pieNETWORKS Annual Report 2003

pieNETWORKS Limited ABN 27 078 661 444 Public Internet Enabling

CORPORATE DIRECTORY

DIRECTORS

Peter Gunzburg (Chairman)

Campbell Smith (Managing Director)

Robert McBrier

Craig Ferrier

SECRETARY

Craig Ferrier

REGISTERED OFFICE

75 Collingwood Street

Osborne Park WA 6017

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Facsimile:	(08) 9444 9022
E-mail:	info@pienetworks.com

Website: www.pienetworks.com

SOLICITORS

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WEST PERTH WA 6005

Telephone:	(08) 9211 3600
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Fox Brooks Marshall

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St. Peters Square

Manchester

M23DN

United Kingdom

AUDITORS

KPMG

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PERTH WA 6000

Telephone:	(08) 9263 7171
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SHARE REGISTRY

Computershare Investor Services

Level 2

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45 St Georges Terrace

PERTH WA 6000

Telephone:	(08) 9323 2000
Facsimile:	(08) 9323 2033

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Australian Stock Exchange limited

2 The Esplanade

PERTH WA 6000

ASX Code: PIE

pie networks

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REVIEW OF ACTIVITIES

OVERVIEW

Against the backdrop of a depressed market for IT products and services, the 2002/03 year has been one of continued consolidation, with a focus on the cost drivers of the business and the delivery of products and services tailored to meet the needs of pieNETWORKS' diversified customer base. The result of which has been an enhanced competitive position and a growing reputation for the ability to deliver innovative solutions across the government, banking and retail sectors of the market.

The 2003 year has seen the Company take a substantial step towards the attainment of positive cash flow from operations and profitability. In this respect the Group reported a net loss after tax of $612,937 representing an 80% improvement against the prior year loss of $3,001,321. The Company finished the year with $1,124,830 cash on hand. Significantly, the reduction in the Group's working capital position during the year was limited to $88,745.

The past year has seen pieNETWORKS' further consolidate its position as an Australian market leader in coin operated internet kiosks, internet terminals in the banking sector (or "internet teller machines") and internet enabled information kiosks in the government sector.

Importantly, pieNETWORKS' strategy of delivering a platform for long term growth based on cost competitiveness and a true understanding of it's customer needs has already been rewarded. Following the end of the financial year, the Company announced that it had acquired certain assets and the contractual rights to operate a network of 444 kiosks deployed in the United Kingdom, Germany and Cyprus (described further below). It is pleasing to note that the acquisition cost of £60,000 (approximately A$148,000), which included an estimated £22,000 of uncollected cash in the kiosks, represents a fraction of the cost outlaid to establish the network by the former owners. Based on their historical performance, the acquired kiosks are anticipated to generate approximately $A1.1 million in annual revenue and as such is expected to be cash flow positive and earnings accretive for the UK business unit in the 2004 financial year.

HUMAN RESOURCES

Again it has been a year that 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.

The contribution of pieNETWORK's staff in increasing customer satisfaction and thereby our competitive position cannot be underestimated. We again asked a great deal of our people during this time. We are indebted to our talented and dedicated team who demonstrated faith and commitment to the product and services delivered by pieNETWORKS.

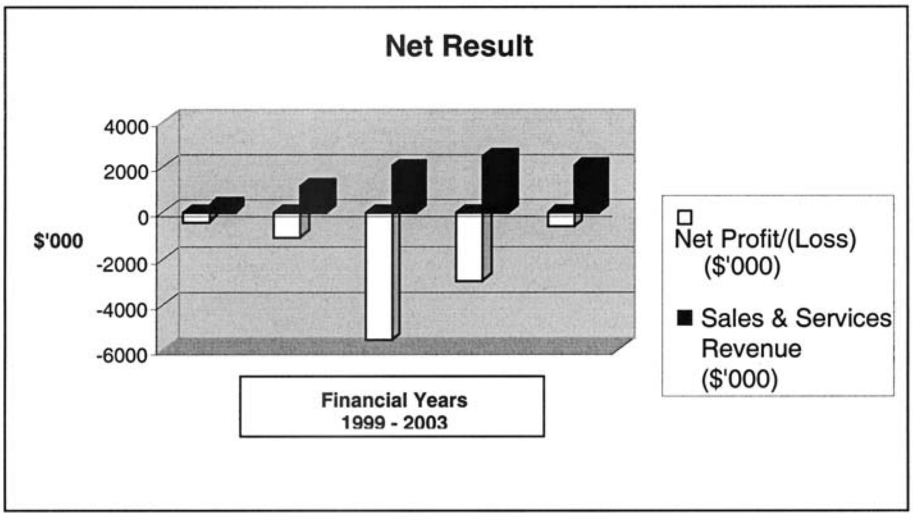
INNOVATIVE PRODUCTS AND SERVICES

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") licence fees;
- Interactive kiosk screen advertising fees; and
- Internet kiosk infrastructure management fees.

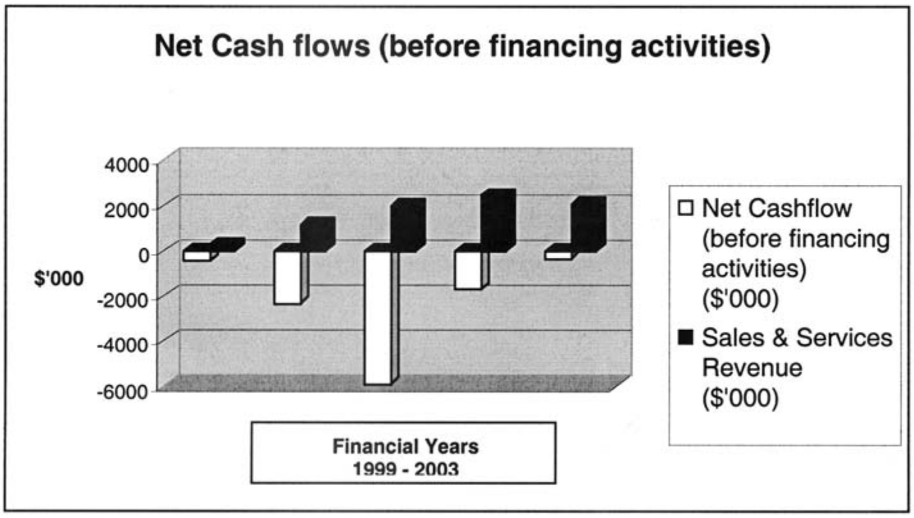
FINANCIAL PERFORMANCE

The revenue for the 2003 year was affected by the impact of the earlier decision to place the Company's UK operations on a "care & maintenance" basis as the Company's focus shifted to tight cost control and organic growth. Whilst UK revenues fell by 66% in the period to $166,757, the UK segment result was a loss of only $11,724. In Australia, notwithstanding the non-renewal of the Victorian Governments "Better Health Channel" contract in January this year, revenues fell by just 3%.



