pieNETWORKS Annual Report 2006

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

Telephone: (08) 9444 9088

Facsimile: (08) 9444 9022

E-mail: info@pienetworks.com

Website: www.pienetworks.com

SOLICITORS

Hardy Bowen
28 Ord Street

WEST PERTH WA 6005

Telephone: (08) 9211 3600

Facsimile: (08) 9211 3690

AUDITORS

KPMG
152-158 St Georges Terrace

PERTH WA 6000

Telephone: (08) 9263 7171

Facsimile: (08) 9263 7129

SHARE REGISTRY

Computershare Investor Services
Level 2

Reserve Bank Building

45 St Georges Terrace

PERTH WA 6000

Telephone: (08) 9323 2000

Facsimile: (08) 9323 2033

HOME EXCHANGE

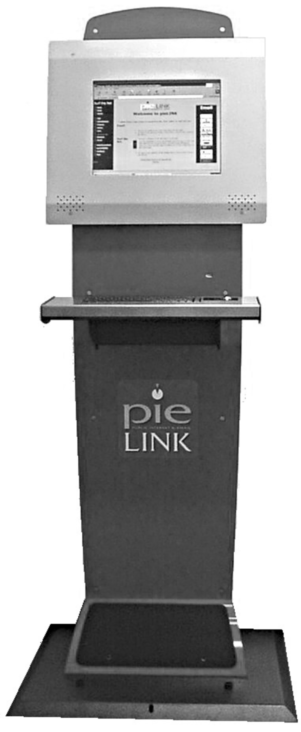
Australian Stock Exchange limited
2 The Esplanade

PERTH WA 6000

ASX Code: PIE

pie networks

CONTENTS

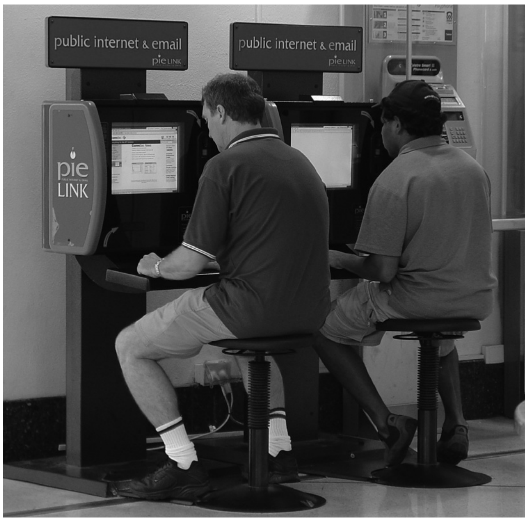


MANAGING DIRECTOR'S REVIEW

Dear Shareholder,

It is with considerable enthusiasm and excitement that we move into the 2007 financial year. The Company's efforts and achievements during the current year have positioned the Company for what I optimistically foresee as potentially its best year ever.

The markets we service continue to be influenced by changes in technology and a general maturing of the "online services" sector. We are seeing a convergence of telecommunications, media and web based technologies as businesses around the world use these technologies to reach their targeted markets. This convergence is generally referred to as "Digital Media".

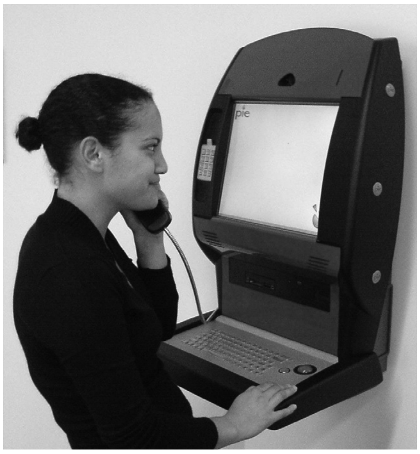


The principal activities of the Company during the course of the year were the development, manufacture, installation and management of fully managed and controlled public internet access "infrastructure".

In Australia and elsewhere there is massive growth in online advertising spending. These changes present opportunities for developing new business and revenue streams. The pieNETWORKS team have expended considerable effort to re-position the Company's products and services to take maximum advantage of these opportunities.

The principal activities of the Company during the course of the year were the development, manufacture, installation and management of fully managed and controlled public internet access "infrastructure".

As outlined in the accompanying directors' report, the Company has continued to develop strong relationships in the corporate market with successful contracts emanating from government agencies, banks and other financial institutions and participants in the hospitality market.

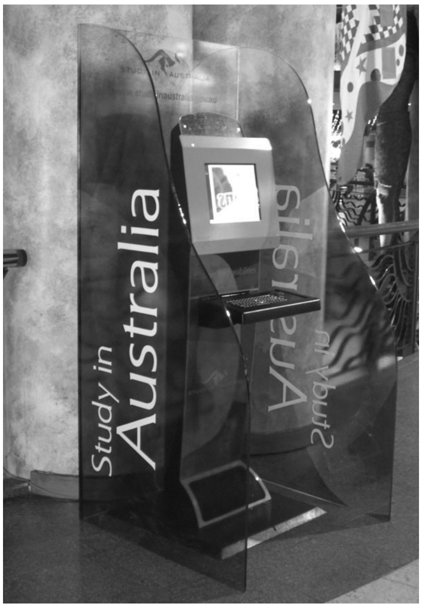


The Company commenced life with a single product, the coin operated internet kiosk. As the Company has re-positioned its product and service offering, it has added the 'free access' self service terminal into the 'corporate' market and more recently the Internet Access Manager ("IAM") or Wifi Hotspot Box.

In August 2006 the Company launched its latest product, the Hotspot VoIP (Voice over internet protocol) Webphone. The Hotspot Webphone was in development throughout 2005 and 2006, culminating in its launch on 15 August 2006. The Company believes the Hotspot Webphone presents an opportunity to drive substantial revenue growth via large scale deployments nationally and internationally.

MANAGING DIRECTOR'S REVIEW

The Hotspot Webphone was developed as a logical replacement for the existing public payphones with the added value of a new and exciting "Digital Media" business model. We believe the Digital Media business model will add substantial incremental revenues to the core utility of a payphone network. Existing payphone usage worldwide is being eroded by the proliferation of mobile phones. However, the Hotspot Webphone enables the delivery of multiple services from a single cost base (or technology platform):



- 'lower cost' calls using VoIP technology;
- internet access;
- wifi hotspot access;
- and digital product sales (eg music and ringtone downloads, photo uploads etc).

We believe such an offering will provide telecommunication companies the opportunity to rejuvenate usage and thus the financial return from their payphone networks.

During the year the Company has been establishing and cultivating business relationships with potential partners, sales channels and customers for the Company's suite of products, particularly the Hotspot Webphone. The Company has also applied its efforts to building relationships within the telecommunications, media and other industry sectors. The Company is actively pursuing a number of significant opportunities and believes the release of the Hotspot Webphone should act as a catalyst to convert these opportunities into new business.

The Board wishes to acknowledge the continued support of its shareholders and advisors. Finally we would like to extend our appreciation to pieNETWORKS' loyal staff for their dedicated and valued efforts during the course of the last year.

CAMPBELL SMITH
MANAGING DIRECTOR

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 2006 and the auditor's report thereon.

1. DIRECTORS

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

Name, qualifications, and independence status	Age	Experience, special responsibilities and other directorships
Peter L Gunzburg BComm, ASIA Chairperson	54	Over 20 years experience as a stockbroker. Currently the Chairman of Eurogold Limited (director since 2001) and Fleetwood Corporation Limited (director since 2002) and a director of AIM listed Matra Petroleum PLC (since April 2006) Past Director of Resolute Limited, The Australian Stock Exchange Limited, Eyers Reed Limited and CIBC World Markets Australia Limited. Member of the Audit and Compliance Committee Appointed 29 April 2002.
Campbell Smith Managing Director	41	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	51	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 BBus, CPA Independent Non-Executive Director and Company Secretary	44	Over eighteen 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.

2. COMPANY SECRETARY

Craig Ferrier, BBus, CPA, was appointed to the position of company secretary in May 2001. Craig is a principal of an advisory business providing specialist secretarial and corporate services. He has approximately 19 years experience as a company secretary to listed and unlisted public companies.

3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board		Audit and Compliance Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B
Peter L Gunzburg	9	9	3	3	0	0
Campbell Smith	9	9	2	3	0	0
Robert McBrier	9	9	3	3	0	0
Craig Ferrier	9	9	3	3	0	0

A – number of meetings attended

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

[1] – Committee exists but did not meet during the year

pieNETWORKS LIMITED

4. CORPORATE GOVERNANCE STATEMENT

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

On 31 March 2003, the ASX Corporate Governance Council ("CGC") released its Principles of Good Corporate Governance and Best Practice Recommendations.

