pieNETWORKS Annual Report 2002

pieNETWORKS Limited ABN 27 078 661 444 Public Internet Enabling

CORPORATE DIRECTORY

DIRECTORS

Peter Gunzburg (Chairman)

Campbell Smith (Managing Director)

Robert McBrier

Diane Sias

Ralph Ward-Ambler

SECRETARY

Craig Ferrier

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pie networks

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REVIEW OF ACTIVITIES

OVERVIEW

The 2001/02 year has been one of significant milestones achieved against a backdrop of consolidation and a focus on the cost drivers of the business. During the past year pieNETWORKS has consolidated its position as an Australian market leader in coin operated internet kiosks, internet terminals in the banking sector (or "internet teller machines" as we call them) and internet enabled information kiosks in the government sector.

The 2002 financial year saw cost reduction in the Australian business and a substantial cost reduction and thus reduced financial commitment in our UK business. The benefits of which is best highlighted by the dramatic reduction of cash burn in the June 2002 half ($225k) compared to the December 2001 half ($1,496k before accounting for net financing inflows of $942k).

In June 2002 the Company was for the second year in a row named amongst (9th) the fastest growing technology companies in Australia by the Deloitte Fast 50, an index ranking companies based on their revenue growth over a three year period.

RESTRUCTURE

It has been a year that has stretched and tested the quality of our technical and human resources as our focus shifted from "first to market" to one of "financially sustainable growth", critically reviewing our cost structures and revenue streams.

During the year the Company restructured its UK operations which resulted in the closure of its London office and a consequent substantial reduction in the costs associated with servicing the ongoing UK business. Whilst the decision to service the UK market utilising only our Australian management was made reluctantly, revenue growth had not been achieved at a level commensurate with the high cost associated with maintaining a physical presence in the UK.

We have asked a great deal of our people during this time and we are indebted to our talented and dedicated team who have demonstrated faith and commitment to the product and services delivered by pieNETWORKS.

PRODUCTS AND SERVICES

A number of milestones were achieved during the year that reflected the continued development of our product within a competitive market setting. (See page 5 for a brief summary of the "Case for Self Service Internet Kiosks".) Revenue increased by 13 percent and more importantly, was represented by a greater diversity in revenue streams. During the year the company generated income through;

- Pay per use coin revenue;
- Internet kiosk sales (new and second-hand);
- Internet kiosk rentals;
- Software and network management information system ("MIS") license fees;
- Interactive kiosk screen advertising fees; and
- Internet kiosk infrastructure management fees.

This diversification of revenue streams has been achieved across retail, government and the banking and finance sectors.

REVIEW OF ACTIVITIES

In August 2001 the Company announced that it had entered into an agreement with BankWest that would result in pieNETWORKS Internet kiosks being deployed in BankWest branches throughout Western Australia. At the heart of this contract is our proprietary kiosk operating software and management information system ("MIS"). These combine to deliver the three essential ingredients of a successful public access service: Reliability, Usability and Measurability. A familiar and intuitive point and click user interface, combined with maximum uptime is producing outstanding usage rates across the network. Live, online reports allow BankWest to gauge usage trends and patterns, which can be drilled down into specifics such as most popular webpage, most popular pathway through their website, branches with heaviest usage, days and times with heaviest usage, etc. The ongoing development of the MIS has delivered a competitive advantage that is now being realised and represents a further area for generating new relationships and revenue streams.

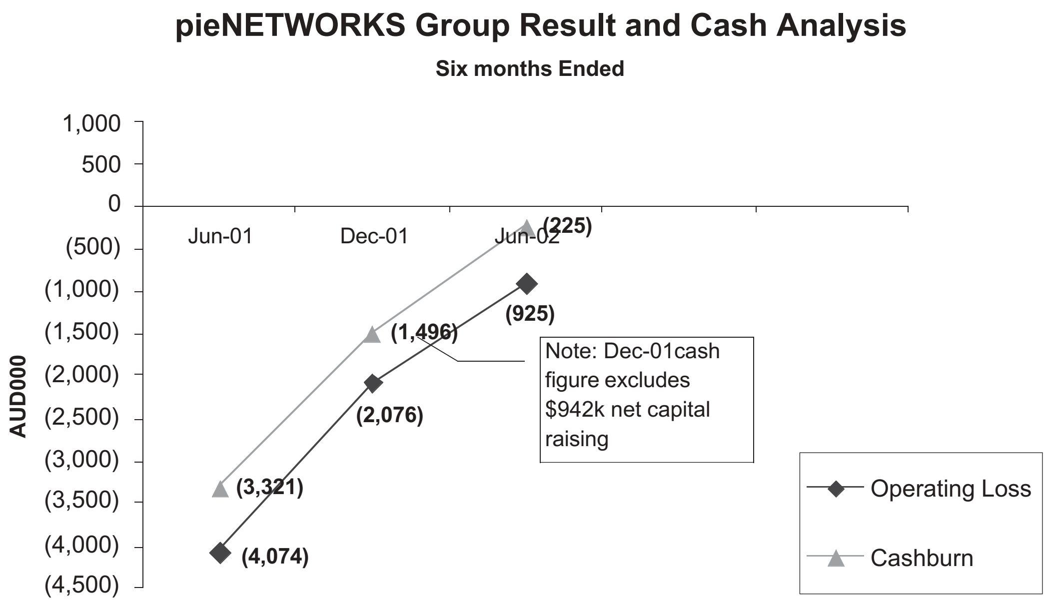
This strength was also behind the renewal of the Victorian Governments Better Health contract in August 2001. This contract provided for pieNETWORKS to manage the kiosk network (130 units) that it sold to the Victorian Health Department in May 2000. This contract has recently been further extended until 31 December 2002.

The Company continues to seek innovative relationships to partner with organisations that offer a suitable platform from which we can better leverage the sale of our products and services beyond the reach of our existing sales structures.

FINANCIAL PERFORMANCE

Group total revenue for the financial year of $2.65m represented an increase of 13%, up from $2.35m in the prior financial year. As described above, during the year the Company continued to invest in improving our underlying kiosk software, MIS and kiosk hardware. The combination of these factors result in a loss from ordinary activities for the current period of $3.00m compared with a loss of $5.57m in the prior period.

It is pleasing to report that the Groups financial performance continues to improve (as measured by operating result from ordinary activities) when comparing the result of the June 2002 half year (a loss of $925k) to the two preceding half year's (a loss of $2,076k in the half-year to December 2001 and a loss of $4,074k in the June 2001 half).



THE YEAR AHEAD

As pleasing as this improvement is, the task at hand is to achieve profitability in the shortest possible time. As such our absolute focus is on growing our revenues in the banking, government and retail sectors whilst maintaining the cost reductions. We look forward to working with the pieNETWORKS team in the year ahead in delivery against this objective.

Finally, on behalf of the board, we would like to thank Mr David Price for his contribution to the Company during his tenure as chairman.

CAMPBELL SMITH
MANAGING DIRECTOR

PETER GUNZBURG
CHAIRMAN

THE CASE FOR SELF SERVICE

The soft-drink vending machine, the public pay phone and the Automatic Teller Machine (ATM), are prime examples of devices that have revolutionised the self-service industry. The design of these devices is so intuitively 'self-service', their acceptance so widespread and their effectiveness so good that they have transformed the distribution of their wares. Indeed, the worldwide reach of products such as Coke, telephone calls and cash is phenomenal. Another device is on the dawn of such success: the Internet Kiosk.