Significantly, operating costs continue to be reduced. A reduction in group operating costs of $2.6 million was achieved in the period, representing a fall of 47%.

The Group finished the year with a cash balance of $1,124, 830, representing a negative cash-flow of $343,298 for the year. This is an 80% improvement compared to the prior year where the group had a negative cash-flow of $1.72 million (excluding the effect of the September 01 capital raising).



UNITED KINGDOM ACQUISITION

On 8 September, the Company announced the acquisition of the assets of Public Internet Services Limited (in Liquidation), including the contractual rights to operate a network of 444 kiosks (181 of which are now wholly owned by pieNETWORKS) deployed in the United Kingdom, Germany and Cyprus. Approximately two thirds of the deployed kiosks are located in British Ministry of Defense sites. There is an additional 79 sites awaiting the installation of kiosks.

The acquisition totaled £60,000 (approximately A$148,000) which included an estimated £22,000 (approximately A$54,000) of uncollected cash in the kiosks. This equated to a net acquisition cost of £38,000 (approximately A$94,000), which amounted to less than 10% of then existing cash reserves.

Seven sales and engineering staff formerly employed by Public Internet Services Limited have been retained by pieNETWORKS to expand and service the European network, while 24 hour, 7 day management of the network will be performed by pieNETWORKS' Perth based help desk.

THE YEAR AHEAD

We have stable recurring revenues, a low cost base and sufficient cash to continue to grow the business organically. We are very excited about the positive impact our recent acquisition of the United Kingdom, German and Cyprus assets of Public Internet Services Ltd will have on our bottom line this next financial year. The acquisition will take the number of kiosks managed by pieNETWORKS to over 1,100 making pieNETWORKS one of (if not) the largest operators of internet kiosks in the world. This equates to a network expansion of over 60%, further enhancing economies of scale in pieNETWORKS' existing operations. Should new opportunities, such as our recent acquisition, arise we will investigate and pursue should they achieve our investment hurdles.

In Australia our focus remains on growing our revenues in the banking, government and retail sectors whilst maintaining our cost competitiveness and building on our present strengths to take full advantage of future opportunities. We look forward to working with the pieNETWORKS' team in delivering an even better result in the year ahead.

Finally, on behalf of the board, we would like to thank Ms Diane Sias and Mr Ralph Ward Ambler for their contribution to the Company during their respective tenure as Non-Executive Directors of the Company.

CAMPBELL SMITH
MANAGING DIRECTOR

PETER GUNZBURG
CHAIRMAN

pieNETWORKS LIMITED
(ACN 078 661 444)
and its
Controlled Entities

2003 Annual Financial Report

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 2003 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	51	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, Eyres Reed Limited and CIBC World Markets Australia Limited. Member of the Audit and Compliance Committee. Appointed 29 April 2002.
Campbell Smith Managing Director	38	Over ten years experience in finance and sales and marketing. Co-founder and first Managing Director of the Company. Member of the Audit and Compliance Committee. Appointed 23 May 1997.
Robert McBrier Technical Director	48	Wide ranging experience providing information technology solutions in Australia and overseas. Co-founder and first Technical Director of the Company. Member of the Audit and Compliance Committee. Appointed 23 May 1997.
Craig Ferrier Non-Executive Director and Company Secretary	41	Over fifteen years experience in corporate and financial management of listed companies. Company Secretary since May 2001. Member of the Audit and Compliance Committee. Appointed 10 September 2003.

David Price resigned as a director on 30 July 2002.
Diane Sias resigned as a director on 12 November 2002.
Ralph Ward-Ambler resigned as director on 13 March 2003
Craig Ferrier appointed as a director on 10 September 2003

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**
Peter Gunzburg (1)	9	9	4	5
Campbell Smith (1)	9	9	4	5
Robert McBrier (1)	8	9	4	5
David Price	1	1	-	-
Diane Sias	3	4	1	2
Ralph Ward-Ambler	6	6	3	4

A number of meetings attended
B number of meetings held during the time the director held office during the year

(1) The composition of the pieNETWORKS' Audit & Compliance Committee was amended to include the full board from 21 August 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 2003 was $612,937 (2002: loss $3,001,321).

Operational

During the year the Company maintained its strategy of pursuing organic revenue growth and tight cost control whilst maintaining the Company's preparedness to take advantage of growth opportunities anticipated in the period ahead.

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.

Events Subsequent to Balance Date

On 5 September 2003, the Company purchased the assets of Public Internet Services Limited (in Liquidation) including the contractual rights to operate a network of 444 kiosks (181 of which are now wholly owned by pieNETWORKS) deployed in the United Kingdom, Germany and Cyprus for a cash consideration of £60,000 (approximately A$148,000). Approximately two thirds of the deployed kiosks are located in British Ministry of Defence sites. There is an additional 79 sites awaiting the installation of kiosks.

It is estimated that £22,000 (approximately A$54,000) of uncollected cash exists in the kiosks, equating to a net cash outlay of £38,000 (approximately A$94,000) in respect to the acquisition. The directors anticipate that the acquired network will be cash flow positive and earnings accretive for the UK business in the upcoming financial year.

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 an in the UK 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 board 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.

Directors and Senior Executives' Emoluments (Cont)

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 or in the prior 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 $ (9%)	Value of Options issued(A) $	Total $
Director				
David Price	500	45	-	545
Diane Sias	2,500	-	-	2,500
Campbell Smith	122,520	-	-	122,520
Robert McBrier	125,725	11,319	-	137,044
Ralph Ward-Ambler	4,500	405	-	4,905
Peter Gunzburg	-	-	-	-
Officers				
Craig Ferrier	30,000	-	66	30,066

A. Each option entitles the holder to purchase one ordinary share in the Company. During the 2002 financial year a total of 75,000 "November 2001 Pay Reduction Options" were granted to the Company Secretary, Mr C Ferrier. The value of the options that have vested during the current period has been estimated using a Black-Scholes model and is disclosed in the table above. The options vest progressively over a 12 month period through to 26 November 2002. The key parameters used in the Black-Scholes model are as follows:

Factor Used in Valuation Model	Inputs
Exercise price of option	8 cents each
Life of option from date of grant	3 years
The market price of underlying shares at time of grant	2.5 cents each
The expected volatility of the share price	Annualised volatility of 51.34% based on the standard deviation of the weighted average share prices on ASX for the Company during the 12 month period prior to the date of grant
The dividends expected on the shares	Nil
The risk-free interest rate for the life of the option	4.95%

Directors and Senior Executives' Emoluments (Cont)

Options:

During or since the end of the financial year, the Company did not grant any options over unissued ordinary shares to directors or its most highly remunerated officers as part of their remuneration.

