continued)

On 1 October 2010, the Company entered into a contract for services with Clarrily Pty Ltd, a Company of which Mr Reg Bowler is a director, for the provision of business development and management services. The contract is for no fixed term and may be terminated by either party on 30 days written notice. Fees payable are based on market rates for these types of services and are payable on a monthly basis for the duration of the contract.

During the financial year, the Company entered into a contract with Seinecorp Pty Ltd, a Company of which Mr Craig Ferrier is a director and shareholder. The contract is for the provision of corporate finance, financial management and business management services. The contract is for no fixed term and fees payable are based on market rates.

Non-executive directors

Shareholders in a general meeting have approved a directors' fee pool limit of \$200,000 from which non-executive directors' fees may be paid.

4.7.2 Directors' and executive officers' remuneration (Consolidated)

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Company executives and the relevant Group executives who receive the highest remuneration and other key management personnel of the consolidated entity are:

DIRECTORS		Short-term			Post-employment benefits	Other long term		Termination benefits	Share-based payments		Proportion of remuneration related %	Value of options as proportion of remuneration %
		Salary & fees \$	STI cash bonus \$	Total \$		Super-annuation benefits \$	\$		\$	Options \$		
(i) Non-executive Directors												
Mr JI Milne (Appointed 1 March 2011), Chairperson (Appointed 27 July 2011)	2011	13,333	-	13,333	1,200	-	-	-	-	-	0%	0%
	2010	-	-	-	-	-	-	-	-	-	-	-
Mr P Abery (Resigned 27 July 2011)	2011	58,000	-	58,000	5,220	-	-	-	36,000	99,220	36%	36%
	2010	36,000	-	36,000	3,240	-	-	-	8,056	47,296	17%	17%
Mr PL Gunzburg	2011	40,833	-	40,833	3,675	-	-	-	-	44,508	0%	0%
	2010	50,000	-	50,000	4,500	-	-	-	8,056	62,556	13%	13%
Mr CJ Ferrier (refer role 1)	2011	83,460	-	83,460	-	-	-	-	-	83,460	0%	0%
	2010	36,000	-	36,000	-	-	-	-	8,056	44,056	18%	18%
Mr BV Zikou (Appointed 10 August 2010)	2011	36,666	-	36,666	3,300	-	-	-	12,000	51,966	23%	23%
	2010	-	-	-	-	-	-	-	-	-	-	-
(ii) Executive Directors												
Mr CD Smith, Managing Director (until 28/9/11 and then a non-executive director)	2011	218,334	-	218,334	-	-	-	-	-	218,334	0%	0%
	2010	230,668	-	230,668	-	-	-	-	20,139	250,807	8%	8%
(iii) Executives												
Mr ME Pitts, Company Secretary	2011	60,000	-	60,000	-	-	-	-	8,912	68,912	13%	13%
	2010	60,000	-	60,000	-	-	-	-	-	60,000	0%	0%
Mr S Snell, Chief Operating Officer	2011	169,960	-	169,960	-	-	-	-	13,864	183,824	7%	7%
	2010	139,645	-	139,645	-	-	-	-	-	139,645	0%	0%
Mr R. Bowler, General Manager Australia and New Zealand (Appointed 1 October 2010)	2011	140,732	-	140,732	-	-	-	-	-	140,732	0%	0%
	2010	-	-	-	-	-	-	-	-	-	-	-
Mr P Barrow, Product Development Manager	2011	172,800	-	172,800	-	-	-	-	13,864	186,664	8%	8%
	2010	164,160	-	164,160	-	-	-	-	-	164,160	0%	0%
Mr B Paul, Retail Sales and Customer Services Manager	2011	138,029	-	138,029	12,423	12,568	-	-	14,260	177,280	8%	8%
	2010	106,562	-	106,562	9,591	2,747	-	-	-	118,900	0%	0%
Mr O Mukanda, Financial Controller	2011	120,461	-	120,461	10,842	-	-	-	11,883	143,186	8%	8%
	2010	99,115	-	99,115	8,920	-	-	-	-	108,035	0%	0%
Total compensation: key management personnel (company and consolidated)												
	2011	1,252,608	-	1,252,608	36,660	12,568	-	-	110,783	1,412,619	8%	8%
	2010	922,150	-	922,150	26,251	2,747	-	-	44,307	995,455	5%	5%

Notes to table of Directors' and executive officers' remuneration:

1. Includes an amount of \$35,633 payable for consulting services by Seinecorp Pty Ltd, an entity controlled by Mr CJ Ferrier, for the 2011 financial year and \$43,267 for director fees for 2011. In addition, an amount of \$4,560 was recognised for director fees relating to a prior year.

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.2 Directors' and executive officers' remuneration (Consolidated) (continued)

Details of performance related remuneration

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed on page 11.

4.7.3 Analysis of bonuses included in remuneration

There were no bonuses paid during or since the end of the financial year.

4.7.4 Equity instruments

All options refer to options over ordinary shares of pieNETWORKS Limited, which are exercisable on a one-for-one basis under the Director Option plan and under the pieNETWORKS OIP. All options expire on the earlier of their expiry date or termination of the individual's employment.

4.7.4.1 Options over equity instruments granted as compensation

During the year, the Company granted 9,282,332 options to Directors and Executives as compensation as set out below.

	Number of options granted	Grant date	Exercise price per option (\$)	Expiry date	Number of options vested during 2011
Directors					
Peter Abery	3,000,000	24 Nov 2010	\$0.03	30 Nov 2014	3,000,000
Bill Zikou	1,000,000	24 Nov 2010	\$0.03	30 Nov 2014	1,000,000
Executives					
Mark Pitts	749,999	8 Jul 2010	\$0.01	30 Jun 2015	Nil
Stewart Snell	1,166,167	8 Jul 2010	\$0.01	30 Jun 2015	Nil
Peter Barrow	1,166,167	8 Jul 2010	\$0.01	30 Jun 2015	Nil
Bryan Paul	1,200,000	8 Jul 2010	\$0.01	30 Jun 2015	Nil
Ohimai Mukanda	999,999	8 Jul 2010	\$0.01	30 Jun 2015	Nil

The terms and conditions of options granted to Directors are as follows:

Item	
Number of options	4,000,000
Exercise price	\$0.03
Expiry date	30 Nov 2014
Vesting	On grant
Number of options vested in 2011	4,000,000

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.4 Equity instruments (continued)

The fair value of these options at grant date has been determined using the Binomial model, utilising the following model assumption:

Item	
Underlying share spot price	\$0.02
Exercise price	\$0.03
Grant date	24 November 2010
Expiration date	30 November 2014
Life of options	4 years
Volatility	90%
Risk free rate	5.47%
Number of options	4,000,000
Fair value	\$0.012

Options granted to Executives were granted on the following terms and conditions:

Item	Tranche A	Tranche B	Tranche C
Number of options	1,760,777	1,760,777	1,760,778
Exercise price	\$0.01	\$0.01	\$0.01
Expiry date	30 June 2015	30 June 2015	30 June 2015
Vesting period	12 months	24 months	36 months
Number of options vested during 2011	-	-	-

Vesting conditions:

1. The Tranche A options vest after 12 months from the date of issue if at or after the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above \$0.03.
2. The Tranche B options vest after 24 months from the date of issue if at or after the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above \$0.05.
3. The Tranche C options vest after 36 months from the date of issue if at or after the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above \$0.07.

For personal use only

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.4 Equity instruments (continued)

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	Tranche A	Tranche B	Tranche C
Underlying spot share price	\$0.02	\$0.02	\$0.02
Exercise price	\$0.01	\$0.01	\$0.01
Share price barrier	\$0.03	\$0.05	\$0.07
Grant date	8 July 2010	8 July 2010	8 July 2010
Expiration date	30 June 2015	30 June 2015	30 June 2015
Life of options	5 years	5 years	5 years
Volatility	90%	90%	90%
Risk free rate	4.79%	4.79%	4.79%
Number of options	1,760,777	1,760,777	1,760,778
Fair value	\$0.02	\$0.02	\$0.019

4.7.4.2 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

4.7.4.3 Exercise of options granted as compensation

During the financial year, no shares were issued as a result of the exercise of options.

4.7.4.4 Vesting profile of options granted as compensation

Details of vesting profile of the options granted as remuneration to key management personnel of the Group are detailed below.