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

4.1 BOARD OF DIRECTORS

The roles of board and management

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

Details of the background, experience and professional skills of each director are set out on page 4.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

In summary the Board is responsible for:

- setting the strategic direction of the Company;
- appointing and removing the Managing Director;
- ratifying the appointment and/or removal of the chief financial officer and the company secretary;
- reviewing and ratifying the systems of risk management, internal control and compliance;
- approving operating budgets;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments;
- approving the form of and monitoring financial and other reporting; and
- establishing goals for management and monitoring the achievement of those goals.

The Board has established a framework for the delegation of certain responsibilities to management through a formal Delegations Manual. The manual also specifically identifies those responsibilities that have been reserved by the Board.

The managing director is responsible to the Board for the day-to-day management of the Company. The role of management is to support the managing director in the implementation of the agreed strategy in accordance with the delegated authority of the Board. The Chairman meets regularly with the managing director, at least monthly, to discuss the general performance of the Company and any issues arising.

Board structure and independence

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

- persons nominated as non-executive directors shall be expected to have qualifications, experience and expertise of benefit to the Company and to bring an independent view to the Board's deliberations. Persons nominated as executive directors must be of sufficient stature and security of employment to express independent views on any matter;

4. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

4.1 BOARD OF DIRECTORS (CONTINUED)

Board structure and independence (continued)

- the Chairman should ideally be independent, but in any case be non-executive and be elected by the Board based on his suitability for the position;
- all non-executive directors are expected voluntarily to review their membership of the Board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the Company's then current policy and programme, together with the other criteria considered desirable for composition of a balanced Board and the overall interests of the Company; and
- executive directors shall be expected to retire from the Board on the relinquishment of their executive responsibilities.

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

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

The Board is currently comprised of two non-executive directors, including the Chairman, and two executive directors, namely, the Managing Director and the Technical Director. The current Board comprises three directors that would not be regarded as independent against the CGC criteria. They are:

- Mr Peter Gunzburg, Non-Executive Chairman, who is a substantial shareholder of the Company;
- Mr Campbell Smith, Managing Director; and Mr Robert McBrier, Technical Director, both of whom are substantial shareholders and executive directors.

Mr Craig Ferrier is a director of a company that provides company secretarial services to the Company. The nature of the engagement is not regarded by the Board as limiting his independence. Mr Ferrier is a contract company secretary on a fixed amount which is not material to his earnings.

Meetings of the board

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

The Company has not met the CGC Recommendations 2.1 (majority of independent directors) and 2.2 (independent chairman).

The Board meets formally at least eight times a year and on other occasions, as required. The agenda for meetings is prepared by the company secretary in consultation with the managing director. Standard items include the managing director's report, financial reports, strategic matters and governance and compliance matters. Executives are available to participate in Board discussions as required.

Board access to information and independent advice

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

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

4.2 COMPANY CODE OF CONDUCT

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

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

A copy of the Company's Code of Conduct is available on the Company's website.

Securities trading policy

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees. The policy prohibits trading by all employees and directors of the Company and its related entities at all times where the transaction is intended for short term or speculative gain or where the person is in possession of price sensitive information. Subject to this condition and in light of the ASX's continuous disclosure requirements, trading can occur at any time and is not limited to specified windows following the publication of financial results. In any event, a Restricted Person proposing to trade in the Company's securities is required to seek the Chairman's (or nominated officers) prior approval. The policy also requires the company secretary to be notified when trading of securities in the Company occurs by specified persons.

The Company's Securities Trading Policy is incorporated into the Employee handbook.

A copy of the Company's Securities Trading Policy is available on the Company's website.

Financial reporting

The Board requires the Managing Director and Chief Financial Officer to state in writing to the Board that the Company's financial reports represent a true and fair view, in all material respects, of the Company's financial condition and operational results in accordance with the relevant accounting standards.

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

The Company's auditor is KPMG. They were appointed in 1999 and the lead audit partner is not due for rotation until 2007.

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

A copy of the Charter for the A&CC is available on the Company's website.

Continuous disclosure

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

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

A copy of the Company's Continuous Disclosure Policy is available on the Company's website.

4. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

4.3 COMMUNICATION WITH SHAREHOLDERS

The Company places considerable importance on effective communication with shareholders to ensure their access to timely and relevant information.

The Company communicates information on its activities and financial performance through the issue of the annual and half-year financial reports, quarterly reports on activities and cash flows and through other announcements released to the Australian Stock Exchange.

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

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

4.4 RISK MANAGEMENT

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

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

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

4.5 AUDIT AND COMPLIANCE COMMITTEE

The Audit & Compliance Committee assists the Board by:

- reviewing with management the adequacy and effectiveness of internal control systems, expenditure controls and reporting systems;
- reviewing and evaluating risk management policies in the light of the Company's business strategy, capital strength, and overall risk tolerance.
- reviewing the adequacy of its insurance policies; and
- periodically reviewing the adequacy of accounting, financial, legal and other personnel resources.

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

In view of the size of the board, the Audit & Compliance Committee comprises all directors. Mr Craig Ferrier is chairman of the committee.

The external auditors and the financial controller are invited to audit committee meetings at the discretion of the committee. The committee met three times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 4.

4.6 REMUNERATION & NOMINATION COMMITTEE

Nomination

The Board has established a Remuneration & Nomination Committee that consists of all members of the Board. The committee reviews its composition as required to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate expertise and experience are considered. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

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

Remuneration

Due to the size of the Company and management team the Remuneration & Nomination Committee comprises the full Board. The role of the Remuneration & Nomination Committee is to ensure that appropriate remuneration policies are in place that are designed to meet the needs of the Company and to enhance corporate and individual performance. No formal meetings of the committee were held during the year.

The Remuneration & Nomination Committee is responsible for reviewing:

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

Remuneration levels are competitively set to attract suitably qualified and experienced directors and senior executives, having regard for Company performance. Shareholders in general meeting have approved a directors' fee pool limit of $110,000 from which non-executive directors' fees may be paid.

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

The statement outlining the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations are posted on the Company's website.

4. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

4.7 REMUNERATION REPORT

4.7.1 REMUNERATION POLICIES - AUDITED

Overview of remuneration policies-audited

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

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

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

Fixed remuneration

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

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

Performance linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares in the Company. The Company also has in place an Employee Share Acquisition Scheme for employees other than directors.

Short-term incentive bonus

In April 2005, the board approved the introduction of a short term incentive plan for executive directors, whereby they could earn a performance bonus of a maximum between $30,000 and $50,000 for achievement of agreed performance criteria. Non-executive directors have the discretion to consider a partial payment in circumstances where substantial progress towards the goal is clearly demonstrated. The performance criteria applicable to the 2006 financial year is the generation of positive cash flow from operations. No payments have been made to date under this plan.

Long-term incentive

Pursuant to the approval of members in a general meeting in April 2005, the Company has granted options to directors as part of a long term incentive structure. The Director Options are fully vested and have a five year term from their date of grant. The exercise price of each Director Option is 3 cents which represented a 66.7% premium to the offer price of the rights issue to shareholders completed in February 2005. A total of 10 million director Options were issued pursuant to the shareholder approval.

Non-executive directors participated in the options issue as it offered a means of providing non cash remuneration. There have been no director's fees paid to each of the non-executive directors, Peter Gunzburg and Craig Ferrier, since their appointment as directors in 2002 and 2003 respectively. Having regard to the responsibilities and liabilities associated with being a director of a public company, it is unreasonable to expect the Company to continue to be able to retain directors or attract new directors on such a basis. The ability to remunerate Directors by way of a grant of options enables the Company to provide a means of non cash compensation and thereby reduce the amount that would otherwise have to be paid in cash.

The grant of Director Options in April 2005 was designed to encourage the recipients to have a greater involvement in the achievement of the Company's objectives and to provide an incentive to directors by participating in the future growth and prosperity of the Company through share ownership.

At the same general meeting in April 2005, shareholders "renewed" the pieNETWORKS Limited Option Incentive Plan ("pieNETWORKS OIP'). Under the pieNETWORKS OIP the Board can grant up to an aggregate of 5% of the number of ordinary shares on issue. The exercise price of options offered under the plan must be at least equal to the market price of the Company's shares on ASX, and in event not less than 3 cents each.

Pursuant to an offer made in accordance with the pieNETWORKS OIP, in November 2005 the Company issued 7,850,000 options to staff other than directors. The options are exercisable at 3 cents each on or before 23 November 2010.

In addition, the Company operates an Employee Share Acquisition Scheme ("ESAS") which enables the Board to offer employees the ability to acquire up to $1,000 worth of shares each year on a concessional basis for income tax purposes, subject to certain conditions. Participation in the ESAS is available to all Australian employees other than directors. There were no shares issued under the ESAS during or since the end of the financial year.