This paper explores the criteria which differentiates the vending machine from the fridge, the pay phone from the phone on the desk, the ATM from the cash register, and the Internet kiosk from the PC on a desk.

Perception
The vending machine, the pay phone, the ATM and the kiosk are intuitively self-service devices, and people will not hesitate to use them. In contrast, their counter parts are rarely viewed as 'for public use', eg if you walk into a venue and see a traditional fridge, you will hardly open it and help yourself to its contents. Similarly, most people will hesitate to just sit down at a PC on a desk in a public area and start using it.

Useability
Another common thread amongst the self-service devices is their ease of use. When you walk up to such devices you instinctively know what to do, even though you might not have used one before. This is not an accident, but occurs due to careful thought and design. Although the PC is becoming easier to use, it is still a mystery to about 40% of the Australian population, and can still confuse users on a regular basis. A kiosk on the other hand, is designed to be used in public areas by anybody including first-time computer users. As such, they are designed to be simple and easy to use, with clear instructions and feedback to the user.

Security
Putting a traditional fridge in public areas equates to inviting people to help themselves to free drinks. A vending machine has a coin device and only dispenses drinks when appropriate money is inserted. They are also built so that they can withstand a fair level of vandalism. A PC on a desk is vulnerable to tampering, either with the hardware or with the software. Unless custom-designed software is used to control access to functions and programs on the PC, the door is very much wide open for someone to delete important files, bypass any filtering software, download and install unauthorised software and viruses, etc. On the other hand, the security of the ATM is almost unquestionable.

The counter parts of the self-devices, ie the fridge, the phone on the desk, the cash register and the PC on a desk, cannot sustain a high level of service in unsupervised public areas. The security risks of vandalism, inappropriate use, accidental damage would result in increased downtime, customer frustration and high maintenance costs. They are simply not designed for self-service public use.

Flexibility
Once the PC is rolled-out, it will be labour-intensive and time-consuming to change its programs, its functions and settings. As such, services provided by the PC will be pretty much limited to the initial release.

The kiosk on the other hand, is designed from the ground up to operate in remote locations, and to have the flexibility to quickly and easily change its configuration and functions.

One simple example would be 'changing the list of websites that are currently accessible for free'. On a kiosk, this can be done remotely with a few clicks. A PC on a desk will very likely require onsite attention.

Measurability
With coin devices on the pay phone, the vending machine and the internet kiosk, it is relatively easy to measure their usage. With the pay-phone, the ATM and the internet kiosk, it is also possible to measure the number of transactions remotely. Even vending machines now have remote management features. Live online usage reports are now easily available. And unless custom-built software is loaded onto the PC, usage statistics such as number of user sessions per day per site will at best be guesses from people at the site. Such statistics cannot be easily obtained from the traditional fridge or the cash register.

Day to day management
Without a coin acceptor, it is very hard to provide self-service pay-per-use products or services. It will require someone to manage users access to those products or services. A booking system might be required to allow people to book time slots to use the PC. And someone will have to make sure that users stick to their time slots, and that users time are accurately measured and payment received. With a phone, there is the added issue of STD calls, and calls to mobiles. With the traditional fridge, the person needs to know the price of every item stocked. Self-service devices are designed to automate this process, through the use of a coin acceptor and software.

Conclusion
Although appearing less expensive, the traditional devices neither promote nor sustain long-term excellent self-service.

DIRECTORS' REPORT

The directors present their report together with the financial report of pieNETWORKS Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entity, for the year ended 30 June 2002 and the auditor's report thereon.

DIRECTORS

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

Name	Age	Experience and special responsibilities
Peter Gunzburg Chairman	50	Over 20 years experience as a stockbroker. Currently the Chairman of Eurogold Limited and Fleetwood Corporation Limited. Past Director of Resolute Limited, The Australian Stock Exchange Limited, Eyers Reed Limited and CIBC World Markets Australia Limited. Appointed 29 April 2002.
Diane Sias Non-Executive Director	44	Consults globally for McKinsey and Company. Past Chairman of the Australian Sports Drug Agency and BPAY Pty Ltd. Chairman of Audit Committee. Appointed 5 November 1999.
Campbell Smith Managing Director	37	Over 15 years experience in finance and sales and marketing. Co-founder and first Managing Director of the Company. Appointed 23 May 1997.
Robert McBrier Technical Director	47	Wide ranging experience providing information technology solutions in Australia and overseas. Co-founder and first Technical Director of the Company. Member of the Audit Committee Appointed 23 May 1997.
Ralph Ward-Ambler AM	68	Currently a director of Paragon Equity Limited and a board member of the National Gallery of Victoria Foundation. Previous Chairmanships include the State Bank of Victoria, the Australian Nuclear Science and Technology Organisation and the Management and Investment Companies Licensing Board. Other former appointments include Managing Director of McPherson's Limited, Executive Director of Caterpillar Australia Limited and Director of the National Mutual Life Association. Appointed 24 November 2000.

David Price was a director throughout the financial year and resigned on 30 July 2002.

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:

	Meetings of the Board of Directors		Meetings of the Audit and Compliance Committee	
	A	**B**	**A**	**B**
David Price	12	12	-	-
Diane Sias	12	12	4	4
Campbell Smith	12	12	-	-
Robert McBrier	11	12	4	4
Ralph Ward-Ambler	11	12	-	-
Peter Gunzburg (1)	3	3	-	-

A number of meetings attended
B number of meetings held during the time the director held office during the year
(1) Peter Gunzburg was appointed a director on 29 April 2002.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were that of software development and public internet access distribution.

REVIEW AND RESULTS OF OPERATIONS

Financial
The operating loss after income tax for the year ended 30 June 2002 was $ 3,001,321 (2001: loss $5,573,093).

Operational
During the year the consolidated entity continued development of its public access internet kiosk business in Australia. The consolidated entities revenue base has continued to grow and diversify into the government and banking sectors. During the period the Company closed its UK office as part of the restructure of its UK business operations.

A business strategy that focuses on managed growth and cost control was implemented during the year aimed at achieving positive cashflow. The Company has made significant progress to the achievement of this goal.

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.

State of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year other than as set out below:

- In August 2001 the Company issued 12,500,000 ordinary shares raising additional working capital of $941,864 net of costs.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Likely Developments

The consolidated entity will continue to pursue its policy of growing the network and expanding the strategic distribution channels with key customers in Australia during the next financial year.

Further information about likely developments in the operations of the consolidated entity 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 consolidated entity.

Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State Legislation. However, the Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements as they apply to the consolidated entity.

Directors and Senior Executives' Emoluments

The remuneration of an executive Director has been and will be decided by the Board, without the executive Director participating in that decision making process. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities; and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow). No such bonuses were paid during the financial year. Options are also issued under the various option incentive plans. The ability to exercise the options is conditional on the Company achieving certain performance hurdles.

Details of the nature and amount of each major element of the emoluments of each director of the Company and of the named officer of the company and the consolidated entity, receiving the highest emolument are:

	Base emolument $	Super contributions $	Non-cash benefits(A) $	Value of Options issued(B) $	Total $
Director					
David Price	16,500	1,320	1,594	-	19,414
Diane Sias	11,375	-	1,594	-	12,969
Campbell Smith	135,640	-	1,594	-	137,234
Robert McBrier	113,966	9,117	1,594	-	124,677
Ralph Ward-Ambler	11,375	910	1,594	-	13,879
Peter Gunzburg	-	-	-	-	-
Officers					
Craig Ferrier	32,750	-	1,594	Nil	34,344

A. The cost of providing Directors' and Officers' insurance has been allocated across the persons named above and is disclosed as a non cash benefit.