Unissued Shares Under Option:

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)	$0.30	1,500,000
Mezzanine Options (2)	$0.50	6,250,565
pie Option Plan Options (3)	$0.30	3,295,000
2000/01 Option Incentive Plan(4)	$0.30	380,000
November 2001 Pay Reduction Option Plan(5)	$0.08	1,342,911

Notes

1. Founder Options:
   1,500,000 exercisable on or before 7 April 2004.

2. Mezzanine Options – exercisable on or before 18 January 2005.

3. pie Option Plan Options are exercisable at any time after the second anniversary of listing on ASX (i.e. 7 April 2002) and expire on 25 February 2005 (2,080,000 options) and 30 June 2007 (1,215,000) options respectively. Included are 500,000 options granted to CIBC World Market Securities Limited in their capacity as underwriter of the Company's public offer of shares in April 2000.

4. 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 250,000 options expire on 30 June 2007).

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

Further details concerning the Company's share option incentive plans are set out in note 20 to the financial statements accompanying this report.

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 during or since the end of the financial year 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
Campbell Smith	10,854,131	1,064,368
Robert McBrier	9,691,317	923,662
Peter Gunzburg	21,685,477 (1)	512,500

(1) Includes up to 10,432,810 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.

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, and Mr Peter Gunzburg and former directors Mr David Price, Mr Ralph Ward-Ambler and Ms Diane Sias 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 not paid any premiums 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 11th day of September 2003.

Signed in accordance with a resolution of the directors.

Peter Gunzburg

Chairman

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Note	Consolidated		Parent Entity	
		2003	2002	2003	2002
		$	$	$	$
Revenue from sale of goods	3	465,711	626,881	465,400	398,598
Revenue from rendering of services	3	1,610,500	1,841,636	1,444,053	1,578,522
Other revenues from ordinary activities	3	52,279	179,517	52,092	179,171
Total Revenue	3	2,128,490	2,648,034	1,961,545	2,156,291
Cost of goods sold		138,035	273,452	136,706	145,025
Service revenue expenses		1,241,647	1,735,011	1,098,757	1,392,909
Sales & marketing expenses		255,149	525,579	255,149	250,306
Administration & corporate expenses		813,094	2,129,904	789,699	1,407,470
Research & development		513,891	911,809	513,891	911,809
Foreign exchange translation		1,427	(76,477)	-	-
Other expenses from ordinary activities		29,790	150,077	34,162	1,064,919
Loss from ordinary activities before related income tax expense	4	(864,543)	(3,001,321)	(866,819)	(3,016,147)
Income tax (expense)/benefit relating to ordinary activities	6	251,606	-	251,606	-
Net loss	17	(612,937)	(3,001,321)	(615,213)	(3,016,147)
Basic loss per share (cents)	7	0.562	2.801		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 10 to 39.

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2003

	Note	Consolidated		Parent Entity	
		2003	2002	2003	2002
		$	$	$	$
Current Assets					
Cash assets	8	1,124,830	1,466,895	1,084,663	1,380,660
Receivables	9	137,540	76,884	137,540	38,467
Inventories	10	23,082	40,008	23,082	40,008
Other financial assets	11	34,770	41,022	10,625	14,610
Total Current Assets		1,320,222	1,624,809	1,255,910	1,473,745
Non-Current Assets					
Receivables	9	-	-	11,216	175,570
Other financial assets	11	-	-	10,000	10,000
Property, plant and equipment	12	384,878	850,601	379,667	740,281
Total Non-Current Assets		384,878	850,601	400,883	925,851
Total Assets		**1,705,100**	**2,475,410**	**1,656,793**	**2,399,596**
Current Liabilities					
Payables	13	215,945	315,032	199,637	276,211
Unearned revenue	14	49,402	122,336	18,052	83,716
Provisions	15	77,757	64,609	77,757	64,609
Total Current Liabilities		343,104	501,977	295,446	424,536
Total Liabilities		**343,104**	**501,977**	**295,446**	**424,536**
Net Assets		**1,361,996**	**1,973,433**	**1,361,347**	**1,975,060**
Equity					
Contributed equity	16	12,077,397	12,075,897	12,077,397	12,075,897
Accumulated losses	17	(10,715,401)	(10,102,464)	(10,716,050)	(10,100,837)
Total Equity		**1,361,996**	**1,973,433**	**1,361,347**	**1,975,060**

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 10 to 39

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Note	Consolidated		Parent Entity	
		2003	2002	2003	2002
		$	$	$	$
Cash flows from operating activities					
Cash receipts in the course of operations		2,089,542	3,045,098	1,897,799	2,486,148
Cash payments in the course of operations		(2,699,912)	(4,675,148)	(2,541,641)	(3,468,048)
Grant income		-	117,187	-	117,187
Research and development tax offset rebate		251,606	-	251,606	-
Interest received		53,706	69,174	53,519	69,174
Net cash (used in) operating activities	26(ii)	(305,058)	(1,443,689)	(338,717)	(795,539)
Cash flows from investing activities					
Payments for property, plant and equipment		(39,740)	(275,987)	(39,740)	(240,089)
Net cash (used in) investing activities		(39,740)	(275,987)	(39,740)	(240,089)
Cash flows from financing activities					
Proceeds from share issues		-	1,000,000	-	1,000,000
Payments for equity raising costs		1,500	(58,136)	1,500	(58,136)
Loans to subsidiary		-	-	80,960	(661,347)
Net cash provided by financing activities		1,500	941,864	82,460	280,517
Net (decrease) in cash held		(343,298)	(777,812)	(295,997)	(755,111)
Cash at the beginning of the financial year		1,466,895	2,247,167	1,380,660	2,135,771
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1,233	(2,460)	-	-
Cash at the end of the financial year	26(i)	1,124,830	1,466,895	1,084,663	1,380,660