Consequences of performance on shareholders wealth - unaudited

In considering the consolidated entity's performance and benefits for shareholders wealth the remuneration and nomination committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2006	2005	2004	2003	2002
Net profit (loss)	(924,428)	(1,135,517)	(1,265,960)	(612,937)	(3,001,321)
Losses per share (cents per share)	(0.40)	(0.67)	(1.15)	(0.56)	(2.80)
Dividends paid	-	-	-	-	-
Change in share price – increase/(decrease)	($0.002)	($0.013)	$0.020	($0.008)	($0.060)
Return of capital	-	-	-	-	-
Net cash from/(used in operations)	(1,013,839)	(931,554)	(690,579)	(305,058)	(1,443,689)

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long term creation of shareholder wealth, the Board has had regard to the stage of development of the Company's business and given consideration to each of the indices outlined above. As stated above, in April 2005, the Board established both short and long term incentives. Net cash generated from operating activities was identified as the key performance criteria in assessing short term performance and the generation of increased revenue streams from the corporate sector, whilst reasonably containing operating costs will be required to achieve this target. Notwithstanding the financial result in 2006, the attainment of a cash flow breakeven position remains a fundamental objective of the business. In relation to long term incentives, a share price of at least 3 cents is required before holders can realise any value from Directors Options or options issued under the pieNETWORKS OIP. The achievement of the short term performance target and a share price exceeding 3 cents would be positive outcomes in terms of Company performance and in turn improving shareholder wealth.

Service agreements

On 25 February 2000, pieNETWORKS Limited, Gocom Pty Ltd and Campbell Smith entered into a Consultancy Agreement pursuant to which the Company agreed to engage Gocom Pty Ltd as consultant to provide the services of Campbell Smith as managing director of the Company for a fixed term of 3 years. The fee to be paid to Gocom Pty Ltd was initially set at $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 equated 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. On 28 April 2005, the Board agreed to increase the fee to be paid to Gocom Pty Ltd to $200,000 per annum beginning 1 May 2005. The ability to earn a cash bonus has been varied to a maximum amount of $50,000 on the terms outlined above (refer "short term incentive bonus"). The contract remains in force and either party may terminate the contract on 30 days written notice.

4. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

4.7 REMUNERATION REPORT

4.7.1 REMUNERATION POLICIES - AUDITED (CONTINUED)

Service agreements (continued)

On 1 July 2001, pieNETWORKS Limited and Robert McBrier entered into an employment contract as to engage Robert McBrier as technical director of the Company. The remuneration was set at $150,000 per annum plus 9% superannuation contribution. During November 2001, Robert McBrier agreed to a voluntary 16% reduction in the remuneration payable. The amount of the reduction equated to $24,275 per annum. No compensation was paid or payable by the Company in relation to the reduction in fees. On 28 April 2005, the Board agreed to increase the remuneration to be paid to Robert McBrier to $160,550 per annum plus 9% superannuation contribution beginning on 1 May 2005. Either party may terminate the employment contract on 4 weeks written notice. The Company reserves the right to make payment of 4 weeks pay instead of notice.

In April 2001, the Company entered into a contract for services with Seinecorp Pty Ltd, a Company of which Mr Ferrier is a director and shareholder, for the provision of company secretarial services. The contract is for no fixed term and fees payable are based on market rates for these types of services and are payable on a monthly basis for the duration of the contract. Where services provided fall outside the scope originally contemplated by the contract, Seinecorp is entitled to be compensated for such additional work. The total amount incurred during the financial period on services provided pursuant to the contract was $36,000 (2005:$41,000). The contract may be terminated by either party on 90 days written notice.

Non-executive directors

Shareholders in a general meeting have approved a directors' fee pool limit of $110,000 from which non-executive directors' fees may be paid. There were no fees paid to non-executive directors, other than as noted above relating to secretarial services provided by Craig Ferrier, during the year.

4. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

4.7 REMUNERATION REPORT (CONTINUED)

4.7.2 DIRECTORS' REMUNERATION (COMPANY AND CONSOLIDATED) - AUDITED

Details of the nature and amount of each major element of remuneration of each director of the Company are:

		Short-term			Post-employment	Other long term		Share-based payments			
		Salary & fees $	STI cash bonus $	Total $	Super-annuation benefits $	$	Termination benefits $	Options A $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors											
Non-executive											
Mr PL Gunzburg (Chairperson)	2006	-	-	-	-	-	-	-	-	0%	0%
	2005	-	-	-	-	-	-	6,579	6,579	0%	100%
Mr CJ Ferrier	2006	36,000	-	36,000	-	-	-	-	36,000	0%	0%
	2005	-	-	-	-	-	-	6,579	6,579	0%	100%
Executive											
Mr CD Smith, Managing Director	2006	200,000	-	200,000	-	-	-	-	200,000	0%	0%
	2005	135,433	-	135,433	-	-	-	32,895	168,328	0%	19.5%
Mr RJ McBrier, Technical Director	2006	163,638	-	163,638	14,728	833	-	-	179,199	0%	0%
	2005	131,083	-	131,083	11,797	3,073	-	19,737	165,690	0%	11.9%
Total compensation:											
key management personnel	2006	399,638	-	399,638	14,728	833	-	-	415,199	0%	0%
(company and consolidated)	2005	266,516	-	266,516	11,797	3,073	-	65,790	347,176	0%	19.0%

4. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

4.7 REMUNERATION REPORT (CONTINUED)

4.7.2 DIRECTORS' REMUNERATION (COMPANY AND CONSOLIDATED) - AUDITED

Notes in relation to the table of directors' remuneration - audited

A. The fair value of the options issued in 2005 was calculated at the date of grant using a Black-Scholes model. The value disclosed is the fair value of the options.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield	Discount factor*
28 April 2005	28 April 2010	$0.0066	$0.0300	$0.0210	56.33%	5.35%	Nil	30%

* Discount factor applied to account for the effect of the options being unlisted and non-transferable.

Details of performance related remuneration

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed on page 10.

4.7.3 ANALYSIS OF BONUSES INCLUDED IN REMUNERATION - UNAUDITED

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

4.7.4 EQUITY INSTRUMENTS

All options refer to options over ordinary shares of pieNETWORKS Limited, which are exercisable on a one-for-one basis under the Director Option plan and under the pieNETWORKS OIP.

4.7.4.1 Options over equity instruments granted as compensation - audited

Details on options over ordinary shares in the Company that were granted as compensation to each director during the reporting period and details on options that were vested during the reporting period are as follows:

	Number of options granted during 2006	Grant date	Number of options vested during 2006	Fair value per option at grant date ($)	Exercise price per options ($)	Expiry date
Directors						
Mr PL Gunzburg	-	-	-	-	-	-
Mr CJ Ferrier	-	-	-	-	-	-
Mr CD Smith	-	-	-	-	-	-
Mr RJ McBrier	-	-	-	-	-	-

	Number of options granted during 2005	Grant date	Number of options vested during 2005	Fair value per option at grant date ($)	Exercise price per options ($)	Expiry date
Directors						
Mr PL Gunzburg	1,000,000	28 April 2005	1,000,000	$0.0066	$0.03	28 April 2010
Mr CJ Ferrier	1,000,000	28 April 2005	1,000,000	$0.0066	$0.03	28 April 2010
Mr CD Smith	5,000,000	28 April 2005	5,000,000	$0.0066	$0.03	28 April 2010
Mr RJ McBrier	3,000,000	28 April 2005	3,000,000	$0.0066	$0.03	28 April 2010

4.7.4.1 Options over equity instruments granted as compensation - audited (continued)

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

Unless otherwise determined by the board, all options expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable on the date of grant.

Further details, including grant dates and exercise dates regarding options granted to executives under the Director Option plan and pieNETWORKS OIP are in note 22 to the financial statements.

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

4.7.4.3 Exercise of options granted as compensation - audited
There were no shares issued during the reporting period or 2005 due to the exercise of options previously granted as remuneration.

4.7.4.4 Analysis of options and rights over equity instruments granted as compensation - unaudited
There were no options or rights over equity instruments granted as compensation to Directors or Company Executives during or since the end of the financial period.

4.7.4.5 Analysis of movements in options - unaudited
There were no options or rights over equity instruments granted as compensation to Directors or Company Executives during or since the end of the financial period. All options issued in prior periods were fully vested at the commencement of the current financial period. No options previously granted to directors or Company Executives were forfeited in the current period.

5. PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were the development, manufacture, installation and management of fully managed and controlled "self service" internet access "infrastructure".

To date public access has been by way of kiosks, terminals and wifi hotspots. Future access will also be by way of the Company's recently launched Hotspot (VoIP) Webphone. The Company believes the Hotspot Webphone will be the catalyst to drive substantial revenue growth via large scale deployments nationally and internationally.