B. Each option entitles the holder to purchase one ordinary share in the Company. The value of the options at the date of grant has been estimated using a Black-Scholes model. The value of such options was calculated to be nil. Further details of options granted during the year are set out under "Options" below.

Options Granted to Directors and Officers as part of their remuneration:

During or since the end of the financial year, the Company granted no options over unissued ordinary shares to directors and officers of the Company as part of their remuneration other than as follows:

Officer	Option Plan	Number	Exercise Price	Expiry Date	Value of Options
Craig Ferrier	November 2001 Pay reduction Plan	75,000	$0.08	30 June 2005	Nil

All options were granted during the financial year. No options have been granted since the end of the financial year.

Options granted over unissued shares:

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

Option Plan	Exercise Price	Number of shares
Founder Options (1)	see below	3,000,000
Mezzanine Options (2)	$0.50	6,250,565
1999/2000 Option Plan Options (3)	$0.20	825,000
pie Option Plan Options (4)	$0.30	3,295,000
2000/01 Option Incentive Plan(5)	$0.30	450,000
November 2001 Pay Reduction Option Plan(6)	$0.08	1,464,247

Notes

1. Founder Options:
   1,500,000 exercisable on or before 7 April 2003 at $0.25 each;
   1,500,000 exercisable on or before 7 April 2004 at $0.30 each.

2. Mezzanine Options – exercisable on or before 18 January 2005 at $0.50 each.

3. Options expire on the earlier of 7 April 2003 or termination of the employees' employment, unless extended by the board.

4. pie Option Plan Options are exercisable at any time after the second anniversary of listing on ASX and expire on 25 February 2005 (2,080,000 options) and 30 June 2007 (1,215,000) options.

5. 2000/01 Option Incentive Plan options are exercisable in tranches and expire 5 years from the date of grant (130,000 options expire on 31 December 2005 and 320,000 options expire on 30 June 2007).

6. November 2001 Pay Reduction Options are exercisable in tranches after 1 July 2002 and expire on 30 June 2005.

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

The Company has not issued any ordinary shares as a result of the exercise of options.

Directors' interests

The relevant interest of each director in the shares or options over shares of the companies within the consolidated entity and any other related body corporates, as notified by the directors to the Australian Stock 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
Diane Sias	2,120,000	450,000
Campbell Smith	10,854,131	1,544,367
Robert McBrier	10,691,317	1,403,662
Ralph Ward-Ambler	500,000	-
Peter Gunzburg	11,252,667	512,500

Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the following current directors of the Company, Mr Campbell Smith, Mr Robert McBrier, Ms Diane Sias, Ralph Ward-Ambler and Mr Peter Gunzburg and former director Mr David Price 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. This 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 the 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 premiums of $9,564 in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including executive officers of the Company and directors, officers and secretaries of its controlled entity.

Dated at Perth this 29th day of August, 2002.

Signed in accordance with a resolution of the directors.

Peter Gunzburg

Chairman

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Parent Entity	
		2002	2001	2002	2001
		$	$	$	$
Revenue from sale of goods	2	626,881	355,363	398,598	400,704
Revenue from rendering of services	2	1,841,636	1,655,720	1,578,522	1,587,876
Other revenues from ordinary activities	2	179,517	341,576	179,171	340,096
Total Revenue	2	2,648,034	2,352,659	2,156,291	2,328,676
Cost of goods sold		273,452	185,107	145,025	167,838
Service revenue expenses		1,735,011	1,632,510	1,392,909	1,473,587
Sales & marketing expenses		525,579	1,012,866	250,306	381,294
Administration & corporate expenses		2,129,904	3,120,179	1,407,470	1,775,727
Research & development		911,809	1,482,117	911,809	1,482,117
Foreign Exchange Translation		(76,477)	107,167	-	-
Other expenses from ordinary activities		150,077	385,806	1,064,919	2,597,410
Loss from ordinary activities before related income tax expense	3	(3,001,321)	(5,573,093)	(3,016,147)	(5,549,297)
Income tax (expense)/benefit relating to ordinary activities	5	-	-	-	-
Net loss	16	(3,001,321)	(5,573,093)	(3,016,147)	(5,549,297)
Basic loss per share (cents)	6	2.801	5.793		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 16 to 40.

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2002

	Note	Consolidated		Parent Entity	
		2002	2001	2002	2001
		$	$	$	$
Current Assets					
Cash assets	7	1,466,895	2,247,167	1,380,660	2,135,771
Receivables	8	76,884	414,486	38,467	355,726
Inventories	9	40,008	183,760	40,008	54,658
Other financial assets	10	41,022	46,509	14,610	13,312
Total Current Assets		1,624,809	2,891,922	1,473,745	2,559,467
Non-Current Assets					
Receivables	8	-	-	175,570	729,681
Other financial assets	10	-	-	10,000	10,000
Property, plant and equipment	11	850,601	1,981,189	740,281	1,324,654
Total Non-Current Assets		850,601	1,981,189	925,851	2,064,335
Total Assets		**2,475,410**	**4,873,111**	**2,399,596**	**4,623,802**
Current Liabilities					
Payables	12	315,032	650,158	276,211	480,200
Unearned Revenue	13	122,336	127,054	83,716	31,250
Provisions	14	64,609	68,409	64,609	68,409
Total Current Liabilities		501,977	845,621	424,536	579,859
Total Liabilities		**501,977**	**845,621**	**424,536**	**579,859**
Net Assets		**1,973,433**	**4,027,490**	**1,975,060**	**4,043,943**
Equity					
Contributed equity	15	12,075,897	11,128,633	12,075,897	11,128,633
Accumulated Losses	16	(10,102,464)	(7,101,143)	(10,100,837)	(7,084,690)
Total Equity		**1,973,433**	**4,027,490**	**1,975,060**	**4,043,943**

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 16 to 40.

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Note	Consolidated		Parent Entity	
		2002	2001	2002	2001
		$	$	$	$
Cash flows from operating activities					
Cash receipts in the course of operations		3,045,098	2,047,972	2,486,148	2,028,972
Cash payments in the course of operations		(4,675,148)	(6,689,954)	(3,468,048)	(4,431,877)
Grant income		117,187	29,207	117,187	29,207
Interest received		69,174	297,369	69,174	295,889
Net cash (used in) operating activities	25(ii)	(1,443,689)	(4,315,406)	(795,539)	(2,077,809)
Cash flows from investing activities					
Payments for property, plant and equipment		(275,987)	(1,579,061)	(240,089)	(962,374)
Net cash (used in) investing activities		(275,987)	(1,579,061)	(240,089)	(962,374)
Cash flows from financing activities					
Proceeds from share issues		1,000,000	-	1,000,000	-
Payments for equity raising costs		(58,136)	-	(58,136)	-
Loans to subsidiary		-	-	(661,347)	(3,029,463)
Net cash provided by (used in) financing activities		941,864	-	280,517	(3,029,463)
Net (decrease) in cash held		(777,812)	(5,894,467)	(755,111)	(6,069,646)
Cash at the beginning of the financial year		2,247,167	8,248,801	2,135,771	8,205,417
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(2,460)	(107,167)	-	-
Cash at the end of the financial year	25(i)	**1,466,895**	**2,247,167**	**1,380,660**	**2,135,771**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 16 to 40.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.
It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

Going concern

The consolidated entity has incurred a loss during the year of $3,001,321 and its working capital at 30 June 2002 is $1.1 million. The accounts 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. The directors believe this to be appropriate for the following reasons:

- During the financial period the Company has undergone substantial restructuring of its activities which has resulted in significant cost reductions. This includes the scaling back of its United Kingdom operations to a "care & maintenance" basis, staff redundancies and voluntary pay cuts across management;
- During the financial period, consistent with the measures described above, the Company implemented a business strategy directed at conserving funds and achieving a positive cash flow in the shortest possible timeframe;
- As a consequence of the above measures the reduction in the consolidated entity's working capital position for the last six months of the financial year was approximately $250,000;
- Notwithstanding the cost cutting measures implemented during the period significant business relationships continue to be pursued.