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 10 to 39.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial report is a general purpose financial report that 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 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 Company and consolidated entity incurred a loss after tax for the year of $615,213 (2002: $3,016,147) and $612,937 (2002: $3,001,321) and has a surplus in working capital at 30 June 2003 of $960,464 (2002: $1,049,209) and $977,118 (2002: $1,122,832), respectively. 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 past two years the Company and consolidated entity has undergone substantial restructuring of its activities which has resulted in significant cost reductions;
- During the financial year the Company and consolidated entity continued to implement a business strategy directed at conserving funds and achieving a positive cash flow in the shortest possible timeframe, and recently purchased the assets of Public Internet Services Limited including the contractual rights to operate 444 kiosks deployed in the United Kingdom, Germany and Cyprus (refer to Note 27);
- As a consequence of the above measures, the reduction in the Company's and consolidated entity's working capital for the year was contained to $88,745 and $145,714, respectively;
- Notwithstanding the cost cutting measures referred to above, significant business relationships continue to be pursued.

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

(b) Principles of consolidation

Controlled entities

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

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.

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.

(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 that 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 2003

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 reporting 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 reporting date, while non-monetary items and 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, or if relating to tax losses when realisation is virtually certain.

(g) Loss per share

Basic loss per share ("EPS") is calculated by dividing the net loss attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

For the year ended 30 June 2003 there are no dilutive potential ordinary shares and accordingly no diluted EPS has been disclosed.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Acquired in-process research and development is only recognised as a separate asset when future benefits are expected beyond any reasonable doubt to be recoverable.

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

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, expensed as incurred.

Research and Development

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

(i) Receivables

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

Trade debtors

Trade debtors to be settled within 30 days are carried at amounts due.

(j) Inventories

Inventories are carried at the lower of cost allocated 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(k) Investments

Controlled Entities

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

(l) 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 reporting 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.

(m) Leased assets

Leases under which the consolidated entity assumes 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.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

(n) Depreciation

Useful Lives

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual values.

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

Property plant and equipment

Plant and equipment	20-40%
Kiosks	40%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

(o) 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.

(p) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Option plan

The Company has granted options to certain employees and Directors under the Company's option plans. Further information is set out in note 20 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.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise they are expensed. Other administrative costs are expensed.

Superannuation plan

The Company and its controlled entity contribute to several defined contribution superannuation plans. Contributions are recognised as an expense as they are made.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

2. CHANGES IN ACCOUNTING POLICIES

(a) Employee benefits

The consolidated entity has applied the revised AASB 1028 Employee Benefits for the first time from 1 July 2002.

The liability for wages and salaries and annual leave is now calculated using the remuneration rates the Company expects to pay as at each reporting date, not wage and salary rates current at reporting date.

As a result of this change in accounting policy, employee benefits expenses increased by $10,369 for the reporting period to 30 June 2003.

There was no impact on the consolidated financial report as at 1 July 2002 as a result of this change.

(b) Foreign currency translation

The consolidated entity has applied the revised AASB 1012 "Foreign Currency Translation" for the first time from 1 July 2002.

There was no impact on the consolidated financial report as at 1 July 2002 as a result of this change.

(c) Provisions and contingent liabilities

The consolidated entity has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002.

There was no impact on the consolidated financial report as at 1 July 2002 as a result of this change.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
3. REVENUE FROM ORDINARY ACTIVITIES				
Sale of goods revenue from operating activities	465,711	626,881	465,400	398,598
Rendering of services revenue from operating activities	1,610,500	1,841,636	1,444,053	1,578,522
Other Revenues:				
From operating activities				
Interest income	51,029	62,330	50,842	61,984
Other	1,250	-	1,250	-
Government Grants	-	117,187	-	117,187
Total Other Revenues	52,279	179,517	52,092	179,171
Total Revenue from ordinary activities	**2,128,490**	**2,648,034**	**1,961,545**	**2,156,291**

4. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

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

	Consolidated 2003	Consolidated 2002	Parent Entity 2003	Parent Entity 2002
(Write back)/ provision raised in respect to inventory and kiosk obsolescence	(12,803)	367,038	(12,803)	367,038

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

	Consolidated 2003	Consolidated 2002	Parent Entity 2003	Parent Entity 2002
Depreciation of:				
Plant and equipment	42,603	96,492	42,193	69,956
Kiosks	353,299	620,669	320,232	498,347
Total depreciation	395,902	717,161	362,425	568,303

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
b) Loss from ordinary activities before income tax has been arrived at after charging/(crediting) the following items: (continued)				
Net expense from movements in provision for:				
Non-recovery of loan to controlled entity	-	-	13,810	895,597
Employee benefits	13,148	(3,800)	13,148	(3,800)
Net bad and doubtful debt expense including movements in provision for doubtful debts	23,374	14,850	11,603	28,474
Net foreign exchange loss/(gain)	1,427	(76,477)	-	-
	37,949	(65,427)	38,561	920,271
Operating lease rental expense:				
Minimum lease payments	289,721	224,146	179,964	154,870
Research & Development expenditure	513,891	911,809	513,891	911,809

5. AUDITORS REMUNERATION

Audit services:				
Auditors of the Company - KPMG				
KPMG Australia:				
Audit and review of financial reports	31,300	28,800	31,300	28,800
Overseas KPMG Firms:				
Audit and review of financial reports	7,900	-	-	-
	39,200	28,800	31,300	28,800
Other services:				
Corporate Advice - KPMG	300	26,825	300	25,850

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	Consolidated 2003 $	Consolidated 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
6. INCOME TAX				
(a) Income tax benefit				
Prima facie income tax benefit calculated at 30% (2002: 30%) on the operating loss from ordinary activities	(259,363)	(904,396)	(260,046)	(904,844)
Decrease in income tax benefit due to permanent differences:				
Research and development expenditure	(35,738)	(50,321)	(35,738)	(50,321)
Tax losses utilised in respect to research and development tax offset	(251,606)	-	(251,606)	-
Non-deductible legal expenses	292	40,504	292	40,504
Provision for loan	-	-	4,143	268,795
Other	2,009	4,023	2,009	4,023
Total income tax benefit on operating loss	(544,406)	(910,190)	(540,946)	(641,843)
Less: Future income tax benefit not brought to account	292,800	910,190	289,340	641,843
Income tax (benefit) relating to ordinary activities	(251,606)	-	(251,606)	-

Future income tax benefit not taken to account

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	3,084,485	3,043,291	2,094,031	2,056,297
Timing Differences	117,986	125,028	117,986	125,028
	3,202,471	3,168,319	2,212,017	2,181,325

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

6. INCOME TAX

(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.