In parallel with the development of the Hotspot Webphone, the Company has been establishing and cultivating business relationships with potential partners, sales channels and customers for the company's suite of products and in particular the Hotspot Webphone.

The Company operates in two main markets; the Corporate market and the "pay to use" market.

Corporate market customers are typically national scale enterprises with a need to provide a self service internet experience to their clients. The service is typically offered free to the end user within a controlled or limited access environment. The Company's continued focus on the corporate market resulted in successful contracts with Governmental Agencies *(The Department of Education Science and Training and the Department of Heritage)*, Banking and Finance *(Bankwest, Police and Nurses Credit Union, and Savings and Loan Credit Union)*, Hospitality *(Big 4 Holiday Parks, Top Tourist Parks of Australia, and Local Council Holiday Parks)*, Telecommunications, Retail, Remote & Rural, and Employee Self Service Applications. Advanced stages of sales negotiations are continuing in all sectors of the corporate market.

The Company considers the corporate market offers the best long term growth opportunity and is therefore focusing human and financial resources toward it. The diversity of end user applications available in the corporate market increases sales opportunities thereby mitigating risk. The average deal size is larger and margins are higher in the corporate market, which further enhances the benefit of sales to this sector.

The "pay to use" market is characterised by end users "paying" to access internet applications of their choice using cash, credit cards and pre-paid card access. The Company owns and operates a network of pay to use internet kiosks within Australia from which it collects the income The Company also sells pay to use internet kiosks and provides ongoing software and hardware support to third party owner operators.

5. PRINCIPAL ACTIVITIES (CONTINUED)

The past financial year has seen a rationalisation of the Company's pay to use networks in both Australia and the United Kingdom. In June 2006, the United Kingdom operation, a separate Geographic segment, was closed down entirely (see note 10 to the financial statements). Under performing kiosks in Australia were removed resulting in a reduction in overall pay to use revenue but an improved gross profit and gross profit margin.

The Company's research and development team, based in the Osborne Park head office, continued to enhance existing software, systems and hardware and develop new and improved versions of all. The Company's ongoing research and development efforts have enabled its technology to achieve market leading status and is planned to continue at a similar rate to maintain this position.

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

Objectives

The Company's principle objectives are to:

- generate positive cash flow from operating activities
- convert existing sales opportunities into firm contracts and develop the pipeline of sales opportunities to sustain ongoing growth
- further develop existing sales partnerships and secure new sales partnerships with complementary sales channels; and
- continue to develop the Company's human resources to support planned growth and enhance capability.

6. OPERATING AND FINANCIAL REVIEW

The consolidated net loss after tax for the year was $924,428 compared with a net loss after tax of $1,135,517 in 2005.

The decrease in loss reflects in part the structural changes implemented in the prior year to enhance operational performance in the UK. Losses in the UK were reduced from $175,127 in 2005 to $51,760 in 2006. In order to achieve a profitable position in the UK, the Company would need to invest additional capital to upgrade kiosks in the UK. The decision was made to shut down the UK operations and focus human and financial resources toward further development of the Company's corporate market and development of the Hotspot Webphone.

The Australian net loss after tax for the year was $872,668 compared with a net loss after tax of $960,390 in 2005. Although the Australian business showed a reduction in losses (in part due to a reduction in administration and corporate expenses of $139,320 over the prior year), there was an increase in expenditure in sales and marketing and research and development activities. This increased expenditure is expected to continue in the forthcoming year

While kiosk sales in Australia were down by $71,093 over the prior year, the continuing revenue stream provided by software licence fees and support fees grew by 41% from $273,600 in 2005 to $386,728 in 2006.

Software licence fees and support fees are subject to term contracts (typically renewable annually). The revenue arising from this source is highly reliable and is expected to continue at increasing levels. The quantum of revenue from this source rises in direct proportion to the installed base of kiosks owned by third parties. The Company has therefore emphasised increasing the installed base of third party owned kiosks to build sustainable software licence and support revenues.

The gross revenues from the Australian pay to use network decreased by $28,366 as compared to the prior year. However, as a result of removing under performing kiosks, the gross profit from the pay to use network increased by $43,754.

Impact of legislation and other external requirements

From 1 July 2005 the consolidated entity is required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board. The explanations of transition to AIFRSs are disclosed in Note 31 of the financial report.

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the consolidated entity.

7. DIVIDENDS

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

8. EVENTS SUBSEQUENT TO REPORTING DATE

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.

9. LIKELY DEVELOPMENTS

The Company commenced life with a single product, the coin operated internet kiosk. Subsequently it added the 'free access' self service terminal into the 'corporate' market and more recently the Internet Access Manager ("IAM") or Wifi Hotspot Box. On the 15th of August 2006, the Company launched its latest product, the Hotspot (VoIP) Webphone. The Company believes the Hotspot Webphone will be the catalyst to drive substantial revenue growth via large scale deployments nationally and internationally.

The Hotspot Webphone was developed as a replacement for the existing public payphone networks. Existing payphone usage worldwide is being eroded by the growth of mobile phone ownership and mobile phone 'cap' plans. By using VoIP technology to offer 'lower cost' calls and aggregating the multiple services of voice calls, internate access, wifi hotspot access and digital product sales (eg music and ringtone downloads, phone upload, etc) on a single cost base, the Company believes existing payphone operators can rejuvenate usage and thus improve the profitability of their payphone networks. The Company also believes the improved business model offered by the Hotspot Webphone will enable operators to expand their networks into previously uneconomic sites.

In parallel with the development of the Hotspot Webphone the Company has been establishing and cultivating business relationships with potential partners, sales channels and customers for the Company's suite of products and in particular the Hotspot Webphone.

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.

10. DIRECTORS' INTERESTS

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate, 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:

	pieNETWORKS Limited	
	Ordinary shares	**Options over ordinary shares**
Peter L Gunzburg	33,722,725 (1)	1,000,000
Campbell Smith	11,564,131	5,000,000
Robert McBrier	9,691,317	3,000,000
Craig Ferrier	-	1,000,000

(1) Includes up to 11,217,391 shares held by other parties and the subject of an agreement granting security over those shares, giving rise to a relevant interest pursuant to the Corporations Act.

11. SHARE OPTIONS

Options granted to directors and officers of the Company

There were no options over ordinary shares in the Company granted to directors and officers of the Company during the reporting period and no options have been granted since the end of the financial year.

11. SHARE OPTIONS (CONTINUED)

Unissued shares under options

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

Option Plan	Expiry date	Exercise price	Number of shares
Pie Option Plan Options[1]	30 June 2007	$0.30	1,215,000
2000/01 Option Incentive Plan	30 June 2007	$0.30	250,000
Director Options	28 April 2010	$0.03	10,000,000
pie Incentive Plan Options	22 November 2010	$0.03	7,850,000
			19,315,000

[1] Options may only be exercised if the trading price of the Company's shares on the ASX is greater than twice the IPO offer price of $0.30 (i.e. $0.60).

All options expire on the earlier of their expiry date or termination of the employee's employment.

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

Shares issued on exercise of options

During or since the end of the financial year, the Company has not issued any ordinary shares as a result of the exercise of options.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

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

Insurance premiums

Since the end of the previous financial year the Company has 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.

13. NON-AUDIT SERVICES

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

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit and compliance committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	2006	2005
	$	$
Audit services:		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	42,094	36,150
Other regulatory audit services	4,000	-
Overseas KPMG Firms:		
Audit and review of financial reports	10,181	8,235
	56,275	44,385
Other services		
Auditors of the Company		
KPMG Australia		
Other assurance services (KPMG Australia)	-	750
Taxation services	5,850	-
Overseas KPMG firms:		
Registered office services	713	710
	62,838	45,845

14. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 56 and forms part of the directors' report for financial year ended 30 June 2006.

This report is made with a resolution of the directors:

Peter L Gunzburg
Director
Dated at Perth this 27th day of September 2006.