All of the above give your directors confidence that the consolidated entity will be able to continue its operations into the foreseeable future.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Rendering of services

Revenue from rendering services including management services and kiosk rental is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured. Service revenue from pay per use public internet kiosks is recognised at the time of access. Revenue from installation of kiosks is recognised on completion of installation procedure.

Interest revenue

Interest revenue is recognised as it accrues.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when payment is made in full.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue when received.

(d) Goods and services tax

Revenues, 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 an item 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 statement of financial position.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(e) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign entities

The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while the translated amounts for non-monetary assets other than inventory are compared to recoverable amounts translated at spot rates at reporting date and any excess is expensed. Revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

(f) Taxation

Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

(g) Acquisition of assets

All assets acquired are initially recorded at their cost of acquisition at the date of acquisition.

The costs of assets constructed or internally generated assets include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Research and Development

Research and development expenditure is expensed as incurred except to the extent that recoverability is assured beyond reasonable doubt, in which case it is deferred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(h) Receivables

The collection of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

Manufacturing activities

The cost of manufacturing inventories and work-in-progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

Net realisable value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(j) Investments

Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

(k) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(l) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(m) Depreciation

Useful Lives

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives.

The depreciation rates used for each class of asset are as follows:

Property plant and equipment	
Plant and equipment	20-40%
Kiosks	40%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

(n) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(o) Employee entitlements

Wages, salaries, annual leave and sick leave

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represents present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on current wage and salary rates and includes related on-costs.

Option plan

The Company granted options to certain employees and Directors under the Company's option plans. Further information is set out in note 19 to the financial statements. Other than the costs incurred in administering the plans, which are expensed as incurred, the plans do not result in any expense to the consolidated entity.

Employee share plans

Where shares are issued to employees as remuneration for past services or as an incentive, the difference between fair value of the shares issued and the consideration received, if any, from the employee is expensed. The fair value of the shares is recorded in contributed equity.

Superannuation plan

The Company and its controlled entity contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(p) Changes in Accountancy Policy

(i) Earnings per share

The consolidated entity has applied the revised AASB 1027 Earnings Per Share (issued June 2001) for the first time from 1 July 2001.

The application of the revised AASB 1027 has not given rise to any change to the basic and diluted earnings per share ("EPS") for the comparative period ended 30 June 2001.

Basic earnings per share

Basic EPS earnings are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS earnings are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the weighted average number of shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking in to account the incremental earnings and incremental number of shares for each series or potential ordinary share.

For the period ended 30 June 2002 there are no dilutive potential ordinary shares since all options are "out of the money". Accordingly diluted earnings per share has not been disclosed.

(ii) Segment reporting

The consolidated entity has applied the revised AASB 1005 Segment Reporting (issued in August 2000) for the first time from 1 July 2001.

The Company operates in one business segment, the internet kiosk industry. The Company operates in Australia and the United Kingdom.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$

2. REVENUE FROM ORDINARY ACTIVITIES

Sale of goods revenue from				
operating activities	626,881	355,363	398,598	400,704
Rendering of services revenue				
from operating activities	1,841,636	1,655,720	1,578,522	1,587,876
Other Revenues:				
From operating activities				
Interest income	62,330	297,369	61,984	295,889
Sale of Trade Name	-	15,000	-	15,000
Government Grants	117,187	29,207	117,187	29,207
Total Other Revenues	179,517	341,576	179,171	340,096
Total Revenue from ordinary activities	**2,648,034**	**2,352,659**	**2,156,291**	**2,328,676**

3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

(a) Individually significant expenses included in loss from ordinary activities before income tax expense

Write off and provision raised in respect to inventory and kiosk obsolescence	367,038	-	367,038	-

(b) Loss from ordinary activities before income tax has been arrived at after charging the following items:

Depreciation of:				
plant and equipment	96,492	97,982	69,956	86,982
kiosks	620,669	502,528	498,347	477,375
Total depreciation and amortisation	717,161	600,510	568,303	564,357

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$
3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE (CONT.)				
b) Loss from ordinary activities before income tax has been arrived at after charging the following items: (continued)				
Net expense from movements in provision for:				
non-recovery of loan to controlled entity	-	-	895,597	2,408,824
employee entitlements	(3,800)	39,569	(3,800)	39,569
Net bad and doubtful debt expense including movements in provision for doubtful debts	14,850	13,905	28,474	13,905
Net foreign exchange loss/(gain)	(76,477)	107,167	-	-
	(65,427)	160,641	920,271	2,462,298
Operating lease rental expense:				
minimum lease payments	224,146	232,616	154,870	123,080
Research & Development expenditure:				
capitalised and written off	-	598,902	-	598,902
expensed as incurred	911,809	883,214	911,809	883,214
4. AUDITORS REMUNERATION				
Audit services:				
Auditors of the Company - KPMG				
Audit and review of the financial reports	28,800	45,162	28,800	23,000
Other services:				
Corporate Advice - KPMG	26,825	8,150	25,850	8,150

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$

5. INCOME TAX

(a) Income tax expense

Prima facie income tax expense calculated at 30% (2001: 34%) on the operating loss from ordinary activities	(904,396)	(1,894,851)	(904,844)	(1,866,761)
Decrease in income tax benefit due to permanent differences:				
Non-deductible legal expenses	40,504	43,332	40,504	43,332
Provision for loan	-	-	268,795	-
Other	4,023	-	4,023	-
Total income tax benefit on operating loss calculated at 30% (2001: 34%)	(855,869)	(1,851,519)	(591,522)	(1,843,429)
Income tax benefit restated to 30% due to a reduction in company income tax rates for the year ended 30 June 2002. (2001: 34%).	-	217,825	-	216,874
Less: Future income tax benefit not brought to account	855,869	1,633,694	591,522	1,626,555
Income tax benefit on operating loss	-	-	-	-

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

Tax losses carried forward	2,983,539	2,222,077	1,996,545	1,499,430
Timing Differences	125,028	27,135	125,028	27,135
	3,108,567	2,249,213	2,121,573	1,526,565

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

5. INCOME TAX (CONT.)

(a) Income tax expense (Continued)

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

6. EARNINGS PER SHARE

	Consolidated 2002	Consolidated 2001
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary Shares	107,162,634	96,202,250

Classification of securities as potential ordinary shares

There are no dilutive potential ordinary shares therefore diluted EPS has not been calculated or disclosed.

7. CASH ASSETS

	Consolidated		Parent Entity	
	2002 $	2001 $	2002 $	2001 $
Cash at bank and on hand	330,516	1,177,167	244,281	1,065,771
Bank short term deposits mature within 60 days and pay interest at a weighted average interest rate of 3.59% (2001: 4.84%) (see note 25)	1,136,379	1,070,000	1,136,379	1,070,000
	1,466,895	2,247,167	1,380,660	2,135,771

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$

8. RECEIVABLES

	2002 $	2001 $	2002 $	2001 $
Current				
Trade debtors	81,602	407,754	42,200	348,994
Less: Provision for doubtful trade debtors	(4,718)	(13,905)	(3,733)	(13,905)
	76,884	398,849	38,467	335,809
Other debtors	-	20,637	-	20,637
	76,884	414,486	38,467	355,726
Non-current				
Loans to controlled entities (i)	-	-	3,595,568	3,254,082
Less: Provision for non-recovery	-	-	(3,419,998)	(2,524,401)
	-	-	175,570	729,681

(i) Terms and conditions

The loan to the controlled entity is non-interest bearing with no set term.