Directors	Options granted		% vested in year	% forfeited in year	Financial years in which grant vests
	Number	Date			
Peter Abery	3,000,000*	24 Nov 2010	100%	-	2011
Bill Zikou	1,000,000	24 Nov 2010	100%	-	2011
Executives					
Mark Pitts	749,999	8 Jul 2010	-	-	2012-2015
Stewart Snell	1,166,667	8 Jul 2010	-	-	2012-2015
Peter Barrow	1,166,667	8 Jul 2010	-	-	2012-2015
Bryan Paul	1,200,000	8 Jul 2010	-	-	2012-2015
Ohimai Mukanda	999,999	8 Jul 2010	-	-	2012-2015

*Forfeited by P. Abery on resignation on 26 July 2011.

4. Corporate governance statement (continued)

4.7 Remuneration report - audited (continued)

4.7.4 Equity instruments (continued)

4.7.4.5 Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by key management personnel is detailed below.

Directors	Granted in year \$ (A)	Value of Options	Lapsed in year \$
		Exercised in year \$ (B)	
Peter Abery	36,000	-	-
Bill Zikou	12,000	-	-
Executives			
Mark Pitts	14,750	-	-
Stewart Snell	22,944	-	-
Peter Barrow	22,944	-	-
Bryan Paul	23,600	-	-
Ohimai Mukanda	19,667	-	-

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option-pricing model. As the options do not vest immediately in all instances, the amount allocated to remuneration has been apportioned over the vesting period of the options. The amount allocated to remuneration in the current year is shown under 4.7.2.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company as at the close of trading on the dates the options were exercised after deducting the price paid to exercise the options.

5. Principal activities

The principal activities of the Group during the financial period were the continued development and commercialisation of its public internet access, WiFi and telephony terminals, network management systems and related services.

6. Operating and financial review

The Consolidated net loss after tax for the year was \$3,361,578 compared with a net loss of \$2,074,815 in 2010.

Revenues increased by 15.8% to \$804,844, with further revenue attributable to the Telstra Market Assessment to be recognized in the 2011/12 financial year.

In New Zealand, the Company was successful in securing long-term contracts with Wellington and Christchurch international airports, enhancing the existing network of 42 Hotspot Webphones installed in Westfield and AMP shopping centres. In Christchurch and Wellington airports the Hotspot Webphone network replace existing payphones and internet kiosks and include a WiFi service throughout the international and domestic terminals.

In Australia the Company completed a four-month market assessment with Telstra Corporation Limited (**Telstra**), deploying 50 Hotspot Webphones in a number of high profile indoor sites across Australia. In early August 2011 the Company announced that the trial had been deemed successful by Telstra and that pieNETWORKS and Telstra have now entered into negotiations to agree the terms for the deployment of a larger network of pieNETWORKS' Hotspot Webphones in the Australian market.

Operating expenditures increased in 2011 to support and ensure the success of the Telstra Market Assessment. In addition, the Company increased operating expenditure on product and business development activities in preparation for anticipated business growth. Research and development expenditure increased to \$996,813 (2010: \$832,624).

For personal use only

7. Dividends

No dividends were paid or declared since the end of the previous financial year. The directors do not recommend a payment of a dividend in respect of the current financial year.

8. Events subsequent to reporting date

Subsequent to 30 June 2011, with the exception of that listed below, 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 of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years:

- On 1 August 2011, the Company announced that the results of deployment of 50 Hotspot webphones in an assessment of the Australian market had been deemed successful by Telstra, and that the Company and Telstra would enter into a negotiation period in order to agree the terms for the deployment of a larger network of pieNETWORKS' Hotspot webphones in the Australian market.
- On 13 September 2011, the Company announced that it had completed a placement of new shares to raise \$2,320,000. The placement of 145,000,000 shares at 1.6 cents per share was made to institutional and other sophisticated investors pursuant to ASX Listing Rule 7.1.
- On 28 September 2011 the Company gave notice of the termination of the Consultancy Agreement with Gocom Pty Ltd and the engagement of Mr Smith as Managing Director/Chief Executive Officer of the Company. Mr Craig Turner was appointed as the Group's acting Chief Executive Officer as at that date.
- On 28 September 2011 the Group also announced its intention to relocate its head office to Sydney, Australia.

9. Likely developments

The Company will continue to pursue its stated policy of seeking to build a profitable business based on the continued development and commercialisation of its public internet access, WiFi and telephony terminals, network management systems and services.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

10. Directors' interests

The relevant interest of each director in the shares and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
Justin Milne	-	-
Peter L Gunzburg	121,134,703	3,000,000
Campbell Smith	17,169,131	7,500,000
Craig Ferrier	1,125,000	3,000,000
Bill Zikou	1,125,000	1,000,000

- (1) Includes up to 16,454,131 shares held by other parties and the subject of an agreement granting security over those shares, giving rise to a relevant interest pursuant to the Corporations Act.

11. Share options

Options granted to directors and officers of the Company

Other than the options granted to Directors detailed in section 4.7.4.1 of this Directors' report, there were no options over ordinary shares in the Company granted to directors and officers of the Company during the reporting period or options granted since the end of the financial year.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Option Plan	Expiry date	Exercise price	Number of shares
Director Incentive options	30 November 2014	\$0.01	13,500,000
Options to financial advisors	31 March 2013	\$0.05	20,000,000
Employee incentive options	30 June 2015	\$0.01	17,600,000
Director Incentive options	30 November 2014	\$0.03	1,000,000
			52,100,000

Unless determined otherwise by the Board, all options expire on the earlier of their expiry date or termination of the employee's employment.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

During and since the end of the financial year, the Company has issued no ordinary shares as a result of the exercise of options.

12. Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the current directors of the Company, Mr. Justin T Milne, Mr. Peter L Gunzburg, Mr. Campbell D Smith, Mr. Craig Ferrier and Mr. Bill Zikou, and certain former directors, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

Since the end of the previous financial year the Company has paid or agreed to pay insurance premiums in respect of directors' and officers' liability, legal expenses and insurance contracts, for current and former directors and officers, including executive officers of the Company. The details of the policy remain confidential between the insurer and the company.

For personal use only

13. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit and compliance committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	2011	Consolidated
	\$	2010
		\$
Audit services:		
Auditors of the Company		
<i>KPMG Australia:</i>		
Audit and review of financial reports	70,652	67,566
	70,652	67,566
Services other than statutory audit:		
Auditors of the Company		
<i>KPMG Australia</i>		
Taxation services	10,790	9,244
	81,442	76,810

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 66 and forms part of the directors' report for financial year ended 30 June 2011.

This report is made with a resolution of the directors:



Justin T. Milne
Director

Dated at Perth this 30th day of September 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

<i>In AUD</i>	Note	2011	2010
Revenue from sale of goods	6	330,079	125,108
Revenue from rendering services	6	474,765	569,638
Cost of sales		(614,027)	(428,389)
Gross profit		190,817	266,357
Other income from ordinary activities	7	722	36,060
Network management expenses		(871,773)	(450,700)
Sales and marketing expenses		(476,989)	(390,288)
Research and development expenses		(996,813)	(832,624)
Administrative and corporate expenses		(1,697,819)	(980,374)
Other expenses from ordinary activities	8	(7,891)	(22,717)
Results from operating activities		(3,859,746)	(2,374,286)
Financial income		71,438	65,132
Financial expenses		(25,434)	(3,056)
Net financing income	10	46,004	62,076
Loss before income tax		(3,813,742)	(2,312,210)
Income tax benefit	11	452,164	237,395
Loss after income tax attributable to Owners of the Company		(3,361,578)	(2,074,815)
Other comprehensive income:			
Foreign currency translation differences for foreign operations		9,773	-
Total comprehensive income attributable to Owners of the Company		(3,351,805)	(2,074,815)
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic and diluted loss per share (cents)	19	(0.379)	(0.303)

The notes on pages 27 to 61 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

<i>In AUD</i>	Note	Attributable to shareholders of the Company			Total equity
		Share capital	Share option reserve	Accumulated losses	
Balance at 1 July 2009		19,857,327	226,588	(19,460,456)	623,459
Total comprehensive income for the period					
Loss for the period		-	-	(2,074,815)	(2,074,815)
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	(2,074,815)	(2,074,815)
Transactions with Owners, recorded directly in equity					
Issue of ordinary shares		3,414,750	-	-	3,414,750
Share options exercised		300,000	-	-	300,000
Share-based payment transactions		-	44,307	-	44,307
Total transactions with Owners		3,714,750	44,307	-	3,759,057
Balance at 30 June 2010	18	23,572,077	270,895	(21,535,271)	2,307,701