7. LOSS PER SHARE

	Consolidated	
	2003	2002
Weighted average number of shares used as the denominator		
Number for basic loss per share		
Ordinary shares	108,972,250	107,162,634

Classification of securities as potential ordinary shares

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

8. CASH ASSETS

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
Cash at bank and on hand	113,943	330,516	73,776	244,281
Bank short term deposits (a)	1,010,887	1,136,379	1,010,887	1,136,379
	1,124,830	1,466,895	1,084,663	1,380,660

(a) Bank short term deposits mature within 60 days and pay interest at a weighted average interest rate of 4.18% (2002: 3.59%) (see note 18)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$

9. RECEIVABLES

Current				
Trade debtors	141,067	81,602	141,067	42,200
Less: Provision for doubtful trade debtors	(3,527)	(4,718)	(3,527)	(3,733)
	137,540	76,884	137,540	38,467
Non-current				
Loans to controlled entities (i)	-	-	3,445,024	3,595,568
Less: Provision for non-recovery	-	-	(3,433,808)	(3,419,998)
	-	-	11,216	175,570

(i) Terms and conditions

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

10. INVENTORIES

Current				
Raw materials and stores - at cost	59,519	79,056	59,519	79,056
Less: Provision for obsolescence	(36,437)	(39,048)	(36,437)	(39,048)
	23,082	40,008	23,082	40,008

11. OTHER FINANCIAL ASSETS

Current				
Prepayments	26,772	30,726	2,627	4,314
Interest Receivable	2,998	5,296	2,998	5,296
Rental Bond	5,000	5,000	5,000	5,000
	34,770	41,022	10,625	14,610
Non Current				
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 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
Plant and equipment				
At cost	266,438	271,782	264,431	269,775
Accumulated depreciation	(208,113)	(178,886)	(206,106)	(177,289)
	58,325	92,896	58,325	92,486
Kiosks				
At cost	1,487,058	1,923,293	1,474,026	1,744,468
Accumulated depreciation	(893,304)	(879,237)	(885,483)	(810,322)
less provision for obsolescence	(267,201)	(286,351)	(267,201)	(286,351)
	326,553	757,705	321,342	647,795
Total	384,878	850,601	379,667	740,281

Reconciliations

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

	Consolidated	Parent Entity
	2003	2003
Plant and equipment	$	$
Carrying amount at beginning of year	92,896	92,486
Additions	8,525	8,525
Disposals	(493)	(493)
Depreciation	(42,603)	(42,193)
Carrying amount at end of year	58,325	58,325
Kiosks		
Carrying amount at beginning of year	757,705	647,795
Additions	64,446	136,078
Transfer to inventory	(155,102)	(155,102)
Depreciation	(353,299)	(320,232)
Provision for obsolescence	12,803	12,803
Carying amount at end of year	326,553	321,342

pieNETWORKS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
13. PAYABLES				
Trade creditors	89,074	165,150	89,739	137,152
Other creditors and accruals	126,871	149,882	109,898	139,059
	215,945	315,032	199,637	276,211
14. UNEARNED REVENUE				
Unearned revenue	49,402	122,336	18,052	83,716
15. PROVISIONS				
Current				
Employee benefits	77,757	64,609	77,757	64,609
16. CONTRIBUTED EQUITY				
Share capital				
108,972,250 (2002: 108,972,250)				
Ordinary shares fully paid	12,077,397	12,075,897	12,077,397	12,075,897
Ordinary shares				
Movements during the year				
Balance at the beginning of year	12,075,897	11,128,633	12,075,897	11,128,633
Shares Issued:				
Nil shares issued (2002: 12,500,000 at 8 cents each)	-	1,000,000	-	1,000,000
Nil shares issued (2002: 270,000 at 2 cents each)	-	5,400	-	5,400
Add/(less) equity raising costs	1,500	(58,136)	1,500	(58,136)
Balance at end of year	12,077,397	12,075,897	12,077,397	12,075,897

No shares were issued during the financial year.

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 2003

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$

17. ACCUMULATED LOSSES

	2003 $	2002 $	2003 $	2002 $
Accumulated losses at beginning of year	10,102,464	7,101,143	10,100,837	7,084,690
Net loss attributable to members of parent entity	612,937	3,001,321	615,213	3,016,147
Accumulated losses at end of year	10,715,401	10,102,464	10,716,050	10,100,837

18. 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 $
2003					
Financial assets					
Cash assets	4.18%	113,943	1,010,887	-	1,124,830
Receivables	-	-	-	137,540	137,540
Other Financial Assets	-	-	-	34,770	34,770
		113,943	1,010,887	172,310	1,297,140
Financial liabilities					
Payables	-	-	-	215,945	215,945
Employee benefits	-	-	-	77,757	77,757
		-	-	293,702	293,702
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 benefits	-	-	-	64,609	64,609
		-	-	379,641	379,641

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

18. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(c) Net fair values

The net fair value of financial assets and liabilities approximates their carrying value.

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
19. COMMITMENTS				
Operating lease commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Within one year	130,637	208,817	48,438	118,901
One year or later, but no later than five years	246,596	459,664	-	100,000
	377,233	668,481	48,438	218,901

The consolidated entity leases property under non-cancellable operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

20. EMPLOYEE BENEFITS

	Consolidated 2003 $	Consolidated 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Aggregate liability for employee benefits, including on costs				
Current	77,757	64,609	77,757	64,609
Number of employees at year end	16	19	16	19

Superannuation plans

The Company contributes to several defined contribution employee superannuation plans.

20. EMPLOYEE BENEFITS (CONTINUED)

Employee Share and Options 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. Other than the November 2001 Pay Reduction Options Plan Options, all options expire on the earlier of their expiry date or termination of the employee's employment. Options are issued for no consideration and confer no voting rights or entitlement to dividends. Any shares issued as a result of the exercise of such options rank equally in all respects with the Company's existing issued ordinary shares.