9. INVENTORIES

	2002 $	2001 $	2002 $	2001 $
Current				
Raw materials and stores - at cost	79,056	176,511	79,056	47,409
Work in progress- at cost	-	7,249	-	7,249
Less: Provision for obsolescence	(39,048)	-	(39,048)	-
	40,008	183,760	40,008	54,658

10. OTHER FINANCIAL ASSETS

	2002 $	2001 $	2002 $	2001 $
Prepayments	30,726	46,509	4,314	13,312
Interest Receivable	5,296	-	5,296	-
Rental Bond	5,000	-	5,000	-
	41,022	46,509	14,610	13,312
Investments in controlled entities – unlisted shares at cost	-	-	132,000	132,000
Less: Provision for diminution in the value of investment	-	-	(122,000)	(122,000)
	-	-	10,000	10,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$
11. PROPERTY, PLANT AND EQUIPMENT				
Plant and equipment				
At cost	271,782	323,382	269,775	269,382
Accumulated depreciation	(178,886)	(118,332)	(177,289)	(107,332)
	92,896	205,050	92,486	162,050
Kiosks				
At cost	1,923,293	2,277,493	1,744,468	1,638,811
Accumulated depreciation	(879,237)	(501,354)	(810,322)	(476,207)
less provision for obsolescence	(286,351)	-	(286,351)	-
	757,705	1,776,139	647,795	1,162,604
Total	850,601	1,981,189	740,281	1,324,654

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Plant and equipment	Consolidated 2002 $	Parent Entity 2002 $
At cost:		
Carrying amount at beginning of year	205,050	162,050
Additions	392	392
Disposals	(16,054)	-
Depreciation	(96,492)	(69,956)
Carrying amount at end of year	92,896	92,486
Kiosks		
At cost:		
Carrying amount at beginning of year	1,029,045	792,359
Transfers from kiosks under construction	320,009	196,036
Transfers to inventory for sale	(264,072)	(135,645)
Depreciation	(620,669)	(498,347)
Carrying amount at end of year	464,313	354,403
Under construction:		
Carrying amount at beginning of year	747,094	370,245
Additions	275,987	512,179
Transfers to finished kiosks	(320,009)	(196,036)
Transfers to inventory	(41,083)	(24,399)
Write Off	(41,639)	(41,639)
Inventory taken to repairs and maintenance	(40,607)	(40,607)
Provision for obsolescence	(286,351)	(286,351)
Carrying amount at end of year	293,392	293,392
Total kiosks carrying amount at end of year	757,705	647,795

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$
12. PAYABLES				
Trade creditors	165,150	547,592	137,152	373,946
Other creditors and accruals	149,882	102,566	139,059	106,254
	315,032	650,158	276,211	480,200
13. UNEARNED REVENUE				
Unearned revenue	122,336	127,054	83,716	31,250
14. CURRENT PROVISIONS				
Employee entitlements	64,609	68,409	64,609	68,409
15. CONTRIBUTED EQUITY				
Share capital				
108,972,250 (2001: 96,202,250)				
Ordinary shares fully paid	12,075,897	11,128,633	12,075,897	11,128,633
Ordinary shares				
Movements during the year				
Balance at the beginning of year	11,128,633	11,128,633	11,128,633	11,128,633
Shares Issued:				
12,500,000 at 8 cents each (2001: nil)	1,000,000	-	1,000,000	-
270,000 at 2 cents each (2001: nil)	5,400	-	5,400	-
Less equity raising costs	(58,136)	-	(58,136)	-
Balance at end of year	12,075,897	11,128,633	12,075,897	11,128,633

On 14 August 2001 pieNETWORKS Ltd made a cash issue of 12,500,000 ordinary shares at an issue price of 8 cents per share to raise $1,000,000 before costs.

On 28 June 2002 pieNETWORKS Ltd issued 270,000 shares to certain employees in consideration for services rendered. The fair value of these shares was $5,400.

Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$

16. ACCUMULATED LOSSES

	2002 $	2001 $	2002 $	2001 $
Accumulated losses at beginning of year	7,101,143	1,528,050	7,084,690	1,535,393
Net loss attributable to members of parent entity	3,001,321	5,573,093	3,016,147	5,549,297
Accumulated losses at end of year	10,102,464	7,101,143	10,100,837	7,084,690

17. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Weighted average interest rate	Floating interest rate $	Fixed interest maturing in 1 year or less $	Non-interest bearing $	Total $
2002					
Financial assets					
Cash assets	3.59%	330,516	1,136,379	-	1,466,895
Receivables	-	-	-	76,884	76,884
Other Financial Assets	-	-	-	41,022	41,022
	-	330,516	1,136,379	117,906	1,584,801
Financial liabilities					
Payables	-	-	-	315,032	315,032
Employee entitlements	-	-	-	64,609	64,609
	-	-	-	379,641	379,641
2001					
Financial assets					
Cash assets	4.84%	1,177,167	1,070,000	-	2,247,167
Receivables	-	-	-	414,486	414,486
	-	1,177,167	1,070,000	414,486	2,661,653
Financial liabilities					
Payables	-	-	-	777,212	777,212
Employee entitlements	-	-	-	68,409	68,409
	-	-	-	845,621	845,621

(b) Credit risk exposure

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted. The credit risk on financial assets of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity is not materially exposed to any individual customer other than a government entity and an Australian bank.

(c) Net fair values

The net fair value of financial assets and liabilities approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$

18. COMMITMENTS

Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable :

Within one year	208,817	235,087	118,901	140,900
One year or later, but no later than five years	459,664	552,536	100,000	160,000
	668,481	787,623	218,901	300,900

19. EMPLOYEE ENTITLEMENTS

Aggregate employee entitlements, including on costs				
Current	64,609	68,409	64,609	68,409
Number of employees at year end	19	36	19	28

Superannuation plans

The Company contributes to several defined contribution employee superannuation plans.

Employee Share and Option Plans

The Company maintains various employee option plans as a means of providing equity based incentives to its employees, directors and consultants. All employees and directors are eligible to participate in the employee option plans. All options expire on the earlier of their expiry date or termination of the employees employment. Options are issued for no consideration.

Name	Expiry Date	Exercise Price	Number of options issued		Unissued Available Options	
			2002	2001	2002	2001
pieNETWORKS Option Incentive Plan [1]	25/02/05	$0.30	2,080,000	2,080,000	-	1,520,000
	30/06/07	$0.30	1,215,000	-	305,000	-
1999/2000 Option Plan [2]	07/04/03	$0.20	825,000	1,000,000	575,000	400,000
2000/2001 Option Plan [3]	31/12/05	$0.30	130,000	-	[3]	-
	30/06/07	$0.30	320,000	-	[3]	[3]
November 2001 Pay Reduction Option Plan [4]	30/06/05	$0.08	1,464,247	-	[4]	-

pieNETWORKS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

19. EMPLOYEE ENTITLEMENTS (CONTINUED)

Employee Share and Option Plans (continued)

Pursuant to the 1999/2000 Option Incentive Plan the Company issued during the year 100,000 (2001: 650,000) options over unissued ordinary shares to 1 (2001:7) employee. Under this plan a total of 275,000 (2001:nil) options lapsed on the termination of employment of various former employees. In addition there were 1,215,000 (2001: nil) options issued under the pieNETWORKS Option Incentive Plan, 450,000 (2001: nil) options issued under the 2000/2001 Option Plan and a further 1,464,247 (2001: nil) options issued under the November 2001 Pay Reduction Option Plan. Details of the exercise periods and issue price are described in the above table.