<i>In AUD</i>	Note	Attributable to shareholders of the Company				Total equity
		Share capital	Share option reserve	Translation reserve	Accumulated losses	
Balance at 1 July 2010		23,572,077	270,895	-	(21,535,271)	2,307,701
Total comprehensive income for the period						
Loss for the period		-	-	-	(3,361,578)	(3,361,578)
Other comprehensive income		-	-	-	-	-
Foreign currency translation differences		-	-	9,773	-	9,773
Total comprehensive income for the period		-	-	9,773	(3,361,578)	(3,351,805)
Transactions with Owners, recorded directly in equity						
Issue of ordinary shares		2,804,768	-	-	-	2,804,768
Share-based payment transactions		-	486,014	-	-	486,014
Total transactions with Owners		2,804,768	486,014	-	-	3,290,782
Balance at 30 June 2011	18	26,376,845	756,909	9,773	(24,896,849)	2,246,678

The notes on pages 27 to 61 are an integral part of these consolidated financial statements.

<i>In AUD</i>	Note	2011	2010
Assets			
Cash and cash equivalents	17(a)	1,315,026	1,415,297
Trade and other receivables	16	35,094	326,053
Inventories	15	420,741	144,030
Current tax assets	14	453,488	237,395
Other current assets		76,846	94,615
Total current assets		2,301,195	2,217,390
Restricted cash deposits	17(a)	108,624	114,316
Property, plant and equipment	12	403,305	482,725
Intangible assets	13	587	1,367
Other non-current assets	32	33,041	254,368
Total non-current assets		545,557	852,776
Total assets		2,846,752	3,070,166
Liabilities			
Trade and other payables	23	288,117	269,670
Loans and borrowings	20	1,620	1,022
Employee benefits	21	212,828	174,822
Deferred revenue		79,476	281,872
Total current liabilities		582,041	727,386
Loans and borrowings	20	7,304	-
Employee benefits	21	10,729	35,079
Total non-current liabilities		18,033	35,079
Total liabilities		600,074	762,465
Net assets		2,246,678	2,307,701
Equity			
Share capital	18	26,376,845	23,572,077
Reserves		766,682	270,895
Accumulated losses		(24,896,849)	(21,535,271)
Total equity		2,246,678	2,307,701

The notes on pages 27 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

<i>In AUD</i>	Note	2011	2010
Cash flows from operating activities			
Cash receipts from customers		974,686	915,234
Cash paid to suppliers and employees		(4,155,162)	(3,275,416)
Cash utilised in operating activities		(3,180,476)	(2,360,180)
Research and development tax offset rebate received		237,395	396,017
Net cash (used in) operating activities	<i>17b</i>	(2,943,081)	(1,964,165)
Cash flows from investing activities			
Interest received		71,438	35,484
Acquisition of property, plant and equipment	<i>12</i>	(182,069)	(215,925)
Deposits made	<i>32</i>	(33,041)	(254,368)
Acquisition of intangible asset	<i>13</i>	(619)	(195)
Net cash (used in) investing activities		(144,291)	(435,004)
Cash flows from financing activities			
Payment of finance lease liabilities		(1,680)	(3,504)
Proceeds from share issues	<i>18</i>	3,151,320	3,862,500
Payments for equity raising costs	<i>18</i>	(166,553)	(147,750)
Interest paid	<i>10</i>	(1,678)	(3,056)
Net cash provided by financing activities		2,981,409	3,708,190
Net (decrease)/increase in cash and cash equivalents		(105,963)	1,309,021
Cash and cash equivalents at 1 July		1,529,613	220,592
Cash and cash equivalents at 30 June	<i>17a</i>	1,423,650	1,529,613

The notes on pages 27 to 61 are an integral part of these consolidated financial statements.

1. Reporting Entity

pieNETWORKS Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 75 Collingwood Street, Osborne Park WA 6017. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiary (together referred to as the "Group"). The Group primarily is involved in the development, manufacture, installation and management of fully managed and controlled "self service" internet access "infrastructure" and webphones.

2. Basis of Preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 23 September 2011.

(b) Going concern basis

The Group incurred a loss after tax for the year of \$3,361,578 (2010: \$2,074,815) and has a surplus in working capital at 30 June 2011 of \$1,719,154 (2010: \$1,490,004). During the period, cash used in operating activities by the Group was \$2,943,081 (2010: \$1,964,165), which includes expenditure on the further development, commercialisation and assessment of the Hotspot Webphone during the period. The Group continues to have net cash outflows from its operations and is continuing the pursuit of other business opportunities that, in the Directors opinion, warrant the ongoing commitment of the Group's financial resources.

The financial statements for the year ended 30 June 2011 have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. Directors believe this to be appropriate for the following reasons:

- The Group has been implementing a strategy over the past 18 to 24 months of establishing a Hotspot Webphone network to demonstrate the merits of its business model with the aim of then securing a major contract with a large telecommunications company capable of providing both capacity and scale. To this end:
 - In 2010, the Group deployed its own network of 42 Hotspot Webphones in Westfield and AMP shopping centres in New Zealand which is now being utilised by the Group as a reference network for telecommunications companies. This network has been expanded following the signing of long term contracts with Wellington and Christchurch international airports during 2011.
 - In late 2010 the Group commenced a 4 month market assessment with Telstra with a network of 50 Hotspot Webphones deployed across Australia in the majority of major airports.
- In August 2011, the Group announced that the trial deployment had been deemed successful by Telstra with Telstra agreeing to acquire the network of 50 Webphones. Additionally, the Group and Telstra have now entered into a negotiation period in order to agree the terms of an anticipated deployment of a larger network of pieNETWORKS' Hotspot Webphones in the Australian market.
- On 13 September 2011 the Company announced that it had completed a placement of new shares to raise \$2,320,000. The placement of 145,000,000 shares at 1.6 cents per share was made to institutional and other sophisticated investors pursuant to ASX Listing Rule 7.1.
- Directors have undertaken an analysis of the Group's minimum cash requirements for the 12 month period subsequent to the date of this report and are confident, subject to capital raisings as and when required, that the Group will have sufficient cash reserves for that period. The Directors have engaged an investment advisory firm on a twelve-month mandate to act as its corporate advisor to, amongst other things, assist the Group in its capital raising activities.

For personal use only

2. Basis of Preparation (continued)

(b) Going concern basis (continued)

Should the Group be unable to successfully commercialise its Hotspot Webphone and related products and services within a reasonable timeframe and/or be unable to successfully raise sufficient capital when required there is material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

(c) Basis of measurement

The consolidated financial report is prepared on the historical cost basis.

(d) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

(e) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed in the following notes:

- note 2(b) – going concern
- note 22 – measurement of share-based payments

(f) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 33.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, other current assets, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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 net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

- plant and equipment 5 years
- fixtures and fittings 5 years
- kiosks and webphones 2.5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- capitalised software and implementation costs 2.5 years

3. Significant accounting policies (continued)

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics

All impairment losses are recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's 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 exceeds its recoverable amount.

The recoverable amount of an asset 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Impairment losses are recognised in profit or loss. An impairment loss is reversed if there has been a change in the 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.

3. Significant accounting policies (continued)

(i) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Long-term service benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations. Any gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

(v) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group 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.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

3. Significant accounting policies (continued)

(k) Revenue (continued)

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The stage of completion is assessed by reference to the extent of work performed.

(iii) Rental income

Rental income from subletting leased property is recognised in profit or loss on a straight line basis over the term of the lease.

(l) Expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance lease are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

(ii) Finance income and expenses

Finance income comprises interest income on funds invested, gains on the available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses and impairment losses recognised on financial assets.

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

3. Significant accounting policies (continued)

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed by the 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 based on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(p) 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 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.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

(c) Share-based payment transactions

The fair value of employee stock options is measured using a Binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. Financial Risk Management

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group'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. The Board and the Audit & Compliance Committee is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Various financial and operational reporting procedures and other internal control and compliance systems are implemented to identify and monitor risks associated with the Group's business activities.