Schedule of Employee Share Option Plans

Option Plan	Grant Date	Exercise date on or after	Expiry Date	Exercise price	Number of Options at beginning of year	Options Granted issued	Options lapsed	Options exercised	Options expired	Number of Options at end of year: on issue	Number of Options at end of year: Vested	Available to be issued	Proceeds received $	Date issued	Number of shares issued	Fair value per share	Fair value aggregate
Consolidated and Company																	
2003																	
pieNETWORKS Option																	
Incentive Plan (1)	25 February 2000	7 April 2002	25 February 2005	$0.30	1,580,000		-	-	-	1,580,000	1,580,000	-	-	-	-	-	-
	30 June 2002	30 June 2002	30 June 2007	$0.30	1,215,000	-	-	-	-	1,215,000	1,215,000	305,000	-	-	-	-	-
1999/2000 Option Plan (2)	various	7 April 2000	7 April 2003	$0.20	825,000	-	-	-	825,000	-	-	-	-	-	-	-	-
2000/2001 Option Plan (3)	various	31 December 2000	31 December 2005	$0.30	130,000	-	-	-	-	130,000	130,000	(3)	-	-	-	-	-
	30 June 2002	30 June 2002	30 June 2007	$0.30	320,000	-	70,000	-	-	250,000	250,000	(3)	-	-	-	-	-
November 2001 Pay																	
Reduction Option Plan (4)	30 June 2002	1 July 2003	30 June 2005	$0.08	1,464,247	-	121,336	-	-	1,342,911	1,342,911	(4)	-	-	-	-	-
					5,534,247					4,517,911	4,517,911		-	-	-	-	-
Consolidated and Company																	
2002																	
pieNETWORKS Option																	
Incentive Plan (1)	25 February 2000	7 April 2002	25 February 2005	$0.30	1,580,000	-	-	-	-	1,580,000	1,580,000	-	-	-	-	-	-
	30 June 2002	30 June 2002	30 June 2007	$0.30	-	1,215,000	-	-	-	1,215,000	1,215,000	305,000	-	-	-	-	-
1999/2000 Option Plan (2)	various	7 April 2000	7 April 2003	$0.20	1,000,000	100,000	275,000	-	-	825,000	825,000	575,000	-	-	-	-	-
2000/2001 Option Plan (3)	various	31 December 2000	31 December 2005	$0.30	-	130,000	-	-	-	130,000	130,000	(3)	-	-	-	-	-
	30 June 2002	30 June 2002	30 June 2007	$0.30	-	320,000	-	-	-	320,000	320,000	(3)	-	-	-	-	-
November 2001 Pay																	
Reduction Option Plan (4)	30 June 2002	1 July 2003	30 June 2005	$0.08	-	1,464,247	-	-	-	1,464,247	866,513	(3)	-	-	-	-	-
					2,580,000					5,534,247	4,936,513						

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

EMPLOYEE SHARE AND OPTIONS PLANS (CONTINUED)

Notes to schedule of employee share option plans:

1. The Pie Option Incentive Plan is restricted to 3,600,000 Options to be issued at an exercise price of 30 cents, and restricted such that they can not be exercised until 2 years from the date the Company lists on the ASX and only if at that time the underlying shares of the Company are trading at higher than double the issue price. The Options expire 5 years from the date of the grant of the option. The exercise period is the period commencing on the second anniversary on the date the Company is admitted to the official list of the ASX and ceases on the expiry date. The expiry date is the date 5 years after the date of grant of the options. Eligible persons may only exercise options granted to them during the exercise period provided the price of the Company's shares trading on the ASX is not less than $0.60. The Options are fully vested from date of grant subject to the aforementioned restriction on the timing of exercise.

2. 1999/2000 Option Plan Options were exercisable in tranches or before 7 April 2003 or the date of employees termination. The total number of options over unissued shares in pieNETWORKS has been restricted in number to 1,400,000 under the 1999/2000 Option Incentive Plan. Each Option had a term of 3 years from the date the Company is admitted to the Official List of ASX or 5 years from the date of the grant of the options (whichever is the earlier). The Options had three exercise periods; only 33% of the Options granted could be exercised in each of the first and second option periods; the final 34% could be exercised in the third exercise period. All Options issued under this plan have an exercise price of 20 cents. Options are fully vested from the date of grant. All outstanding options expired in the current period.

3. The 2000/2001 Option Incentive Plan is restricted to the issue of that number of options which equal 5% of the total number of listed ordinary shares in the Company from time to time. The options are to be issued at an exercise price not less than the greater of $0.30 or the average market price of the shares during the 5 trading days prior to the date of grant of the options. The exercise period is the period commencing on the date of grant of the option and ceases on the expiry date. The expiry date is the date 5 years after the date of grant of the Options. Eligible persons may only exercise Options granted to them during the exercise period. Options are fully vested from the date of grant.

4. The November 2001 Pay Reduction Option Plan was designed to compensate employees that agreed to accept a reduction in the amount of their remuneration payable to them for the duration of the 12 month period commencing on 26 November 2001 and also to provide an incentive to those employees and consultants to achieve the long term objectives of the Company. The terms of the Plan have not been extended to directors of the Company. The maximum number of options to be issued pursuant to the terms of the November 2001 Pay Reduction Option Plan is that number of options calculated by reference to the value of remuneration forgone and in any event, not more than 5 % of the total number of issued shares of the Company as at the time of the proposed offer of options. The minimum exercise price of the Options is the greater of 8 cents and 150% of the market value of the Shares on ASX at the time that the board resolves to offer the Options.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

20. EMPLOYEE BENEFITS (CONTINUED)

EMPLOYEE SHARE AND OPTIONS PLANS (CONTINUED)

The Options may be exercised during the period commencing on 1 July 2002 and ceasing on the 30 June 2005. Not more than one third of the options may be exercised before 30 June 2003, two thirds of the Options before 30 June 2004 and any balance remaining unexercised thereafter may be exercised prior to 30 June 2005. The expiry date is the date 30 June 2005. Participants may only exercise Options granted to them during the respective exercise periods and subject to the restrictions outlined above. The Options vest on a pro-rata basis from the date of grant to 26 November 2002, being one year after their grant but subject to a restriction on exercise as described above.

The market value of shares under these options at 30 June 2003 was $0.012 (2002: $0.02).
No options were exercised during the year (2002: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.
During the period a total of 191,336 (2002:275,000) employee options lapsed as a consequence of termination of employment of employees holding options as at the beginning of the period.

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 of which 16 are eligible at 30 June 2003 (2002: 19) 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.

There were no shares issued under the ESOP in the financial period. In the prior year, 270,000 shares were issued to a total of 27 employees under the ESOP for no consideration. The market value of those shares was $5,400.