The market value of shares under these options at 30 June 2002 was $0.02 (2001: $0.08)

No options were exercised during the year (2001:Nil).

No amounts have been recognised in the financial statements of the company and consolidated entity in relation to the employee option plans maintained by the company.

Notes to schedule of employee share option plans:

1. pieNETWORKS Option Plan Options are exercisable on or before 25 February 2005 at $0.30 provided that the Company's shares are trading on Australian Stock Exchange at not less than $0.60 each.
2. 1999/2000 Option Plan Options are exercisable in tranches or before 7 April 2003 or the date of employees termination. Any options not exercised in one exercise period may be carried forward and exercised in a subsequent exercise period.
3. At the annual general meeting of shareholders held on 24 November 2000 the 2000/2001 Option Incentive Plan was established. Pursuant to this plan the Company may issue in number up to 5% of its issued capital. The exercise price of options issued in accordance with the plan shall be the greater of 30 cents and the average market price of the shares during the 5 days prior to the grant of the options.
4. In November 2001 the Directors approved the Company establishing the November 2001 Pay Reduction Option Plan (the "November 2001 Plan") to compensate certain staff in relation to voluntary salary reductions. Pursuant to the terms of the November 2001 Plan the Company may issue in number up to 5% of it's issued capital at an exercise price of the greater of 8 cents each and the market price at the time of offer . The November 2001 Plan options are exercisable in tranches after 1 July 2002 and expire on 30 June 2005.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

19. EMPLOYEE ENTITLEMENTS (CONTINUED)

Employee share ownership plan

The Company maintains an Employee Share Ownership Plan ("ESOP"). The ESOP is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. Full-time employees are entitled up to $1,000 of free shares. Shares issued under ESOP rank equally with other fully paid ordinary shares.

To be eligible, employees must have been employed by any entity in the consolidated entity continuously for a minimum period of 3 months. Shares are issued in the name of the participating employee only and cannot be disposed of or transferred until the earlier of three years from the date of issue or on the date their employment from the consolidated entity ceases. The ESOP has no conditions that could result in a recipient forfeiting ownership of the shares.

The ESOP complies with current Australian Tax legislation, enabling permanent employees to have up to $1,000 of free shares, in respect of an employee share scheme, excluded from their assessable income.

On 28 June 2002, 270,000 (2001: nil) shares were issued to 27 (2001: nil) employees under the ESOP for no consideration. The market value of these shares at the date of issue was $5,400 (2001: nil).

The market price of shares issued under the ESOP as at 30 June 2002 was $0.02 (2001:nil).

There were no other shares eligible for issuance under the scheme at 30 June 2002.

	Note	Consolidated 2002 $	Consolidated 2001 $	Parent Entity 2002 $	Parent Entity 2001 $
The amount recognised in the financial statements of the consolidated entity and the Company in relation to employee shares during the year were:					
Employee expenses		5,400	-	5,400	-
Issued ordinary share capital	15	5,400	-	5,400	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

20. DIRECTORS REMUNERATION

Directors' income

The number of directors of the Company whose income from the Company falls within the following bands:

		Parent Entity 2002	Parent Entity 2001
$0 -	$9,999	1	-
$10,000 -	$19,999	3	1
$20,000 -	$29,999	-	1
$40,000 -	$49,999	-	1
$120,000 -	$129,999	1	-
$130,000 -	$139,999	1	-
$150,000 -	$159,999	-	1
$170,000 -	$179,999	-	1

	Consolidated 2002 $	Consolidated 2001 $	Parent Entity 2002 $	Parent Entity 2001 $
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	403,007	623,815	300,203	433,425

21. EXECUTIVES REMUNERATION

The number of Australian based executive officers of the Company and of controlled entities, whose income from the Company or any related party and from entities in the consolidated entity falls within the following bands:

		Consolidated 2002	Consolidated 2001	Parent Entity 2002	Parent Entity 2001
$120,000 -	$129,999	1	-	1	-
$130,000 -	$139,999	1	-	1	-
$150,000 -	$159,999	-	1	-	1
$170,000 -	$179,999	-	1	-	1

	Consolidated 2002	Consolidated 2001	Parent Entity 2002	Parent Entity 2001
Total income in respect of the financial year received, or due and receivable from the Company, entities in the consolidated entity or any related party whose income is $100,000 or more	258,723	329,704	258,723	329,704

Executive officers are those officers involved in the strategic direction, general management or control of business at a company, or operating division level.

Executives' remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses' insurance contracts, in accordance with common commercial practice.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

22. RELATED PARTIES

Directors

The names of each person holding the position of director of pieNETWORKS Limited during the financial year are Mr David Price (resigned on 30 July 2002), Ms Diane Sias, Mr Campbell Smith, Mr Robert McBrier, Mr Ralph Ward-Ambler and Mr Peter Gunzburg (appointed 29 April 2002).

Details of directors' remuneration are set out in note 20.

Apart from the detail disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interest subsisting at year- end.

Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at year end are set out below:

	2002 Number held	2001 Number held
pieNETWORKS Limited:		
Ordinary shares	39,929,760	25,617,115
Options over ordinary shares	5,910,529	5,398,029

Directors' transactions in shares and share options

During the year pieNETWORKS Limited granted options over 3,229,247 options (2001: 650,000), the details of which are summarised in note 19. No options were granted to directors during the year. As at 30 June 2002 directors and their director-related entities had the following interest in shares and share options of the Company:

	Ordinary Shares	Founder Options	Mezzanine Options	1999/2000 Option Plan Options	pie Option Plan Options
Mr D Price	2,796,667	-	463,750	200,000	300,000
Ms D Sias	3,024,000	-	63,750	150,000	250,000
Mr C Smith	11,276,631	960,000	146,867	-	500,000
Mr R McBrier	10,691,317	960,000	43,662	-	400,000
Mr CR Ward Ambler	500,000	-	-	-	-
Mr P Gunzburg	11,641,145	-	512,500	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

22. RELATED PARTIES (CONTINUED)

Directors transactions with the Company or its controlled entity

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 fee to be paid to Gocom Pty Ltd is $175,000 per annum with the ability to earn a cash bonus of up to an additional $60,000 per annum if the Company achieves benchmarks which are to be determined by the independent directors of the Company. During November 2001 Gocom Pty Ltd agreed to a voluntary 30% reduction in the fees payable to Gocom. The amount of the reduction equates to $52,500 per annum. No compensation was paid or payable by the Company in relation to the reduction in fees.

On 25 February 2000 pieNETWORKS Limited, Cerise Bay Pty Ltd and Robert McBrier entered into a Consultancy Agreement pursuant to which the Company agreed to engage Cerise Bay Pty Ltd as consultant and to provide the services of Robert McBrier as technical director of the Company for a fixed term of 3 years. The fee to be paid to Cerise Bay Pty Ltd is $150,000 per annum with the ability to earn a cash bonus of up to an additional $20,000 per annum if the Company achieves benchmarks, which are determined by the independent directors of the Company.