The Audit & Compliance Committee oversees how management monitors compliance with the Group's risk management procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

5. Financial Risk Management (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from transactions with customers and cash holdings with financial institutions.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group is not materially exposed to credit risk as the majority of their services are prepaid. Approximately 28% percent (2010: 13% percent) of the Group's revenue is attributable to sales transactions with its largest customer.

The Audit & Compliance Committee assists the Board in monitoring material business risks of the Group. Procedures are in place to monitor customer payments which include follow up of debtors aging reports on a regular basis.

The Group has established a provision for doubtful debts that represents their estimate of incurred losses in respect of trade and other receivables.

Cash and cash equivalents, restricted term deposits

The Group maintains its bank accounts with major Australian and New Zealand financial institutions only.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation.

The Group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance the Group's current and future operations, and consideration is given to the liquid assets available to the Group before commitment is made to future expenditure or investment. Further information is set out in note 2(b).

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group'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 any return.

Currency risk

The Group is exposed to currency risk on transactions with its foreign branch that is denominated in a currency other than the respective functional currency of the Group, being the Australian dollar (AUD). The currency in which these transactions primarily are denominated is NZD (New Zealand Dollar).

Transactions with foreign suppliers also expose the Group to currency risk. Such transactions are predominantly denominated in USD (United States Dollar).

Interest rate risk

As the Group has interest bearing assets, its income and operating cash flows are exposed to changes in market interest rates. The assets are short term interest bearing deposits, and no financial instruments are employed to mitigate risk. (Note 24 – Financial Instruments).

5. Financial Risk Management (continued)

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors closely monitors capital expenditure and cash.

The Board's approach to capital management has been to regularly monitor the Group's capital and to seek additional funding from investors on an as needs basis so as to facilitate the Group's webphone deployment and commercialisation strategy.

Details of the funds raised by the Group during and subsequent to the year end are set out in note 18 and 30.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

6. Revenue

<i>In AUD</i>	2011	2010
Sales	330,079	125,108
Services	474,765	569,638
Total revenues	804,844	694,746

7. Other income

<i>In AUD</i>	2011	2010
WA State Payroll tax rebate	722	29,060
Rental income from property subleases	-	7,000
	722	36,060

8. Other expenses

<i>In AUD</i>	2011	2010
Increase/(decrease) in provisions	319	6,900
Bad debts written off	7,572	16,311
Other	-	(494)
	7,891	22,717

9. Personnel expenses

<i>In AUD</i>	Note	2011	2010
Wages and salaries		1,129,202	849,102
Other associated personnel expenses		54,476	34,485
Contributions to defined contribution superannuation funds	21	114,984	84,184
Consulting fees		1,155,500	749,438
Increase/(decrease) in liability for annual leave	21	3,249	25,600
Increase in liability for long service leave	21	13,603	7,752
Equity-settled transactions	22	306,014	44,307
		2,777,028	1,794,868

10. Finance income and expense

In AUD

	2011	2010
Interest income	71,438	35,484
Net foreign exchange income	-	29,648
Financial income	71,438	65,132
Interest expense	1,678	3,056
Net foreign exchange expense	23,756	-
Financial expenses	25,434	3,056
Net finance income	46,004	62,076

11. Income tax benefit

In AUD

Current tax benefit

	2011	2010
Current period – R&D tax credit	(452,164)	(237,395)
	(452,164)	(237,395)

Numerical reconciliation between tax benefit and pre-tax net profit

In AUD

	2011	2010
Loss for the period	3,361,578	2,074,815
Total income tax benefit	(452,164)	(237,395)
Loss excluding income tax	3,813,742	2,312,210
Income tax using the domestic corporation tax rate of 30% (2009: 30%)	(1,144,123)	(693,663)
Increase in income tax expense due to:		
Non-deductible expenses	92,181	14,198
R&D costs	345,928	189,916
Tax losses and movements in deferred taxes not recognised	706,014	489,549
Decrease in income tax expense due to:		
R&D tax offset	(452,164)	(237,395)
Income tax benefit on pre-tax net loss	(452,164)	(237,395)

12. Property, plant and equipment

<i>In AUD</i>	Kiosks and Webphones	Equipment and fittings	Total
Cost			
Balance at 1 July 2009	507,792	453,578	961,370
Acquisitions	153,857	62,068	215,925
Movements in exchange	(5,884)	-	(5,884)
Write offs	(7,396)	-	(7,396)
Balance at 30 June 2010	648,369	515,646	1,164,015
Balance at 1 July 2010	648,369	515,646	1,164,015
Acquisitions	189,064	41,181	230,245
Disposals	-	(15,680)	(15,680)
Movements in exchange rates	(17,277)	(1,496)	(18,773)
Write offs	(272,807)	(165,503)	(438,310)
Balance at 30 June 2011	547,349	374,148	921,497
Depreciation			
Balance at 1 July 2009	353,947	178,386	532,333
Depreciation charge for the year	89,583	72,654	162,237
Movements in exchange	(5,884)	-	(5,884)
Write offs	(7,396)	-	(7,396)
Balance at 30 June 2010	430,250	251,040	681,290
Balance at 1 July 2010	430,250	251,040	681,290
Depreciation charge for the year	120,784	78,229	199,013
Movements in exchange rates	(3,504)	(134)	(3,638)
Disposals	-	(15,680)	(15,680)
Write offs	(272,435)	(70,358)	(342,793)
Balance at 30 June 2011	275,095	243,097	518,192
Carrying amounts			
At 1 July 2009	153,845	275,192	429,037
At 30 June 2010	218,119	264,606	482,725
At 1 July 2010	218,119	264,606	482,725
At 30 June 2011	272,254	131,051	403,305

(1) During the year, an impairment loss of \$95,517 relating to plant and equipment has been recorded as a consequence of Webphone product design changes that resulted in changes to manufacturing infrastructure requirements. The impaired plant and equipment have been written down to Nil, being their assessed recoverable amount.

12. Property, plant and equipment (continued)

Leased office equipment

The Group leases office equipment under finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2011, the net carrying amount of leased equipment was \$9,092 (2010: \$253). The leased equipment secures the lease obligations (see note 20).

Depreciation

Balance at 1 July 2009	353,947	178,386	532,333
Depreciation charge for the year	89,583	72,654	162,237
Movements in exchange	(5,884)	-	(5,884)
Write offs	(7,396)	-	(7,396)
Balance at 30 June 2010	430,250	251,040	681,290

13. Intangible assets

<i>In AUD</i>	Software costs	Business management system costs	Total
Cost			
Balance at 1 July 2009	13,500	53,435	66,935
Acquisitions	-	195	195
Balance at 30 June 2010	13,500	53,630	67,130
Balance at 1 July 2010	13,500	53,630	67,130
Acquisitions	-	619	619
Balance at 30 June 2011	13,500	54,249	67,749
Amortisation			
Balance at 1 July 2009	13,500	49,329	62,829
Amortisation for the year	-	2,934	2,934
Balance at 30 June 2010	13,500	52,263	65,763
Balance at 1 July 2010	13,500	52,263	65,763
Amortisation for the year	-	1,399	1,399
Balance at 30 June 2011	13,500	53,662	67,162
Carrying amounts			
At 1 July 2009	-	4,106	4,106
At 30 June 2010	-	1,367	1,367
At 1 July 2010	-	1,367	1,367
At 30 June 2011	-	587	587

Amortisation

The amortisation is allocated to administrative and corporate expenses in the income statement.

14. Tax assets and liabilities

Current tax assets and liabilities

<i>In AUD</i>	2011	2010
R&D tax rebate	452,164	237,395
Other income tax assets	1,324	-
Current tax assets at 30 June	453,488	237,395

R&D tax rebate of \$452,164 (2010: \$237,395) represents the amount of income taxes recoverable in respect of the current and prior financial periods arising from the Company's Research and Development Tax Rebate offset claim.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

<i>In AUD (net)</i>	2011	2010
Deductible temporary differences	5,526	170,722
Tax losses	4,320,254	3,808,056
	4,325,780	3,978,778

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits therefrom.