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		The Company	
In AUD	Note	2006	2005	2006	2005
Revenue from sale of goods	2	362,232	433,462	362,232	433,462
Revenue from rendering services		929,257	889,646	929,257	889,646
Cost of sales		(129,628)	(151,482)	(129,628)	(151,482)
Gross profit		**1,161,861**	**1,171,626**	**1,161,861**	**1,171,626**
Other revenues from ordinary activities	3	14,500	4,750	14,500	4,750
Service revenue expenses		(625,892)	(645,631)	(625,892)	(645,631)
Sales and marketing expenses		(666,736)	(499,189)	(666,736)	(499,189)
Research and development expenses		(547,925)	(532,640)	(547,925)	(532,640)
Administrative and corporate expenses		(495,973)	(701,083)	(495,973)	(701,083)
Other expenses from ordinary activities	4	(6,625)	(8,476)	(6,625)	(8,476)
Operating loss before financing income		**(1,166,790)**	**(1,210,643)**	**(1,166,790)**	**(1,210,643)**
Financial income	7	64,082	44,347	64,082	44,347
Financial expenses	7	(1,715)	(1,772)	(1,715)	(1,772)
Net financing income		**62,367**	**42,575**	**62,367**	**42,575**
Loss before tax		**(1,104,423)**	**(1,168,068)**	**(1,104,423)**	**(1,168,068)**
Income tax benefit relating to ordinary activities	8	231,755	207,678	231,755	207,678
Loss after tax but before loss of discontinued operation		**(872,668)**	**(960,390)**	**(872,668)**	**(960,390)**
Loss of discontinued operation, net of tax	10	(51,760)	(175,127)	(31,847)	(169,163)
Loss for the year		**(924,428)**	**(1,135,517)**	**(904,515)**	**(1,129,553)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:					
Basic loss per share from discontinuing operations (cents)	11	0.022	0.105		
Basic loss per share from continuing operations (cents)	11	0.365	0.573		
		0.387	0.678		

The consolidated entity does not have any potentially dilutive securities on issue and therefore has not measured or disclosed the diluted loss per share.

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 23 to 52.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2006

In AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Net income recognised directly in equity		-	-	-	-
Loss for the period		**(924,428)**	**(1,135,517)**	**(904,515)**	**(1,129,553)**
Total recognised income and expense for the period	**23**	**(924,428)**	**(1,135,517)**	**(904,515)**	**(1,129,553)**

Other movements in equity arising from transactions with owners as owners are set out in note 23.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 23 to 52.

BALANCE SHEETS AS AT 30 JUNE 2006

In AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Assets					
Cash and cash equivalents	12	781,803	1,793,880	746,015	1,721,247
Trade and other receivables	13	97,591	117,597	91,561	73,243
Inventories	14	35,877	6,875	35,877	6,875
Income tax receivable	16	231,755	207,678	231,755	207,678
Other current assets	9	74,319	68,540	49,039	45,457
Total current assets		**1,221,345**	**2,194,570**	**1,154,247**	**2,054,500**
Property, plant and equipment	18	68,522	171,063	68,522	119,880
Intangible assets	19	51,500	-	51,500	-
Total non-current assets		**120,022**	**171,063**	**120,022**	**119,880**
Total assets	**2**	**1,341,367**	**2,365,633**	**1,274,269**	**2,174,380**
Liabilities					
Trade and other payables	20	235,933	386,005	167,447	189,063
Interest-bearing loans and borrowings	21	2,713	-	2,713	-
Employee benefits	22	119,147	104,830	119,147	104,830
Unearned revenues		98,910	113,246	74,696	113,246
Total current liabilities		**456,703**	**604,081**	**364,003**	**407,139**
Interest-bearing loans and borrowings	21	10,756	-	10,756	-
Employee benefits	22	25,294	12,809	25,294	12,809
Total non-current liabilities		**36,050**	**12,809**	**36,050**	**12,809**
Total liabilities	**2**	**492,753**	**616,890**	**400,053**	**419,948**
Net assets		**848,614**	**1,748,743**	**874,216**	**1,754,432**
Equity					
Issued capital		14,638,495	14,638,495	14,638,495	14,638,495
Reserves		90,089	65,790	90,089	65,790
Accumulated losses		(13,879,970)	(12,955,542)	(13,854,368)	(12,949,853)
Total equity	**23, 1**	**848,614**	**1,748,743**	**874,216**	**1,754,432**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 23 to 52.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		The Company	
In AUD	Note	2006	2005	2006	2005
Cash flows from operating activities					
Cash receipts from customers		1,627,816	1,865,614	1,357,374	1,409,883
Cash paid to suppliers and employees		(2,787,618)	(3,022,300)	(2,246,304)	(2,019,180)
Cash (used in) operations		(1,159,802)	(1,156,686)	(888,930)	(609,297)
Research and development tax offset rebate		207,678	226,904	207,678	226,904
Interest paid		(1,715)	(1,772)	(1,715)	(1,772)
Net cash (used in) operating activities	**27**	**(953,839)**	**(931,554)**	**(682,967)**	**(384,165)**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		-	912	-	-
Interest received		71,867	23,297	71,829	23,297
Acquisition of property, plant and equipment	18	(69,547)	(3,465)	(69,547)	(3,465)
Acquisition of intangible asset	19	(60,000)	-	(60,000)	-
Net cash provided by investing activities		**(57,680)**	**20,744**	**(57,718)**	**19,832**
Cash flows from financing activities					
Payment of finance lease liabilities		(2,211)	-	(2,211)	-
Proceeds from share issues		-	2,141,496	-	2,141,496
Payments for equity raising costs		-	(161,926)	-	(161,926)
Loans to subsidiary		-	-	(232,336)	(416,803)
Net cash (used in) provided by financing activities		**(2,211)**	**1,979,570**	**(234,547)**	**1,562,767**
Net (decrease) increase in cash and cash equivalents		(1,013,730)	1,068,760	(975,232)	1,198,434
Cash and cash equivalents at 1 July		1,793,880	742,979	1,721,247	522,813
Effect of exchange rate fluctuations on cash held		1,653	(17,859)	-	-
Cash and cash equivalents at 30 June	**12**	**781,803**	**1,793,880**	**746,015**	**1,721,247**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 23 to 52.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

pieNETWORKS Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprises the Company and its subsidiary (together referred to as the 'consolidated entity').

The financial report was authorised for issue by the directors on 27 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 31.

(b) Basis of preparation

The financial report is presented in Australian dollars. The entity has not elected to early adopt the following accounting standards and amendments which were available for early adoption:

- AASB 119 *Employee Benefits (December 2004)*
- AASB 2004-3 *Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements and* AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts and AASB 1038 Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 8 *Scope of AASB 2*
- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (continued)

- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation,* AASB 101 *Presentation of Financial Statements,* AASB 114 *Segment Reporting,* AASB 117 *Leases,* AASB 133 *Earnings per Share,* AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* AASB 4 *Insurance Contracts,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The initial application of the above standards, except AASB 2005-9, is not expected to have an impact on the financial results of the Company and the consolidated entity as the standards and the amendments are either not applicable or are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimated in the current financial year, as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The financial report is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

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

Except as disclosed in Note 32, the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

Going concern

The Company and consolidated entity incurred a loss after tax for the year of $904,515 (2005: $1,129,553) and $924,428 (2005: $1,135,517) and has a surplus in working capital at 30 June 2006 of $764,642 (2005: $1,590,489) and $209,756 (2005: $1,647,361), 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:

- In late June 2006 the Company ceased its loss making operations in Europe;
- The demonstrated ability to obtain funding through equity issues;
- The Company is continuing to develop significant relationships and pursue business opportunities of a scale that, in the Directors opinion, warrant the ongoing commitment of the consolidated entities financial resources. The Directors consider that success in these activities will, if required, also provide a basis for raising additional funding to meet the working capital needs of the business.

- To the extent that the financial performance of the business does not achieve plan and materially reduce the monthly cash burn within an acceptable timeframe, the Directors will take action to divest the loss making activities and, in addition, pursue alternative business opportunities for the listed structure.

For the reasons discussed above, the directors are confident that the consolidated entity will be able to continue its operations into the foreseeable future. Should this not occur, there is significant uncertainty as to whether the Company and consolidated entity will continue as a going concern and therefore whether it will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

(c) Basis of consolidation

(i) Subsidiaries

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

Investments in subsidiaries are carried at their cost of acquisition less impairment write downs in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. The property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are accounted for as described in accounting policy (p).

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

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

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

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(f) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically feasible, the consolidated entity has sufficient resources to complete development and is able to demonstrate how the asset will generate future economic benefits. The expenditure which may be capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (j)).

(ii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (j)).

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- capitalised software and implementation costs 2.5 years

(g) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (j)).

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits with a maturity of three months or less.

(j) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (h)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Share capital

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(l) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Wages, salaries, and annual leave

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

(iv) Share-based payment transactions

The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(m) Provisions

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

(n) Trade and other payables

Trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 60-day terms.

(m) Provisions

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

(n) Trade and other payables

Trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 60-day terms.

(o) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(ii) Rental income

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

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

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

(iii) Net financing costs / income

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and foreign exchange gains and losses. Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(q) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continue)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

(r) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(s) Non-current assets held for sale and discontinued operations

A discontinued operation is a component of the consolidated entity’s business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

(t) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(u) Changes in accounting policy

The Company and consolidated entity has applied AASB132: Financial Instruments: Disclosure & Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption has had no financial impact on either the Company or consolidated entity as at 1 July 2005.