Amounts paid to directors, including amounts paid pursuant to the agreements between Gocom Pty Ltd and Cerise Bay Pty Ltd are disclosed in Note 20 and in the directors report During the period, by mutual agreement, the Company and Cerise Bay Ltd, agreed to terminate the agreement. Upon termination the Company and Mr McBrier entered into an employment contract on largely the same terms and conditions as the aforementioned agreement with Cerise Bay Pty Ltd, other than in respect to an obligation to pay superannuation in accordance with the SGC legislation. In November 2001 Mr McBrier agreed to vary the terms of this agreement by accepting a voluntary reduction in his salary of 16 %, equating to a $24,275 reduction in the 2002 financial year.

From time to time directors of the Company or its controlled entity, or their director-related entities, may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

22. RELATED PARTIES (CONTINUED)

Non-director related parties

Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 23 to the financial statements.

Transactions within wholly owned group

During the financial year pieNETWORKS Ltd provided administration services at no charge to entities in the wholly-owned group.

Other transactions that occurred during the financial year between entities in the wholly-owned group were:

- The provision of non-interest bearing loans with no set term
- The transfer of inventory and kiosk assets from the subsidiary to the parent entity to the value of $431,843. (2001:nil)

Balances with entities within the wholly owned group

The aggregate amounts receivable from the wholly-owned controlled entities by the Company at balance date:

Receivables	**The Company**	
	2002	**2001**
	$	**$**
Aggregate amounts receivable from non-director related parties:		
Wholly owned controlled entities	3,595,568	3,254,082

23. CONTROLLED ENTITIES

Name of Entity	**Country of Incorporation**	**Class of Shares**	**Equity Holding**	
			2002	**2001**
			%	**%**
Parent Entity				
pieNETWORKS Ltd	Australia	Ordinary		
Controlled Entities				
pieNETWORKS plc	United Kingdom	Ordinary	100	100
pieMEDIA Pty Ltd	Australia	Ordinary	100	100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

24. SEGMENT INFORMATION

	Australia		United Kingdom		Eliminations		Consolidated	
Primary reporting	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Geographical segment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue								
External Segment Revenue	1,977,120	1,943,239	491,397	67,888	-	-	2,468,517	2,011,127
Inter-segment revenue	-	45,341	-	-	-	(45,341)	-	-
Total segment revenue	1,977,120	1,988,580	491,397	67,888	-	(45,341)	2,468,517	2,011,127
Other Unallocated Revenue							179,517	341,576
Total Revenue							2,648,034	2,352,703
Result								
Segment result	(2,072,370)	(3,014,986)	(797,332)	(2,169,349)	179,517	296,235	(2,690,185)	(4,888,100)
Unallocated Corporate expenses							(311,136)	(684,993)
Loss from ordinary activities before income tax							(3,001,321)	(5,573,093)
Income Tax Expense							-	-
Loss from ordinary activities after income tax							(3,001,321)	(5,573,093)
Net Loss							(3,001,321)	(5,573,085)
Depreciation	568,304	564,357	148,858	36,153	-	-	717,161	600,510
Non-cash expenses other than depreciation	536,986	167,838	128,427	17,269	-	-	665,413	185,107
Individually significant items								
Inventory Write- down	325,399	-	-	-	-	-	325,399	-
Assets								
Segment assets	2,214,026	3,884,121	261,384	1,034,331	-	(45,341)	2,475,410	4,873,111
Consolidated total assets							2,475,410	4,873,111
Liabilities								
Segment Liabilities	424,536	579,859	77,441	265,762	-	-	501,977	845,621
Consolidated Total Liabilities							501,977	845,621
Acquisition of non-current assets	392	145,825	-	6000	-	-	392	151,825

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

24. SEGMENT INFORMATION (CONTINUED)

Industry Segments

The Company operates within one business segment the internet kiosk industry. The major products/services from which the above segment derives income are provision of a pay per use public internet access network, design, manufacture and sale of internet kiosks and the ongoing management thereof.

Geographical Segments

The consolidated entity operates in Australia and the United Kingdom.

Australia derives income from the provision of a pay per use public internet access network and the design, manufacture and sale of internet kiosks and the ongoing management thereof.

The United Kingdom derives income from the provision of a pay per use public internet access network

25. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and deposits maturing within the year. Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$
Cash assets	330,516	1,177,167	244,281	1,065,771
Short term deposits	1,136,379	1,070,000	1,136,379	1,070,000
	1,466,895	2,247,167	1,380,660	2,135,771

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

25. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(ii) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$	$	$	$
Loss from ordinary activities after income tax	(3,001,321)	(5,573,093)	(3,016,147)	(5,549,297)
Add non-cash items:				
Depreciation and amortisation	717,161	600,510	568,303	564,357
Provision against loans to and investment in subsidiary	-	-	895,597	2,408,824
Research & Development Write Off	-	598,902	-	598,902
Stock Write Off	41,639	-	41,639	-
Inventory taken to repairs and maintenance	40,607	-	40,607	-
Bad debt expense	24,001	-	38,646	-
Intangible Assets Write Off	-	47,161	-	47,161
Employee Share Bonus	5,400	-	5,400	-
Foreign exchange translation	2,460	107,167	-	-
Net cash used in operating activities before change in assets and liabilities:	(2,170,053)	(4,219,353)	(1,425,955)	(1,930,053)
Change in assets and liabilities during the financial year:				
(Increase)/decrease in prepayments	15,784	(37,270)	8,999	(4,074)
(Increase)/decrease in debtors	326,152	(26,368)	306,794	25,392
(Increase) other financial assets.	(10,297)	-	(10,297)	-
Decrease other debtors	20,637	-	20,637	-
(Decrease)/increase in accounts payable	(438,450)	33,423	(294,696)	(232,338)
(Decrease)/increase in unearned revenue	(4,718)	-	52,466	-
Increase in provision for obsolescence	325,399	-	325,399	-
(Decrease)/increase in provisions	(12,987)	39,569	(13,971)	39,569
(Increase)/decrease in inventories	143,752	(183,760)	14,650	(54,658)
Decrease in Kiosks under construction	361,092	78,353	220,435	78,353
Net cash used in operating activities	(1,443,689)	(4,315,406)	(795,539)	(2,077,809)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

26. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the 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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

27. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Indemnities

Indemnities have been provided to directors and certain executive officers of the company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2002.

In the ordinary course of business the Company has provided a bank guarantee in relation to the performance of its obligations under a property lease in the United Kingdom. The bank guarantee is secured by a cash deposit of $85,000, which is included in the balance of Cash Assets of $1,466,895 as at 30 June 2002.

The Company has provided a letter of comfort to its wholly owned subsidiary, pieNETWORKS plc, and agreed to provide financial support to the extent necessary to enable that entity to continue to pay its liabilities as and when they become due.

28. ECONOMIC DEPENDENCY

The Company generated a significant amount of its revenue (14%) from the Victorian Department of Health Services, a state government instrumentality. The current contract expires in August 2002 and the Company is awaiting confirmation of the extension of the contract for a further 12 months. Due to uncertainty associated with the allocation of government funding, it is possible that this agreement will not be renewed.

DIRECTORS' DECLARATION

In the opinion of the directors of pieNETWORKS Limited:

(a) the financial statements and notes, set out on pages 13 to 40, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2002 and of its performance, as represented by the results of its operations and their cash flows, for the year ended on that date; and

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

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

Dated at Perth this 29th day of August 2002

Signed in accordance with a resolution of the directors:

Peter Gunzburg

Chairman

KPMG

Independent audit report to the members of pieNETWORKS Limited

Scope

We have audited the financial report of pieNETWORKS Limited for the financial year ended 30 June 2002, consisting of the statements of financial performance statements of financial position, statements of cash flows, accompanying notes and the directors' declaration set out on pages 13 to 41. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entity it controlled at the year end or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's and consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

Audit opinion

In our opinion, the financial report of pieNETWORKS Limited is in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and

   ii. complying with Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements.