15. Inventories

<i>In AUD</i>	2011	2010
Raw materials and consumables	221,364	141,656
Work in progress	22,111	2,374
Finished products	177,266	-
	420,741	144,030

In the 2011 financial year raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$197,383 (2010: \$85,857). Reversal of write-down of inventories to net realisable value amounted to \$53,651 (2010: \$73,864). The write-down and reversal are included in cost of sales.

16. Trade and other receivables

<i>In AUD</i>	Note	2011	2010
Current			
Trade receivables		35,094	326,053
		35,094	326,053

Trade and other receivables are recorded net of an impairment provision of \$12,637 (2010: \$12,400).

17a. Cash and cash equivalents

In AUD

Bank balances	
Call deposits	
Term deposits	
Cash and cash equivalents included under current assets	
Restricted term deposits*	
Cash and cash equivalents included under non-current assets	
Total Cash and cash equivalents in the statement of cash flows	

	2011	2010
	41,701	46,761
	1,273,325	868,536
	-	500,000
	1,315,026	1,415,297
	108,624	114,316
	108,624	114,316
	1,423,650	1,529,613

The effective interest rates on call deposits and term deposits were 4.51% (2010: 5.26%) and 4.86% (2010: 5.7%), respectively.

*Restricted term deposits of \$108,624 (2010: \$114,316) are being held by ASB bank New Zealand Ltd as security for bank guarantees of NZ\$135,000 and NZ\$5,700 in favour of Westfield New Zealand Ltd and AMP Capital Property Portfolio Ltd, respectively. The effective interest rate on those deposits was 4.90% (2010: 4.71%).

17b. Reconciliation of cash flows from operating activities

In AUD

Cash flows from operating activities

Loss for the period	
<i>Adjustments for:</i>	
Depreciation	12
Amortisation	13
Net finance income	10
Write down in value of plant and equipment	
Equity-settled share-based payment expense	22
Income tax benefit	

Note	2011	2010
	(3,361,578)	(2,074,815)
	199,013	162,237
	1,399	2,934
	(46,004)	(62,076)
	95,517	-
	306,014	44,307
	(452,164)	(237,395)
	(3,257,803)	(2,164,808)
	290,959	(126,474)
	17,769	(61,639)
	(276,711)	(57,048)
14	(1,324)	-
	(5,310)	(223,959)
	231,100	-
	(202,396)	237,822
	9,584	-
	13,656	35,944
	(3,180,476)	(2,360,162)
	237,395	396,017
	(2,943,081)	(1,964,145)

Operating loss before changes in Working capital and provisions

Change in trade and other receivables	
Change in other current assets	
Change in inventories	
Change in other income tax assets	
Change in trade and other payables	
Change in other non-current assets	
Change in deferred revenue	
Change in lease liabilities	
Change in provisions	

Cash utilised in operating activities

R&D tax offset rebate received

Net cash (used in) operating activities

18. Capital and reserves

Share capital

	The Company			
	2011		2010	
	No.	\$	No.	\$
On issue at 1 July	810,768,454	23,572,077	544,518,454	19,857,327
Issued for cash	157,566,056	2,804,768	256,250,000	3,414,750
Exercise of share options	-	-	10,000,000	300,000
On issue at 30 June – fully paid	968,334,510	26,376,845	810,768,454	23,572,077

During the year, 157,566,056 (2010: 266,250,000) shares were issued to raise \$3,151,321 (2010: \$3,862,500) and \$346,553 (2010: \$147,750) issue costs, including \$180,000 of share based payments, were incurred.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets

Share options reserve

The share option reserve comprises the cumulative fair value of vested and vesting options provided as compensation by the Company and Group.

19. Loss per share

Basic Loss per share

The calculation of basic and diluted loss per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of \$3,361,578 (2010: \$2,074,815) and a weighted average number of ordinary shares outstanding of 886,577,725 (2010: 684,694,025), calculated as follows:

Weighted average number of ordinary shares

	Note	2011	2010
Issued ordinary shares at 1 July	18	810,768,454	544,518,454
Effect of share options exercised		-	1,698,630
Effect of shares issued		75,809,271	138,476,941
Weighted average number of ordinary shares at 30 June		886,577,725	684,694,025

Options to acquire ordinary shares granted by the Company and not exercised at the reporting date which are considered to be potential ordinary shares are included in the determination of diluted earnings per share to the extent to which they are dilutive. At 30 June 2011, none of the options on issue were considered to be dilutive and accordingly the options have not been included in the determination of diluted loss per share. Refer to note 22 for details of the options granted.

20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk see note 24.

<i>In AUD</i>	2011	2010
Current liabilities		
Finance lease liabilities	1,620	1,022
Non-current liabilities		
Finance lease liabilities	7,304	-

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

<i>In AUD</i>	Future Minimum lease payments	Interest	Principal*	Future Minimum lease payments	Interest	Principal*
	2011	2011	2011	2010	2010	2010
Less than one year	2,715	1,095	1,620	1,042	20	1,022
Between one and five years	9,100	1,796	7,304	-	-	-
	11,815	2,891	8,924	1,042	20	1,022

* Principal represents the present value of minimum lease payments.

The Group leases office equipment under a finance lease expiring in 4 years. At the end of the lease term, the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option.

21. Employee benefits

Current

<i>In AUD</i>	2011	2010
Liability for annual leave	133,764	130,515
Liability for long service leave	37,953	-
Employee superannuation	41,111	44,307
	212,828	174,822

Non Current

Liability for long-service leave	10,729	35,079
Total employee benefits	10,729	209,901

(a) Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as an expense was \$114,984 for the financial year ended 30 June 2011 (2010: \$84,184).

22. Share based payments

On 28 April 2005 the Group established a share option programme that entitles employees to subscribe for shares in the entity. In November 2005, a grant of options was made to employees in accordance with the terms of the pieNETWORKS Limited Option Incentive Plan ("pieNETWORKS OIP"). The options issued to employees are exercisable at the prices established by the Board in making the offer to employees. In respect to the grant of pieNETWORKS OIP made in November 2005 the exercise price was 3 cents for each option.

During 2007, two further offerings were made under the terms of the pieNETWORKS OIP :

- 21 November 2006 – 500,000 option with exercise price of \$0.03 expiring 23 November 2010;
- 30 April 2007 – 2,000,000 options with exercise price of \$0.12 expiring 23 November 2010.

During 2008, incentive options were issued to Mr Peter Abery, a director, under the terms of the pieNETWORKS OIP:

- 5 December 2007 – 1,000,000 options with exercise price of \$0.12 expiring 23 November 2010.

During the year, 8,050,000 options issued under the above arrangements expired unexercised.

During 2010, incentive options were issued to Directors under the terms of the pieNETWORKS OIP:

- 27 November 2009 – 16,500,000 options with exercise price of \$0.01 expiring 30 November 2014.

During current the financial year, the Group granted options to directors, employees, contractors as follows:

- 8 July 2010 – 17,600,000 options were granted to employees and contractors. These options had an exercise price of \$0.01 and expiring date of 30 June 2015; and
- 24 November 2010 – 4,000,000 options granted to directors with an exercise price of \$0.03 expiring 30 November 2014.

In addition to the above, on 8 July 2010 the Group granted 20,000,000 options with an exercise price of \$0.05 and expiry date of 31 March 2013 to CPS securities, pursuant to the terms of an advisory mandate and services related to an equity raising.

The terms and conditions of the grants in 2011 and 2010 are as follows, whereby all options are settled by physical delivery of shares:

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to director at 27 November 2009	16,500,000	Vest in 3 tranches over 3 years	5 years
Option grant to employees and contractors 8 July 2010	17,600,000	Vest in 3 tranches over 3 years	5 years
Option grant to CPS securities 8 July 2010	20,000,000	Fully vested from the date of grant	3 years
Option grant to directors at 24 November 2010	4,000,000	Fully vested from the date of grant	4 years
Total share options	58,100,000		

22. Share based payments (continued)

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2011	2011	2010	2010
Outstanding at the beginning of the period	0.03	24,550,000	0.04	18,050,000
Expired during the period	0.06	(8,050,000)	-	-
Exercised during the period	-	-	0.03	(10,000,000)
Granted during the period	0.03	41,600,000	0.01	16,500,000
Outstanding at the end of the period		<u>58,100,000</u>		<u>24,550,000</u>
Exercisable at the end of the period	0.05	<u>24,000,000</u>	0.04	<u>8,050,000</u>

The options outstanding at 30 June 2011 have exercise prices in the range of \$0.01 to \$0.05 and a weighted average contractual life of 4 years.