2. SEGMENT REPORTING

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, geographic segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Geographical segments

The pieNETWORKS Ltd segments are managed on a worldwide basis, but operate in two principal geographical areas, Australia and the United Kingdom. Administrative facilities and sales offices are operated in Australia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Business segments

The Company principally comprises one business segment being the sale and operation of controlled "self service" internet access infrastructure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT REPORTING

Geographical segments

	Australia		UK (Discontinued)		Eliminations		Consolidated		Less: UK (Discontinued)		Consolidated (Continuing Operations)	
In AUD	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue from external customers:												
Sales	362,232	433,462	-	-	-	-	362,232	433,462	-	-	362,232	433,462
Services	929,257	889,647	152,135	470,993	-	-	1,081,392	1,360,640	(152,135)	(470,993)	929,257	889,647
Rentals	12,000	2,250	-	-	-	-	12,000	2,250	-	-	12,000	2,250
Total revenue from external customers	1,303,489	1,325,359	152,135	470,993	-	-	1,455,624	1,796,352	(152,135)	(470,993)	1,303,489	1,325,359
Inter-segment revenue	87,708	299,845	-	-	(87,708)	(299,845)	-	-	-	-	-	-
Total revenue	1,391,197	1,625,204	152,135	470,993	(87,708)	(299,845)	1,455,624	1,796,352	(152,135)	(470,993)	1,303,489	1,325,359
Segment result	(1,124,940)	(1,154,515)	(52,897)	(1,022,170)	29,636	1,024,953	(1,148,201)	(1,151,732)	49,867	176,741	(1,098,334)	(974,991)
Unallocated expenses							(68,456)	(235,651)	-	-	(68,456)	(235,651)
Loss before financing profit							(1,216,657)	(1,387,383)	49,867	176,741	(1,166,790)	(1,210,642)
Net financing profit							60,474	44,188	1,893	(1,614)	62,367	42,574
Income tax benefit							231,755	207,678	-	-	231,755	207,678
Loss for the period							(924,428)	(1,135,517)	51,760	175,127	(872,668)	(960,390)
Segment assets	1,274,269	1,966,702	67,098	191,253	-	-	1,341,367	2,365,633				
Total assets							1,341,367	2,365,633				
Segment liabilities	400,053	419,948	5,103,007	4,970,196	(5,010,308)	(4,773,254)	492,752	616,890	(92,698)	(196,942)	400,054	419,948
Total liabilities							492,752	616,890	(92,698)	(196,942)	400,054	419,948
Cash flows from operating activities	(742,967)	(384,165)	(68,152)	(117,315)	(202,720)	(430,074)	(1,013,839)	(931,554)	270,872	547,389	(742,967)	(384,165)
Cash flows from investing activities	2,282	19,832	38	(33,896)	-	34,808	2,320	20,744	(38)	(912)	2,282	19,832
Cash flows from financing activities	(234,547)	1,562,767	38,552	20,436	193,784	396,367	(2,211)	1,979,570	(232,336)	(416,803)	(234,547)	1,562,767
Capital expenditure	69,547	6,783	-	-	-	-	69,547	6,783	-	-	69,547	6,783

* All segments are continuing operations except segment UK.

In AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
3. OTHER REVENUE					
Traineeship rebate		2,500	2,500	2,500	2,500
Sublet rental income		12,000	2,250	12,000	2,250
		14,500	4,750	14,500	4,750
4. OTHER EXPENSES					
Increase/(decrease) in provisions		487	762	487	762
Other		6,138	7,714	6,138	7,714
		6,625	8,476	6,625	8,476
5. PERSONNEL EXPENSES					
Wages and salaries		963,332	906,536	963,332	906,536
Other associated personnel expenses		43,845	26,410	43,845	26,410
Contributions to defined contribution superannuation funds	22	86,666	83,039	86,666	83,039
Consulting fees		377,190	235,651	377,190	235,651
Living away from home allowance		-	43,240	-	43,240
Increase/(decrease) in liability for annual leave	22	(7,753)	19,479	(7,753)	19,479
Increase in liability for long service leave	22	12,485	12,809	12,485	12,809
Equity-settled transactions	22	24,299	65,790	24,299	65,790
		1,500,064	1,392,954	1,500,064	1,392,954
6. AUDITORS' REMUNERATION					
Audit services					
Auditors of the Company					
KPMG Australia:					
Audit and review of financial reports		42,094	36,150	42,094	36,150
Other regulatory audit services		4,000	-	4,000	-
Overseas KPMG Firms:					
Audit and review of financial reports		10,181	8,235	-	-
		56,275	44,385	46,094	36,150
Other services					
Auditors of the Company					
KPMG Australia:					
Other assurance services		-	750	-	750
Taxation services		5,850	-	5,850	-
Overseas KPMG Firms:					
Registered office services		713	710	-	-
		62,838	45,845	56,179	36,900
7. NET FINANCING INCOME					
Interest income		62,665	42,734	62,665	42,734
Net foreign exchange income		1,417	1,613	1,417	1,613
Financial income		64,082	44,347	64,082	44,347
Interest expense		1,715	1,772	1,715	1,772
Financial expenses		1,715	1,772	1,715	1,772
Net financing income		62,367	42,575	62,367	42,575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
8. INCOME TAX EXPENSE					
Recognised in the income statement					
Current tax expense					
Current year		(231,755)	(207,678)	(231,755)	(207,678)
Adjustments for prior years		-	-	-	-
		(231,755)	(207,678)	(231,755)	(207,678)
Deferred tax expense					
Origination and reversal of temporary differences		-	-	-	-
Reduction in tax rate		-	-	-	-
Expense on derecognition of tax loss		-	48,578	-	48,578
Benefit of tax losses recognised		-	-	-	-
	17	-	48,578	-	48,578
Total income tax expense in income statement		(231,755)	(159,100)	(231,755)	(159,100)
Attributable to:					
Continuing operations		(231,755)	(159,100)	(231,755)	(159,100)
Discontinuing operations		-	-	-	-
		(231,755)	(159,100)	(231,755)	(159,100)
Numerical reconciliation between tax expense and pre-tax net profit					
Loss before tax- continuing operations		(1,104,423)	(1,168,068)	(1,104,423)	(1,168,068)
Loss before tax- discontinued operations	2	(51,760)	(175,127)	(31,847)	(169,163)
Loss before tax		(1,156,183)	(1,343,195)	(1,136,270)	(1,337,231)
Income tax using the domestic corporation tax rate of 30% (2005: 30%)		(346,855)	(402,959)	(340,881)	(401,169)
Increase in income tax expense due to:					
Non-deductible expenses		17,218	1,087	763	1,087
Write-down of related party loan		-	-	69,585	168,018
R&D costs		180,593	166,142	180,593	166,142
Movements in deferred taxes not recognised	17	149,044	284,308	89,940	114,500
Decrease in income tax expense due to:					
R&D tax offset		(231,755)	(207,678)	(231,755)	(207,678)
Tax exempt revenues		-	-	-	-
Tax incentives not recognised in the income statement		-	-	-	-
		(231,755)	(207,678)	(231,755)	(207,678)
Under / (over) provided in prior years		-	-	-	-
Income tax benefit on pre-tax net loss		(231,755)	(207,678)	(231,755)	(207,678)
Deferred tax recognised directly in equity					
Relating to deductions claimed for capital raising costs		-	48,578	-	48,578
	17	-	48,578	-	48,578

In AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005

9. OTHER CURRENT ASSETS

Prepayments	56,521	39,964	31,367	16,881
Interest receivable	10,696	22,819	10,696	22,819
Rental bond	5,757	5,757	5,757	5,757
Accrued revenue	1,345	-	1,219	-
	74,319	68,540	49,039	45,457

10. DISCONTINUED OPERATION

In June 2006, the consolidated entity shut down its entire UK and Germany kiosk activity, a separate business segment (see note 2). Following a review of the capital requirements needed for this segment to develop a self sustaining business, the Board was not prepared to undertake further investment and decided to close down the UK operations and focus resources on the Australian operations.

During the financial year ended 30 June 2006, the UK division had cash outflows from operating activities of $68,152 (2005: $117,315), cash inflows from investing activities of $38 (2005: cash outflows $33,896) and cash outflows from financing activities of $38,552 (2005: $20,436).

The expenses of the discontinued operations in 2006 were $290,553 (2005: $945,888)

Effect of the disposal on individual assets and liabilities of the consolidated entity

There was no gain or loss realised as a result of the closing down of the UK operations. Property, plant and equipment were fully provided for.

11. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of $924,428 (2005: $1,135,517) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 238,744,500 (2005: 167,511,135), calculated as follows:

In AUD	Note	Consolidated 2006	Consolidated 2005
Loss attributable to ordinary shareholders			
Loss for the period attributable to ordinary shareholders		924,428	1,135,517
Number			
Weighted average number of ordinary shares			
Issued ordinary shares at 1 July	23	238,744,500	118,972,250
Weighted average number of ordinary shares at 30 June		238,744,500	167,511,135

The consolidated entity does not have any potentially dilutive securities on issue and therefore has not measured or disclosed the diluted loss per share.

Loss per share for continuing and discontinued operations

Basic loss per share

In AUD (cents)

	2006	2005
From continuing operations	0.365	0.573
From discontinuing operations	0.022	0.105
	0.387	0.678

pieNETWORKS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. LOSS PER SHARE (CONTINUED)

For the financial year ended 30 June 2006, loss per share for continuing and discontinued operations has been calculated using the same figures as loss per share, except that the loss for the period used in the calculation is the loss relating to continuing operations of $872,668 (2005: $960,390) and the one relating to discontinued operations of $51,760 (2005: $175,127).

		Consolidated		The Company	
In AUD	**Note**	**2006**	**2005**	**2006**	**2005**
12. CASH AND CASH EQUIVALENTS					
Bank balances and cash on hand		179,466	206,856	143,678	134,223
Call deposits		602,337	1,587,024	602,337	1,587,024
Cash and cash equivalents		781,803	1,793,880	746,015	1,721,247
Cash and cash equivalents in the statement of cash flows		781,803	1,793,880	746,015	1,721,247
13. TRADE AND OTHER RECEIVABLES					
Current					
Trade receivables		97,591	117,597	91,561	73,243
		97,591	117,597	91,561	73,243
Non-current					
Loans to controlled entities	29	-	-	1,559,794	1,327,458
Loans to controlled entities	29	-	-	3,445,410	3,445,410
Less: provision for impairment		-	-	(5,005,204)	(4,772,868)
		-	-	-	-

Loans to controlled entities represent advances for operating capital and capital purchases for the UK subsidiary. In June 2006, the UK operation was shut down. Impairment losses were recognised for the balance of loans receivable as the carrying amount exceeded its recoverable amount.

14. INVENTORIES					
Raw materials and consumables		28,868	4,378	28,868	4,378
Work in progress		7,009	2,497	7,009	2,497
		35,877	6,875	35,877	6,875
Carrying amount of inventories stated at fair value less costs to sell		35,877	6,875	35,877	6,875
15. INVESTMENTS					
Non-current investments					
Investments in controlled entities- at cost	26	-	-	132,000	132,000
Less: provision for impairment in the value of investment	26	-	-	(132,000)	(132,000)
		-	-	-	-

16. CURRENT TAX ASSETS

The current tax asset for the consolidated entity of $231,755 (2005: $207,678) and for the Company of $231,755 (2005: $207,678) represents the amount of income taxes recoverable in respect of the current period arising from the Company's Research and Development Tax Rebate offset claim for 2006.

17. DEFERRED TAX ASSETS

Unrecognised deferred tax assets

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

	Consolidated		The Company	
In AUD (net)	**2006**	**2005**	**2006**	**2005**
Deductible temporary differences	153,982	170,712	153,982	170,712
Tax losses	4,060,136	3,954,458	2,132,288	2,025,618
	4,214,118	4,125,170	2,286,270	2,196,330

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

18. PROPERTY, PLANT AND EQUIPMENT

	Consolidated			The Company		
In AUD	**Plant and Equipment**	**Fixtures and Fittings**	**Total**	**Plant and Equipment**	**Fixtures and Fittings**	**Total**
Cost						
Balance at 1 July 2004	1,469,940	271,415	1,741,355	1,293,431	263,502	1,556,933
Acquisitions	32,819	6,783	39,602	32,819	6,783	39,602
Disposals	(299,940)	(3,539)	(303,479)	(299,940)	-	(299,940)
Inventory movement	(100,119)	-	(100,119)	(100,119)	-	(100,119)
Balance at 30 June 2005	1,102,700	274,659	1,377,359	926,190	270,285	1,196,475
Balance at 1 July 2005	1,102,700	274,659	1,377,359	926,190	270,285	1,196,475
Acquisitions	42,986	26,561	69,547	42,986	26,561	69,547
Disposals	(395,329)	(156,440)	(551,769)	(218,819)	(152,066)	(370,885)
Inventory movement	(288,475)	-	(288,475)	(288,475)	-	(288,475)
Balance at 30 June 2006	461,882	144,780	606,662	461,882	144,780	606,662
Depreciation and impairment losses						
Balance at 1 July 2004	1,169,624	217,760	1,387,384	1,109,927	216,692	1,326,619
Depreciation charge for the year	132,653	20,554	153,207	64,464	18,406	82,870
Disposals	(289,923)	(1,401)	(291,324)	(289,923)	-	(289,923)
Inventory movement	(42,971)	-	(42,971)	(42,971)	-	(42,971)
Balance at 30 June 2005	969,383	236,913	1,206,296	841,497	235,098	1,076,595
Balance at 1 July 2005	969,383	236,913	1,206,296	841,497	235,098	1,076,595
Depreciation charge for the year	77,414	21,541	98,955	28,351	18,106	46,457
Disposals	(385,564)	(157,316)	(542,880)	(208,615)	(152,066)	(360,681)
Inventory movement	(224,231)	-	(224,231)	(224,231)	-	(224,231)
Balance at 30 June 2006	437,002	101,138	538,140	437,002	101,138	538,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In AUD	Consolidated Plant and Equipment	Consolidated Fixtures and Fittings	Consolidated Total	The Company Plant and Equipment	The Company Fixtures and Fittings	The Company Total
Carrying amounts						
At 1 July 2004	300,317	53,655	353,972	183,504	46,810	230,314
At 30 June 2005	133,317	37,746	171,063	84,693	35,187	119,880
At 1 July 2005	133,317	37,746	171,063	84,693	35,187	119,880
At 30 June 2006	24,880	43,642	68,522	24,880	43,642	68,522

Leased office equipment

The consolidated entity leases office equipment under a finance lease agreement. At the end of the lease the consolidated entity has the option to purchase the equipment at a beneficial price. At 30 June 2006, the net carrying amount of leased equipment was $12,805 (2005: Nil). The leased equipment secures the lease obligation (see note 21).

19. INTANGIBLE ASSETS

In AUD	Consolidated Software costs	Consolidated business management system costs	Consolidated Total	The Company Software costs	The Company Business management system costs	The Company Total
Cost						
Balance at 1 July 2004	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Balance at 30 June 2005	-	-	-	-	-	-
Balance at 1 July 2005	-	-	-	-	-	-
Acquisitions	13,500	46,500	60,000	13,500	46,500	60,000
Balance at 30 June 2006	13,500	46,500	60,000	13,500	46,500	60,000
Amortisation						
Balance at 1 July 2004	-	-	-	-	-	-
Amortisation for the year	-	-	-	-	-	-
Balance at 30 June 2005	-	-	-	-	-	-
Balance at 1 July 2005	-	-	-	-	-	-
Amortisation for the year	3,100	5,400	8,500	3,100	5,400	8,500
Balance at 30 June 2006	3,100	5,400	8,500	3,100	5,400	8,500
Carrying amounts						
At 1 July 2004	-	-	-	-	-	-
At 30 June 2005	-	-	-	-	-	-
At 1 July 2005	-	-	-	-	-	-
At 30 June 2006	10,400	41,100	51,500	10,400	41,100	51,500

In AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005

19. INTANGIBLE ASSETS (CONTINUED)

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

Administrative and corporate expenses	8,500	-	8,500	-

20. TRADE AND OTHER PAYABLES

Other trade payables and accrued expenses	205,364	349,884	149,087	152,077
Non-trade payables and accrued expenses	30,569	36,121	18,360	36,986
	235,933	386,005	167,447	189,063

21. INTEREST-BEARING LOANS AND BORROWINGS

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

Current liabilities				
Finance lease liabilities	2,713	-	2,713	-
Non-current liabilities				
Finance lease liabilities	10,756	-	10,756	-

Finance lease liabilities

Finance lease liabilities of the Company and consolidated entity are payable as follows:

In AUD	Company and consolidated Minimum lease payments 2006	Interest 2006	Principal 2006	Minimum lease payments 2005	Interest 2005	Principal 2005
Less than one year	4,202	1,489	2,713	-	-	-
Between one and five years	12,948	2,192	10,756	-	-	-
	17,150	3,681	13,469	-	-	-

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

22. EMPLOYEE BENEFITS

In AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current				
Liability for annual leave	119,147	104,830	119,147	104,830
Non Current				
Liability for long-service leave	25,294	12,809	25,294	12,809
Total employee benefits	144,441	117,639	144,441	117,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. EMPLOYEE BENEFITS (CONTINUED)

(a) Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as expense was $86,666 for the financial year ended 30 June 2006 (2005: $83,039).