KPMG

KPMG

A M Kitchen

A M KITCHEN
Partner
29 August 2002

CORPORATE GOVERNANCE PRACTICES AND CONDUCT

The Board has adopted corporate governance policies which are summarised below. The Board is responsible for the governance of pieNETWORKS including its strategic development and the direction and control of the operations of pieNETWORKS. Subject to pieNETWORK'S constitution, the issues of Board composition and the selection criteria for directors are dealt with by the Board. The Chairman and the Managing Director of pieNETWORKS will regularly review the performance of the Board to ensure that the Board continues to have a mix of skills and experience necessary for the conduct of the activities of pieNETWORKS.

Directors, in carrying out their duties as directors, may, after prior consultation with the Chairman, seek independent advice at the expense of pieNETWORKS.

AUDIT AND COMPLIANCE COMMITTEE

The role of the Audit and Compliance Committee ("Committee") is documented in a charter approved by the Board. In accordance with this charter the Committee meet at regular intervals and as required by corporate governance matters arising from time to time. The Committee's main activities comprise the overview of the Company's accounting and financial reporting (including compliance with Australian Accounting Standards), relationship with the auditors, legal compliance, internal control procedures and risk management. The Committee also meets with the external auditors prior to adopting the annual and half year financial reports.

During the financial year the members of the Committee were Diane Sias, Chairman of the committee and non-executive director, Robert McBrier, Technical Director and Jason Clifton, General Manager. Since the end of the financial year the composition of the Committee was revised to reflect the composition of the full board, with Ms Sias remaining as its Chairman.

The Committee reviews the nomination and performance of the auditor. The external auditors were appointed in 1999. The Company's policy on rotation of engagement partners will be considered by the Committee at forthcoming meetings of the committee.

REMUNERATION ARRANGEMENTS

The remuneration of an executive director is decided by the Board, without the executive director participating in that decision making process.

The level of non executive directors' fees are reviewed annually by the Board following the review by the Chairman and the Managing Director and take into consideration additional time required for involvement in various committees. Executive directors receive no fees as directors.

SHARE AND OPTION SCHEMES

Details of the Company's employee share and option incentive plans are set out in note 19 to the accompanying financial statements.

IDENTIFICATION AND MANAGEMENT OF RISK

The Board's collective experience will ensure accurate identification of the principle risks which may affect the Company's business. Management of these risks are discussed by the Board at periodic strategic planning meetings. In addition, key operational risks and their management are recurring items for consideration at Board meetings.

SHARE RESTRICTION POLICY

pieNETWORKS Limited has adopted a trading restriction policy applying to all manager level employees.

ETHICAL STANDARDS

The directors of pieNETWORKS acknowledge the need for the highest standard of corporate governance practices and ethical conduct by all directors, employees and contractors of the company.

The directors have adopted the Code of Conduct issued by the Australian Institute of Company Directors.

Substantial Shareholders

As at 31 August 2002, substantial shareholders in pieNETWORKS, and the number of equity securities held are listed below:

Substantial shareholder	Ordinary Shares	%	Founders Options	Mezzanine Options	Pie Option Plan Options	2000/01 Pie Option Plan Options	November 2001 Pay Reduction Option Plan Options
Campbell Smith	10,854,131	9.96	960,000	84,367	500,000	-	-
Robert McBrier	10,691,317	9.81	960,000	43,662	400,000	-	-
Peter Gunzburg	11,252,667	10.33	-	512,500	-	-	-
Bryan Paul	10,437,357	9.58	960,000	28,785	130,000	10,000	75,000

The number of Holders of each class of securities as at 31 August 2002:

Number of Holders	Description
819	Ordinary fully paid shares
4	Founders options
7	1999/2000 Option Plan Options
19	Mezzanine Options
18	Pie Option Plan Options
1	Underwriter Options (1)
14	2000/01 Option Plan Options
9	November 2001 Pay Reduction Option Plan Options

(1) The terms and conditions of these options are the same as the Pie Option Plan Options.

Voting Rights

The voting rights attaching to each class of securities are set 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 a proxy, attorney or representative, have one vote per share.

Options:
No voting rights.

ADDITIONAL INFORMATION

Distribution schedule of Holders of Equity Securities as at 31 August 2002

	1-1,000	1,001-5,000	5,001-10,000	10,001-100,000	100,001-Max
Fully paid ordinary shares	8	136	214	344	110
Founders Options	-	-	-	-	4
Mezzanine Options	-	-	-	9	10
1999/2000 Option Plan Options	-	-	-	3	4
Pie Option Plan Options	-	-	3	6	9
Underwriter Options	-	-	-	-	1
2000/01 Option Plan Options	-	-	6	8	-
November 2001 Pay Reduction Option Plan Options	-	-	-	4	5

Number of Holders Holding less than a marketable parcel of fully paid ordinary shares as at 31 August 2002: 541

20 Largest holders of quoted equity securities as at 31 August 2002

Rank and Name		No. Shares Held	% Capital
1	Cerise Bay Pty Ltd	10,191,317	9.35
2	Gocom Pty Ltd	9,854,131	9.04
3	Giverny Holdings Pty Ltd	9,631,802	8.84
4	Bay Securities Pty Ltd	5,202,667	4.77
5	Trovex Pty Ltd	4,950,000	4.54
6	Nefco Nominees Pty Ltd	3,572,000	3.28
7	Equitas Nominees Pty Ltd	2,600,000	2.39
8	Enerview Pty Ltd	2,560,000	2.35
9	Ryan Australia Pty Ltd	2,400,000	2.20
10	Mr Swee Khoon Lee	2,000,000	1.84
11	Invia Custodian Pty Ltd	1,947,503	1.79
12	Rivista Pty Ltd	1,850,000	1.70
13	Mr Theng Kiang Low	1,450,000	1.33
14	Mr Patrick D'Cruze	1,200,000	1.10
15	Ms Diane Lee Sias	1,200,000	1.10
16	Daccsar Pty Ltd	1,196,667	1.10
17	Mr Peter Lynton Gunzburg	1,100,000	1.01
18	Mr Graham Robert Forward	1,000,000	0.92
19	Geographe Resources Limited	1,000,000	0.92
20	Mr Frank Lucas	1,000,000	0.92

Restricted Securities as at 31 August 2002:

There are no restricted securities on issue.

Unquoted Securities on Issue as at 31 August 2002:

Unquoted Securities	Number on issue	Number of Holders
Mezzanine Options	6,250,565	19
Founders Options	3,000,000	4
Pie Option Plan Options	2,795,000	18
99/00 Options	825,000	7
Underwriter Options	500,000	1
2000/01 Option Plan Options	440,000	14
November 2001 Pay Reduction Option Plan Options	1,342,911	9

Names of persons holding more than 20% of a given class of Unquoted Securities (other than employee options) as at 31 August 2002:

Securities	Name	Number of Securities
Mezzanine Options	Phoenix Properties Pty Ltd	1,750,000
Founder Options	Cerise Bay Pty Ltd	960,000
	Gocom Pty Ltd	960,000
	Giverny Holdings Pty Ltd	960,000
Underwriter Options	CIBC World Market Securities Limited	500,000

On-Market Buy Back

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

pieNETWORKS LIMITED

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