There were no options exercised during the financial year (2010: 10,000,000).

During the year, the Company granted 20,000,000 options to CPS securities in part consideration for fundraising and advisory services on 8 July 2010. These options vested on grant date and had the following terms and conditions:

Item

Number of options	20,000,000
Exercise price	\$0.05
Expiry date	31 March 2013

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item

Underlying share spot price	\$0.02
Exercise price	\$0.05
Grant date	8 July 2010
Expiration date	31 March 2013
Life of options	2.73 years
Volatility	90%
Risk free rate	4.79%
Number of options	20,000,000
Fair value	\$0.009

For personal use only

22. Share based payments (continued)

In addition, the Company granted 17,600,000 options to employees and contractors on 8 July 2010. The terms and conditions of these options are as follows:

Item	Tranche A	Tranche B	Tranche C
Number of options	5,866,667	5,866,667	5,866,667
Exercise price	\$0.01	\$0.01	\$0.01
Expiry date	30 Jun 2015	30 Jun 2015	30 Jun 2015
Vesting period	12 months	24 months	36 months

Vesting conditions:

1. The Tranche A options vest after 12 months from the date of issue if at the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above \$0.03.
2. The Tranche B options vest after 24 months from the date of issue if at the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above \$0.05.
3. The Tranche C options vest after 36 months from the date of issue if at the anniversary the underlying shares have traded and are trading based on a 30 day average, at or above \$0.07.

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	Tranche A	Tranche B	Tranche C
Underlying share spot price	\$0.02	\$0.02	\$0.02
Exercise price	\$0.01	\$0.01	\$0.01
Share price barrier	\$0.03	\$0.05	\$0.07
Grant date	8 Jul 2010	8 Jul 2010	8 Jul 2010
Expiration date	30 Jun 2015	30 Jun 2015	30 Jun 2015
Life of options	5 years	5 years	5 years
Volatility	90%	90%	90%
Risk free rate	4.79%	4.79%	4.79%
Number of options	5,866,667	5,866,667	5,866,667
Fair value	\$0.02	\$0.02	\$0.019

The Company also granted 3,000,000 and 1,000,000 director incentive share options to Messrs Peter Abery and Bill Zikou on 24 November 2010. These options vested on grant date and had the following terms and conditions:

Item	
Number of options	4,000,000
Exercise price	\$0.03
Expiry date	30 November 2014

22. Share based payments (continued)

The fair value of these options at the grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	
Underlying share spot price	\$0.02
Exercise price	\$0.03
Grant date	24 November 2010
Expiration date	30 November 2014
Life of options	4 years
Volatility	90%
Risk free rate	5.47%
Number of options	4,000,000
Fair value	\$0.012

During the prior year 16,500,000 share options were granted as compensation to directors. The fair value of services received in return for share options granted to directors and employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial model. The contractual life of the option is used as an input into this formula.

Item	Tranche A	Tranche B	Tranche C
Underlying share spot price	\$0.01	\$0.01	\$0.01
Exercise price	\$0.01	\$0.01	\$0.01
Share price barrier	\$0.03	\$0.05	\$0.07
Grant date	27 November 2009	27 November 2009	27 November 2009
Expiration date	30 November 2014	30 November 2014	30 November 2014
Life of options	5 years	5 years	5 years
Volatility	105%	105%	105%
Risk free rate	5.33%	5.33%	5.33%
Number of options	5,500,000	5,500,000	5,500,000
Fair value per option	\$0.00785	\$0.00767	\$0.0056
Number of options vested	Nil	Nil	Nil

Employee Expenses

In AUD	Note	Consolidated	
		2011	2010
Share options granted - equity settled	9	306,014	44,307
Total expense recognised as employee costs		306,014	44,307

23. Trade and other payables

In AUD	2011	2010
Payables and accrued expenses	288,117	269,670

For personal use only

24. Financial instruments

Credit risk

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

<i>In AUD</i>	Note	Carrying amount	
		2011	2010
Trade and other receivables	16	35,094	326,053
Cash and cash equivalents	17(a)	1,423,650	1,529,613
		<u>1,458,744</u>	<u>1,855,666</u>

The Group's maximum exposure to credit risk for trade receivables by geographic region was:

<i>In AUD</i>	Carrying amount	
	2011	2010
Australia	33,112	325,927
New Zealand	1,982	126
	<u>35,094</u>	<u>326,053</u>

The Group's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

<i>In AUD</i>	Carrying amount	
	2011	2010
Wholesale customers	1,850	281,829
Retail customers	27,239	25,860
Other	6,005	18,364
	<u>35,094</u>	<u>326,053</u>

The Group's most significant customer accounts for \$5,112 of the trade receivables carrying amount at 30 June 2011 (2010: \$275,000)

Impairment losses

\$34,164 of the Group's receivables are past due (2010: \$94,891). The aging of the Group's trade receivables at the reporting date was:

<i>In AUD</i>	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
Not past due	6,623	-	231,162	-
Past due 0-30 days	9,769	-	55,052	-
Past due 31-90 days	18,702	12,637	39,839	12,066
	<u>35,094</u>	<u>12,637</u>	<u>326,053</u>	<u>12,066</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

<i>In thousands of AUD</i>	2011	2010
Balance at 1 July	12,066	5,496
Impairment loss recognised	571	6,570
Balance at 30 June	<u>12,637</u>	<u>12,066</u>

Based on past customer default experience, the provision for impairment at the year-end is considered to be sufficient for the Group.

24. Financial instruments (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments, note 5 (b):

30 June 2011
In AUD

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Trade and other payables	288,117	(288,117)	(288,117)	-	-	-
Finance lease liabilities	8,924	(11,815)	(1,357)	(1,358)	(2,715)	(6,385)
	297,041	(299,932)	(289,474)	(1,358)	(2,715)	(6,385)

30 June 2010
In AUD

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	269,670	(269,670)	(269,670)	-	-
Finance lease liabilities	1,022	(1,042)	(1,042)	-	-
	270,692	(270,712)	(270,712)	-	-

Currency risk

The Group's exposure to foreign currency risk, note 5 (c), at balance sheet date was as follows, based on notional amounts:

	30 June 2011		30 June 2010	
	AUD	NZD	AUD	NZD
Cash and Cash equivalents*	127,603	165,284	140,386	172,787
Trade receivables	1,982	2,567	126	155
Trade and other payables	(31,972)	(41,414)	(15,723)	(19,352)
Net balance sheet exposure	97,613	126,437	124,789	153,590

*Cash and cash equivalents includes restricted deposits of AUD \$108,623 (NZD \$140,700).

The following significant exchange rates applied during the year:

AUD/NZD	2011		2010	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
	1.3044	1.2953	1.2552	1.2308

24. Financial instruments (continued)

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	Consolidated
<i>AUD</i>	Loss
30 June 2011	
NZD- increase in loss	8,874
30 June 2010	
NZD - increase in loss	10,960

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

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

<i>AUD</i>	Carrying amount	
	2011	2010
Fixed rate instruments		
Financial liabilities – finance lease	8,924	1,022
Financial assets –term deposits	108,624	614,316
Variable rate instruments		
Financial assets	1,315,026	915,297

Fair value sensitivity analysis for fixed rate investments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

<i>Consolidated</i>	Profit or loss	
	100bp increase	100bp decrease
<i>AUD</i>		
30 June 2011		
Variable rate instruments	13,150	(13,150)
30 June 2010		
Variable rate instruments	9,153	(9,153)

24. Financial instruments (continued)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities approximate their carrying amounts shown in the balance sheet due to their short term nature. The carrying amounts of financial assets and liabilities as described in the balance sheet are as follows:

<i>In AUD</i>	30 June 2011		30 June 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents ⁽¹⁾	1,423,650	1,423,650	1,529,613	1,529,613
Receivables	35,094	35,094	326,053	326,053
Trade and other payables	(288,117)	(288,117)	(269,670)	(269,670)
Finance lease liabilities	(8,924)	(8,924)	(1,022)	(1,022)
	1,161,703	1,161,703	1,584,974	1,584,974

(1) Cash and cash equivalents includes restricted deposits of AUD \$108,623. The basis for determining fair values is disclosed in note 4.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In AUD</i>	2011	2010
Less than one year	61,732	84,000
Between one and five years	-	58,710
	61,732	142,710

The Group leases a warehouse and factory facility under an operating lease. The lease runs for a period of 3 years, with an option to renew the lease after that date. Lease payments are increased every year to reflect market rentals. The lease does not include contingent rentals.