The market price of shares issued under the ESOP as at 30 June 2003 was $0.012 (2002: $0.02).

There were no other shares eligible for issuance under the scheme at 30 June 2003.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

20. EMPLOYEE BENEFITS (CONTINUED)

Employee Share and Options Plans (Continued)

	Note	Consolidated Entity		Parent Entity	
		2003	2002	2003	2002
		$	$	$	$

The amount recognised in the financial statements of the consolidated entity and the Company in relation to employee shares during the year were:

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent 2003 $	Parent 2002 $
Employee expenses		-	5,400	-	5,400
Issued ordinary share capital	16		5,400	-	5,400

21. DIRECTORS REMUNERATION

Directors' income

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

		Parent Entity 2003	Parent Entity 2002
$0 -	$9,999	4	1
$10,000 -	$19,999	-	3
$120,000 -	$129,999	1	1
$130,000 -	$139,999	1	1

	Consolidated 2003 $	Consolidated 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
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	267,514	403,007	267,514	300,203

22. 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 2003	Consolidated 2002	Parent Entity 2003	Parent Entity 2002
$120,000 - $129,999	1	1	1	1
$130,000 - $139,999	1	1	1	1
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	259,564	258,723	259,564	258,723

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

22. EXECUTIVES REMUNERATION (CONTINUED)

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.

23. RELATED PARTIES

Directors

The names of each person holding the position of director of pieNETWORKS Limited during the financial year are Mr Peter Gunzburg, Mr Campbell Smith, Mr Robert McBrier, Mr David Price (resigned on 30 July 2002), Ms Diane Sias (resigned 12 November 2002) and Mr Ralph Ward-Ambler (resigned on 13 March 2003).

Details of directors' remuneration are set out in note 21.

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:

	2003 Number held	2002 Number held
pieNETWORKS Limited:		
Ordinary shares	32,659,093	39,929,760
Options over ordinary shares	2,563,029	5,910,529

Directors' transactions in shares and share options

During the year pieNETWORKS Limited did not grant any shares or options over unissued shares to directors (2002: nil and 3,229,247).

As at 30 June 2003 directors and their director-related entities had the following interest in shares and share options of the Company:

	Ordinary Shares	Founder Options	Mezzanine Options	pie Option Plan Options
Mr C Smith	11,326,631	480,000	146,867	500,000
Mr R McBrier	9,691,317	480,000	43,662	400,000
Mr P Gunzburg	11,641,145	-	512,500	-

pieNETWORKS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

23. 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 that 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. The contract was extended for a 3 year fixed term to 25 February 2006.

Amounts paid to directors, including amounts paid pursuant to the agreements between Gocom Pty Ltd are disclosed in Note 21 and in the directors' report.

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.

Non-director related parties

Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 24 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 $71,119. (2002: $431,843)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

23. RELATED PARTIES (CONTINUED)

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**	
	2003	**2002**
	$	**$**
Aggregate amounts receivable from non-director related parties:		
Wholly owned controlled entities	3,445,024	3,595,568

24. CONTROLLED ENTITIES

Name of Entity	**Country of Incorporation**	**Class of Shares**	**Equity Holding**	
			2003	**2002**
			%	**%**
Parent Entity				
pieNETWORKS Ltd	Australia	Ordinary		
Controlled Entities				
pieNETWORKS plc	United Kingdom	Ordinary	100	100
pieMEDIA Pty Ltd	Australia	Ordinary	0	100

pieMEDIA Pty Ltd was deregistered in December 2002 and had no income or expenses during the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

25. SEGMENT INFORMATION

	Australia		United Kingdom		Eliminations		Consolidated	
Primary reporting	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Geographical segment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue								
External Segment Revenue	1,909,453	1,977,120	166,758	491,397	-	-	2,076,211	2,468,517
Inter-segment revenue	-	-	-	-	-	-	-	-
Total segment revenue	1,909,453	1,977,120	166,758	491,397	-	-	2,076,211	2,468,517
Other Unallocated Revenue							52,279	179,517
Total Revenue							2,128,490	2,648,034
Result								
Segment result	(510,249)	(2,072,370)	(504,518)	(797,332)	339,849	179,517	(674,918)	(2,690,185)
Unallocated Corporate expenses							(189,625)	(311,136)
Loss from ordinary activities before income tax							(864,543)	(3,001,321)
Income Tax benefit							251,606	-
Net Loss							(612,937)	(3,001,321)
Depreciation	362,425	568,304	33,477	148,858	-	-	395,902	717,162
Non-cash expenses other than depreciation	141,209	536,986	-	128,427	-	-	141,209	665,413
Individually significant items								
Inventory Write- down	-	325,399	-	-	-	-	-	325,399
Assets								
Segment assets	1,656,793	2,214,026	48,307	261,384	-	-	1,705,100	2,475,410
Consolidated total assets							1,705,100	2,475,410
Liabilities								
Segment Liabilities	295,446	424,536	47,658	77,441	-	-	343,104	501,977
Consolidated Total Liabilities							343,104	501,977
Acquisition of non-current assets	8,525	392	-	-	-	-	8,525	392

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

25. 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.

26. 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	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
Cash assets	113,943	330,516	73,776	244,281
Short term deposits	1,010,887	1,136,379	1,010,887	1,136,379
	1,124,830	1,466,895	1,084,663	1,380,660

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

26. 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	
	2003	2002	2003	2002
	$	$	$	$
Loss from ordinary activities after income tax	(612,937)	(3,001,321)	(615,213)	(3,016,147)
Add non-cash items:				
Depreciation and amortisation	395,902	717,161	362,425	568,303
Provision against loans to and investment in subsidiary	-	-	13,810	895,597
Inventory taken to repairs and maintenance	20,942	40,607	20,942	40,607
Bad debt expense	(1,194)	24,001	(206)	38,646
Employee Share Bonus	-	5,400	-	5,400
Foreign exchange translation	(1,427)	2,460	-	-
Net cash (used in) operating activities before change in assets and liabilities:	(198,714)	(2,211,692)	(218,242)	(1,467,594)
Change in assets and liabilities during the financial year:				
Decrease in prepayments	3,954	15,784	1,687	8,999
(Increase)/decrease in trade debtors	(60,656)	326,152	(99,073)	306,794
(Increase) other financial assets.	2,298	(10,297)	2,298	(10,297)
Decrease other debtors	-	20,637	-	20,637
(Decrease) in accounts payable	(86,933)	(438,450)	(67,650)	(294,696)
(Decrease)/increase in unearned revenue	(72,934)	(4,718)	(65,664)	52,466
(Write back)/increase in provision for obsolescence	(12,803)	367,038	(12,803)	367,038
(Decrease)/increase in provisions	13,148	(12,987)	13,148	(13,971)
Decrease in inventories and kiosks	107,582	504,844	107,582	235,085
Net cash used in operating activities	(305,058)	(1,443,689)	(338,717)	(795,539)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

27. EVENTS SUBSEQUENT TO BALANCE DATE

On 5 September 2003, the Company acquired the assets of Public Internet Services Limited (in Liquidation) including the contractual rights to operate a network of 444 kiosks (181 of which are now wholly owned by pieNETWORKS) deployed in the United Kingdom, Germany and Cyprus for a cash consideration of £60,000 (approximately A$148,000).