During the financial year ended 30 June 2011, \$108,456 was recognised as an expense in the income statement in respect of operating leases (2010: \$100,722). No amount was recognised as income in the income statement in respect of subleases (2010: \$7,000).

26. Capital and other commitments

Capital commitments

Contracted but not provided for:

	Consolidated	
	2011	2010
Less than one year	33,041	254,368
	33,041	254,368

For personal use only

27. Related parties

The following were key management personnel of the group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Justin Milne (Chairperson)
Peter Abery
Peter L Gunzburg
Craig Ferrier
Bill Zikou

Executive directors

Campbell Smith (Managing Director/Chief Executive Officer)

Executives

Mark Pitts (Company Secretary)
Stewart Snell (Chief Operating Officer)
Reg Bowler (General Manager Australia and New Zealand)
Ohimai Mukanda (Financial Controller)
Peter Barrow (Project Manager)
Bryan Paul (Sales and Network Operations Manager)

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 9) are as follows:

<i>In AUD</i>	Consolidated	
	2011	2010
Short-term employee benefits	1,252,608	922,150
Share-based payments	110,783	44,307
Post-employment benefits	36,660	26,251
Other long term benefits	12,568	2,747
	1,412,619	995,455

Individual directors and executive compensation disclosure

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by the Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in this note, note 30 and the Remuneration Report, no director has entered into a material contract with the Group since the end of the financial year and there were no material contracts involving directors' interests existing at year-end.

27. Related parties (continued)

Key management personnel and director transactions

Mr. S. Snell and Mr. P. Barrow, both key management personnel of the Group, hold positions in another entity, Atamo Pty Ltd, that result in them having control or significant influence over the financial or operating policies of that entity.

The Group transacted with the Atamo Pty Ltd in the reporting period. The terms and conditions of transactions with Atamo Pty Ltd were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Key management personnel and entities over which they have control or significant influence were as follows:

In AUD

	Note	Transaction value year ended 30 June		Balance outstanding at 30 June	
		2011	2010	2011	2010
Key management person					
S. Snell and P. Barrow	(i)	156,225	104,090	41,913	36,255
		156,225	104,090	41,913	36,255

(i) The Group used technical consultancy services of Atamo Pty Ltd in relation to product development and other related research and development activities. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in pieNETWORKS Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Granted as compensation	Exercised	Expired	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Directors							
Peter Abery	4,000,000	3,000,000	-	(1,000,000)	6,000,000	3,000,000	3,000,000
Peter L Gunzburg	3,000,000	-	-	-	3,000,000	-	-
Bill Zikou	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Craig Ferrier	3,000,000	-	-	-	3,000,000	-	-
Campbell Smith	7,500,000	-	-	-	7,500,000	-	-
Executives							
Mark Pitts	-	749,999	-	-	749,999	-	-
Stewart Snell	-	1,166,167	-	-	1,166,167	-	-
Peter Barrow	-	1,166,167	-	-	1,166,167	-	-
Bryan Paul	2,000,000	1,200,000	-	(2,000,000)	1,200,000	-	-
Ohimai Mukanda	-	999,999	-	-	999,999	-	-

27. Related parties (continued)

	Held at 1 July 2009	Granted as compensation	Exercised	Expired	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
Peter L Gunzburg	1,000,000	3,000,000	(1,000,000)	-	3,000,000	-	-
Peter Abery	1,000,000	3,000,000	-	-	4,000,000	-	1,000,000
Craig Ferrier	1,000,000	3,000,000	(1,000,000)	-	3,000,000	-	-
Campbell Smith	5,000,000	3,000,000	(5,000,000)	-	7,500,000	-	-
Executives							
Bryan Paul	2,000,000	-	-	-	2,000,000	-	2,000,000

Movements in shares

The movement during the reporting period in the number of ordinary shares in pieNETWORKS Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Purchases	Received on exercise of options	Other changes	Held at 30 June 2011
Directors					
Peter L Gunzburg	106,159,738	14,974,965	-	-	121,134,703
Campbell Smith	16,969,131	200,000	-	-	17,169,131
Craig Ferrier	1,000,000	125,000	-	-	1,125,000
Peter Abery	-	2,531,000	-	-	2,531,000
Bill Zikou	-	1,125,000	-	-	1,125,000
Executives					
Mark Pitts	2,000,000	250,000	-	-	2,250,000
Stewart Snell	851,110	1,148,054	-	-	1,999,164
Bryan Paul	1,115,556	139,444	-	-	1,255,000
Peter Barrow	1,506,387	188,297	-	-	1,694,684
	129,601,922	20,681,760	-	-	150,283,682

	Held at 1 July 2009	Purchases	Received on exercise of options	Other changes	Held at 30 June 2010
Directors					
Peter L Gunzburg	102,213,738	2,946,000	1,000,000	-	106,159,738
Campbell Smith	11,969,131	-	5,000,000	-	16,969,131
Craig Ferrier	-	-	1,000,000	-	1,000,000
Peter Abery	-	-	-	-	-
Executives					
Mark Pitts	-	2,000,000	-	-	2,000,000
Stewart Snell	-	851,110	-	-	851,110
Bryan Paul	1,115,556	-	-	-	1,115,556
Peter Barrow	580,461	925,926	-	-	1,506,387
	115,878,886	6,723,036	7,000,000	-	129,601,922

No shares were granted to key management personnel during the reporting period as compensation in 2011 or 2010.

28. Group entities

		2011	2010
Parent entity			
pieNETWORKS Limited	Australia		
Subsidiaries			
pieNETWORKS Plc	United Kingdom	100%	100%

Subsidiaries

Loans previously made by the Company to its wholly owned subsidiary are \$3,688,590 (2010: \$4,340,209). A provision for impairment of \$3,688,590 (2010: \$4,340,209) has been recognised. The loans will not be called within 12 months of the reporting date.

29. Operating segments

The Group has two reportable segments, as detailed below, which are the Group's strategic operational units. The strategic operational units operate in separate geographical locations and offer similar products and services, and are managed centrally because they require similar administrative, operational and marketing support. For each strategic operational unit, the CEO reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Australia – Includes manufacture, distribution and management of self service telecommunications infrastructure within Australia.
- New Zealand – Includes assembly, distribution and management of self service telecommunications infrastructure within New Zealand.

There is some level of intergration between the two segments. The intergration includes transfers of webphone units and component parts between the two segments. The accounting policies of the two segments are the same as those described in notes 2 and 3.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/loss after income tax as included in the internal management reports that are reviewed by the Group CEO. Segment profit/loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of the two segments. Inter-segment pricing is determined on an arm's length basis.

29. Operating segments (continued)

Information about reportable segments

<i>In AUD</i>	Australia		New Zealand		Total	
	2011	2010	2011	2010	2011	2010
External revenue	745,843	664,894	59,001	29,852	804,844	694,746
Inter-segment revenue	146,372	424,561	-	-	146,372	424,561
Interest income	65,865	31,831	5,573	3,653	71,438	35,484
Interest expense	(1,678)	(3,056)	-	-	(1,678)	(3,056)
Depreciation and amortisation	(82,500)	(91,299)	(145,859)	(91,904)	(228,359)	(183,203)
Income tax benefit	452,164	237,395	-	-	452,164	237,395
Segment loss after tax	(2,954,985)	(1,781,293)	(405,403)	(230,949)	(3,360,388)	(2,012,242)
Segment assets	3,518,882	3,359,255	459,343	488,721	3,978,225	3,847,976
Capital expenditure	41,237	27,133	181,913	321,375	223,150	348,508
Segment liabilities	568,101	744,766	1,099,188	732,441	1,667,289	1,477,207

Reconciliation of reportable segment revenues, loss, assets and liabilities and other material items

<i>In AUD</i>	2011	2010
Revenue		
Total revenue for reportable segments	951,216	1,119,307
Elimination of inter-segment revenue	(146,372)	(424,561)
Consolidated revenue	804,844	694,746
Loss		
Total loss for reportable segments	(3,360,388)	(2,012,242)
Elimination of inter-segment profit	(1,190)	(63,068)
Unallocated amounts: other corporate expenses	-	495
Consolidated loss after tax	(3,361,578)	(2,074,815)
Assets		
Total assets for reportable segments	3,978,225	3,847,976
Elimination of inter-segment assets	(1,067,215)	(714,742)
Elimination of inter-segment profit	(64,258)	(63,068)
Consolidated total assets	2,846,752	3,070,166
Liabilities		
Total liabilities for reportable segments	1,667,289	1,477,207
Elimination inter-segment liabilities	(1,067,215)	(714,742)
Consolidated total liabilities	600,074	762,465

29. Operating segments (continued)

Other material items 2011 <i>In AUD</i>	Reportable segment totals	Adjustments	Consolidated totals
Interest revenue	71,438	-	71,438
Interest expense	1,678	-	1,678
Depreciation and amortisation	228,359	(27,947)	200,412
Income tax benefit	452,164	-	452,164

Other material items 2010 <i>In AUD</i>	Reportable segment totals	Adjustments	Consolidated totals
Interest revenue	35,484	-	35,484
Interest expense	3,056	-	3,056
Depreciation and amortisation	183,203	(18,032)	165,171
Income tax benefit	237,395	-	237,395

Major Customer

Revenues from one customer of the Group's Australian segment represents \$225,636 (2010: \$88,296) of the Group's total revenues.

30. Subsequent events

Subsequent to 30 June 2011:

- On 1 August 2011 the Company announced that the results of deployment of 50 Hotspot webphones in an assessment of the Australian market had been deemed successful by Telstra, and that the Company and Telstra would enter into a negotiation period in order to agree the terms for the deployment of a larger network of pieNETWORKS' Hotspot webphones in the Australian market; and
- On 13 September 2011 the Company announced that it had completed a placement of new shares to raise \$2,320,000. The placement of 145,000,000 shares at 1.6 cents per share was made to institutional and other sophisticated investors pursuant to ASX Listing Rule 7.1.
- On 28 September 2011 the Company gave notice of the termination of the Consultancy Agreement with Gocom Pty Ltd and the engagement of Mr Smith as Managing Director/Chief Executive Officer of the Company. Mr Craig Turner was appointed as the Group's acting Chief Executive Officer as at that date.
- On 28 September 2011 the Group also announced its intention to relocate its head office to Sydney, Australia.

31. Auditors' remuneration

In AUD

Audit services

Auditors of the Company

KPMG Australia:

Audit and review of financial reports

	2011	2010
	70,652	67,566
	70,652	67,566

Other services

Auditors of the Company

KPMG Australia

Taxation services

	2011	2010
	10,790	9,244
	10,790	9,244

32. Other non-current assets

Other non-current assets of the Group of \$33,041 (2010: \$254,368) comprise deposits advanced to suppliers in connection with the manufacture of webphones.

33. Parent entity disclosures

As at and throughout the financial year ending 30 June 2011, the parent entity of the Group was pieNETWORKS Ltd.

In AUD

Result of the parent entity

	2011	2010
Loss for the period	(3,361,578)	(2,074,815)
Other comprehensive income	9,773	-
Total comprehensive income for the period	(3,351,805)	(2,074,815)

Financial position of parent entity at year end

Current assets	2,301,195	2,217,390
Total assets	2,846,752	3,070,166
Current liabilities	582,041	727,386
Total liabilities	600,074	762,465

Total equity of parent entity comprising of:

Share capital	26,376,845	23,572,077
Share option reserve	756,909	270,895
Translation reserve	9,773	-
Accumulated loss	(24,896,849)	(21,535,271)
Total equity	2,246,678	2,307,701

Parent entity capital commitments

Contracted but not provided for and payable:

	2011	2010
Less than one year	33,041	254,368
	33,041	254,368

For personal use only

Directors' declaration

1 In the opinion of the directors of pieNETWORKS Limited ('the Company'):

- (a) the financial statements and notes (1 to 33) and the remuneration report in section 4.7 of the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the the Group's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and financial controller for the financial year ended 30 June 2011.

Dated at Perth on 30th day of September 2011.

Signed in accordance with a resolution of the directors:



Justin Milne
Director



Independent auditor's report to the members of pieNETWORKS Limited

Report on the financial report

We have audited the accompanying financial report of pieNETWORKS Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

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 Group'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*.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

For personal use only



Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Material uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter.

As detailed in note 2(b), there is material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the Remuneration Report included in paragraphs 4.7.1 to 4.7.4 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of pieNETWORKS Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Matthew Beevers
Partner

Perth

30 September 2011

For personal use only



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

To: the directors of pieNETWORKS Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 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 handwritten signature in black ink, appearing to read 'Matthew Beevers', written over a horizontal line.

Matthew Beevers
Partner

Perth

30 September 2011

For personal use only

Pursuant to the Listing Requirements of the Australian Securities Exchange, the shareholder information set out below was applicable as at 30 September 2011.

Distribution of Equity Securities

Distribution	Number of Holders	Securities Held
1 - 1,000	107	11,151
1,001 - 5,000	113	401,514
5,001 - 10,000	169	1,427,230
10,001- 100,000	745	36,092,200
More than 100,000	753	1,075,402,415
Total	1,887	1,113,334,510
Holding less than a marketable parcel	644	6,677,901

Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who holds 5% or more of the issued capital) is set out below:

Shareholder Name	Issued Ordinary Shares	
	Number of shares	Percentage of shares
Brispot Nominees Pty Ltd	133,230,983	11.97
Mr Peter Lynton Gunzburg	73,613,457	6.61
Credit Suisse Securities	56,200,000	5.05

Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

Shareholder Name	Listed Ordinary Shares	
	Number	Percentage
1 Brispot Nominees Pty Ltd	133,230,983	11.97
2 Mr Peter Lynton Gunzburg	73,613,457	6.61
3 Credit Suisse Securities Pty Ltd	56,200,000	5.05
4 Westblock Services Pty Ltd	35,944,998	3.23
5 CS Fourth Nominees Pty Ltd	25,050,000	2.25
6 Bentana Pty Ltd	25,000,000	2.25
7 Trovex Pty Ltd	23,112,499	2.08
8 Topsfield Pty Ltd	20,000,000	1.80
9 Gocom Pty Ltd	16,654,131	1.50
10 Bond Street Custodians Limited	15,000,000	1.35
11 Mr P D Baigent & Mrs K D Baigent	14,274,179	1.28
12 Rivista Pty Ltd	14,150,000	1.27
13 Tim D’Emden & Associates Pty Ltd	13,875,000	1.25
14 Avanteos Investments Limited	13,000,000	1.17
15 BT Portfolio Services Limited	12,924,500	1.16
16 Mr Clarke James Roycroft	12,243,973	1.10
17 Giverny Holdings Pty Ltd	10,835,777	0.97
18 Mr Robert John McBrier	9,491,297	0.85
19 Boudgard Nominees Pty Ltd	9,000,000	0.81
20 Mr P I Tirant-James & Mrs L Tirant James	8,900,000	0.80
	542,500,794	48.73

Unquoted securities on issue

Unquoted securities	Number on issue	Exercise price	Expiry date
Director options	16,500,000	\$0.01	30 November 2014
	1,000,000	\$0.03	30 November 2014
Pie Incentive plan options	17,600,000	\$0.01	30 June 2015
Options to Corporate Advisor	20,000,000	\$0.05	31 March 2013

For personal use only

**Names of persons holding more than 20% of a given class of unquoted securities
(other than employee options)**

Securities	Name	Number of securities
Director Options	Mr Campbell Smith	7,500,000
Options to Corporate Advisor	CPS Securities Pty Ltd	20,000,000

Restricted Securities

There are no restricted securities on issue as at 30 September 2011.

Voting Rights

The voting rights to each class of securities are set out below.

Fully paid ordinary shares

Each shareholder is entitled to vote in person or by proxy, attorney or representative.

On a show of hands, every person present, who is a shareholder or a proxy, attorney or representative of a shareholder has one vote, and on a poll, every person present, who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed proxy, attorney or representative, have one vote per share.

Options

No voting rights

On-market buy back

There is currently no On-Market Buy-Back in operation by pieNETWORKS Limited.

For personal use only

www.pienetworks.com