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2003.

28. 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 2003.

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 $1,124,830 as at 30 June 2003.

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.

DIRECTORS’ DECLARATION

In the opinion of the directors of pieNETWORKS Limited (“the Company”):

(a) the financial statements and notes, set out on pages 12 to 41, 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 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

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

Dated at Perth this 11th day of September 2003

Signed in accordance with a resolution of the directors:

Peter Gunzburg
Chairman

KPMG

Independent audit report to members of pieNETWORKS Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both pieNETWORKS Limited (the "Company") and the pieNETWORKS Group (the "Consolidated Entity"), for the year ended 30 June 2003. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

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

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 2003 and of their performance for the financial year ended on that date; and

   ii. complying witFh Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG
KPMG

J G Robinson
J G Robinson
Partner
Perth
Dated: 11.9.03

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.

In August 2002 the composition of the Committee was revised to reflect that of the full board. Ms Diane Sias was chairman of the Committee prior to her resignation as a director in November 2002. Following changes since year end to the composition of the board it is intended that Mr Craig Ferrier, a Non Executive Director and Company Secretary, be appointed chairman of the Committee.

The Committee reviews the nomination and performance of the auditor. The external auditors were appointed in 1999 and the engagement partner was rotated during the financial year.

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 20 to the accompanying financial statements.

IDENTIFICATION AND MANAGEMENT OF RISK

The Board's collective experience is available to enable 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.

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

In March 2003 the ASX Corporate Governance Council issued its *"Principles of Good Corporate Governance and Best Practice Recommendations"*. Pursuant to the ASX Listing rules, in future annual reports the Company will be required to include a statement disclosing the extent to which the Company has followed the best practice recommendations and to the extent that there is a departure, explain the reasons for not following them.

The Company is currently assessing its ability to follow the "best practice recommendations". The adoption or otherwise of the best practice recommendations will be assessed by the board having regard for the size of the Company and scale of its operations, the costs, benefits and practicality associated with adopting the respective recommendations and the evolving industry practices and expectations of market participants in relation to the best practice recommendations.

SUBSTANTIAL SHAREHOLDERS

As at 12 September 2003, substantial shareholders in pieNETWORKS, and the number of equity securities over which the substantial shareholder has a relevant interest are listed below:

Substantial shareholder	Ordinary Shares	%	Founders Options	Mezzanine Options	PieOption Plan Options	2000/01 Pie Option Plan Options	November 2001 Pay Reduction Option Plan Options
Campbell Smith	10,854,131	9.96	480,000	84,367	500,000	-	-
Robert McBrier	9,691,317	8.89	480,000	43,662	400,000	-	-
Peter Gunzburg*	21,685,478	19.9	-	512,500	-	-	-
Bryan Paul	10,437,357	9.59	480,000	28,785	130,000	10,000	75,000

* Includes up to 10,432,810 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.

The number of Holders of each class of securities as at 12 September 2003:

Number of Holders	Description
763	Ordinary fully paid shares
4	Founders options
19	Mezzanine Options
18	Pie Option Plan Options
1	Underwriter Options (1)
12	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

Distribution schedule of Holders of Equity Securities as at 12 September 2003

	1-1,000	1,001-5,000	5,001-10,000	10,001-100,000	100,001-Max
Fully paid ordinary shares	8	128	195	329	103
Founders Options	-	-	-	-	4
Mezzanine Options	-	-	-	9	10
Pie Option Plan Options	-	-	3	6	9
Underwriter Options	-	-	-	-	1
2000/01 Option Plan Options	-	-	9	3	-
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 12 September 2003: 541

20 Largest holders of quoted equity securities as at 12 September 2003

Rank and Name		No. Shares Held	% Capital
1	Trovex Pty Ltd	10,152,667	9.32
2	Gocom Pty Ltd	9,854,131	9.04
3	Giverny Holdings Pty Ltd	9,631,802	8.84
4	Cerise Bay Pty Ltd	9,191,317	8.43
5	Denis John Reynolds	6,060,442	5.56
6	Nefco Nominees Pty Ltd	5,550,000	5.09
7	Enerview Pty Ltd	2,560,000	2.35
8	Swee Khoon Lee	2,000,000	1.84
9	Rivista Pty Ltd	2,000,000	1.84
10	Equitas Nominees Pty Ltd	1,800,000	1.65
11	Theng Kiang Low	1,450,000	1.33
12	Patrick D'Cruze	1,200,000	1.10
13	Diane Lee Sias	1,200,000	1.10
14	Peter Lynton Gunzburg	1,100,000	1.01
15	Graham Robert Forward	1,000,000	0.92
16	Geographe Resources Limited	1,000,000	0.92
17	Michael Gilmour	1,000,000	0.92
18	Frank Lucas	1,000,000	0.92
19	Elizabeth Jane Maclachlan	1,000,000	0.92
20	Alexandra Archibald McBrier	1,000,000	0.92

Restricted Securities as at 12 September 2003

There are no restricted securities on issue.

Unquoted Securities on Issue as at 12 September 2003:

Unquoted Securities	Number on issue	Number of Holders
Mezzanine Options	6,250,565	19
Founders Options	1,500,000	4
Pie Option Plan Options	2,795,000	18
Underwriter Options	500,000	1
2000/01 Option Plan Options	380,000	12
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 12 September 2003:

Securities	Name	Number of Securities
Mezzanine Options	Phoenix Properties Pty Ltd	1,750,000
Founder Options	Cerise Bay Pty Ltd	480,000
	Gocom Pty Ltd	H480,000
	Giverny Holdings Pty Ltd	480,000
Underwriter Options	CIBC World Market Securities Limited	500,000

On-Market Buy Back

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

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