(b) Share based payments

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

Additionally, two share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in AASB 2 have not been applied to these grants in accordance with the transitional provisions in AASB 1.

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

Grant date/ employee entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to employees at 30 June 2002	1,215,000	Fully vested from the date of grant	5 years
Option grant to employees at 30 June 2002	250,000	Fully vested from the date of grant	5 years
Option grant to directors at 28 April 2005	10,000,000	Fully vested from the date of grant	5 years
Option grant to employees at 23 November 2005	7,850,000	Fully vested from the date of grant	5 years
Total share options	19,315,000		

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

	Weighted average exercise price 2006	Number of options 2006	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the period	0.07	11,595,000	0.23	4,517,911
Forfeited during the period	0.30	(130,000)	0.20	(2,922,911)
Exercised during the period		-	-	-
Granted during the period	0.03	7,850,000	0.03	10,000,000
Outstanding at the end of the period	0.05	19,315,000	0.07	11,595,000
Exercisable at the end of the period	0.05	19,315,000	0.07	11,595,000

The options outstanding at 30 June 2006 have an exercise price in the range of $0.03 to $0.30 and a weighted average contractual life of 3.8 years.

During the financial year, nil share options were exercised (2005: nil).

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes model. The contractual life of the option is used as an input into this formula.

22. EMPLOYEE BENEFITS (CONTINUED)

Fair value of share options and assumptions In AUD	**Key mgmt personnel 2006**	**Key mgmt personnel 2005**	**Senior employees 2006**	**Senior employees 2005**
Fair value at measurement date	-	65,790	24,299	-
Share price	-	0.021	0.016	-
Exercise price	-	0.030	0.030	-
Expected volatility (expressed as weighted average volatility used in the Black Scholes formula)	-	56.33%	50%	-
Option life (expressed as weighted average life used in the Black Scholes formula)	-	5 years	3 years	-
Expected dividends	-	-	-	-
Risk-free interest rate (based on national government bonds)	-	5.35%	5.35%	-

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The share options granted are not subject to performance or service conditions and vested immediately on granting.

Employee expenses

		Consolidated		**The Company**	
In AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Share options granted in 2005-equity settled	5	-	65,790	-	65,790
Share options granted in 2006-equity settled	5	24,299	-	24,299	-
Total expense recognised as employee costs		24,299	65,790	24,299	65,790

23. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Consolidated

In AUD	**Note**	**Share capital**	**Share options reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2004		12,594,388	-	(11,771,448)	822,940
Total recognised income and expense		-	-	(1,135,517)	(1,135,517)
Employee shares issued		15,960	-	-	15,960
Equity-settled transactions, net of tax	22	-	65,790	-	65,790
Shares issued (net of costs)		2,028,147	-	(48,577)	1,979,570
Balance at 30 June 2005		14,638,495	65,790	(12,955,542)	1,748,743
Balance at 1 July 2005		14,638,495	65,790	(12,955,542)	1,748,743
Total recognised income and expense		-	-	(924,428)	(924,428)
Equity-settled transactions, net of tax	22	-	24,299	-	24,299
Balance at 30 June 2006		14,638,495	90,089	(13,879,970)	848,614

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES (CONTINUED)

Reconciliation of movement in capital and reserves

The Company

In AUD	**Note**	**Share capital**	**Share options reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2004		12,594,388	-	(11,771,723)	822,665
Total recognised income and expense		-	-	(1,129,553)	(1,129,553)
Employee shares issued		15,960	-	-	15,960
Equity-settled transactions, net of tax		-	65,790	-	65,790
Shares issued (net of costs)	1(k)	2,028,147	-	(48,577)	1,979,570
Balance at 30 June 2005		14,638,495	65,790	(12,949,853)	1,754,432
Balance at 1 July 2005		14,638,495	65,790	(12,949,853)	1,754,432
Total recognised income and expense		-	-	(904,515)	(904,515)
Equity-settled transactions, net of tax		-	24,299	-	24,299
Balance at 30 June 2006		14,638,495	90,089	(13,854,368)	874,216

	The Company Ordinary shares 2006 No.	**The Company Ordinary shares 2005 No.**
Share capital		
On issue at 1 July	238,744,500	118,972,250
Issued for cash	-	119,772,250
On issue at 30 June – fully paid	238,744,500	238,744,500

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

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

24. FINANCIAL INSTRUMENTS

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the consolidated entity. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated

		2006							2005						
In AUD	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents*	12	4.57%	781,803	781,803	-	-	-	-	4.80%	1,793,880	1,793,880	-	-	-	-
Finance lease liabilities*	21	12.15%	13,469	1,317	1,396	3,059	7,697	-		-	-	-	-	-	-
			768,334	780,486	(1,396)	(3,059)	(7,697)	-		1,793,880	1,793,880	-	-	-	-

Effective interest rates and repricing analysis

The Company

		2006							2005						
In AUD	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents*	12	4.76%	746,015	746,015	-	-	-	-	4.60%	1,721,247	1,721,247	-	-	-	-
Finance lease liabilities*	21	12.15%	13,469	1,317	1,396	3,059	7,697	-		-	-	-	-	-	-
			732,546	744,698	(1,396)	(3,059)	(7,697)	-		1,721,247	1,721,247	-	-	-	-

* These assets / liabilities bear interest at a fixed rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values
The fair values together with the carrying amounts shown in the balance sheet are as follows:

Consolidated		Carrying amount	Fair value	Carrying amount	Fair value
In AUD	**Note**	**2006**	**2006**	**2005**	**2005**
Trade and other receivables	13	97,591	97,591	117,597	117,597
Cash and cash equivalents	12	781,803	781,803	1,793,880	1,793,880
Finance lease liabilities	21	(13,469)	(13,469)	-	-
Trade and other payables	20	(235,933)	(235,933)	(386,005)	(386,005)
		629,992	629,992	1,525,472	1,525,472
Unrecognised (losses)/gains			-		-

The Company		Carrying amount	Fair value	Carrying amount	Fair value
In AUD	**Note**	**2006**	**2006**	**2005**	**2005**
Trade and other receivables	13	91,561	91,561	73,243	73,243
Cash and cash equivalents	12	746,015	746,015	1,721,247	1,721,247
Finance lease liabilities	21	(13,469)	(13,469)	-	-
Trade and other payables	20	(167,447)	(167,447)	(189,063)	(189,063)
		656,660	656,660	1,605,427	1,605,427
Unrecognised (losses)/gains			-		-

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates.

Trade and other receivables / payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

25. OPERATING LEASES

	Consolidated		The Company	
In AUD	**2006**	**2005**	**2006**	**2005**
Leases as lessee				
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	71,339	137,881	71,339	68,634
Between one and five years	120,416	201,656	120,416	183,886
More than five years	-	-	-	-
	191,755	339,537	191,755	252,520

25. OPERATING LEASES (CONTINUED)

The consolidated entity leases a number of warehouse and factory facilities under operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date. Lease payments are increased every year to reflect market rentals. None of the leases includes contingent rentals.

One of the leased properties has been sublet by the consolidated entity. The lease and sublease expire in September 2006. Sublease payments of $24,213 were received in June 2006 for the following financial year.

One of the leased properties has been sublet by the consolidated entity on a month-to-month basis. Sublease payments of $12,000 are expected to be received during the following financial year

During the financial year ended 30 June 2006, $168,528 was recognised as an expense in the income statement in respect of operating leases (2005: $175,029). $92,158 was recognised as income in the income statement in respect of subleases (2005: $22,883).

26. CONSOLIDATED ENTITIES

	Note	Country of Incorporation	Ownership interest 2006	Ownership interest 2005
Parent entity				
pieNETWORKS Limited		Australia	100%	100%
Subsidiaries				
pieNETWORKS Plc		United Kingdom	100%	100%

In the financial statements of the Company, investments in controlled entities are measured at cost less impairment losses. Refer to note 15. The Company has no investments in associates or jointly controlled entities.

27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

		Consolidated		The Company	
In AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Cash flows from operating activities					
Loss for the period		(924,428)	(1,135,517)	(904,515)	(1,129,553)
Adjustments for:					
Depreciation	18	98,955	154,495	46,457	82,870
Amortisation	19	8,500	-	8,500	-
Provision against loans to and investment in subsidiary	29	-	-	232,336	560,060
Foreign exchange translation		(3,348)	(31,286)	-	-
Interest income	7	(62,665)	(42,734)	(62,665)	(42,734)
Interest expense	7	1,715	1,772	1,715	1,772
Write down in value of plant and equipment		4,519	8,350	2,167	8,350
Loss on sale of property, plant and equipment		-	1,389	-	-
Equity-settled share-based payment expense	22	24,299	65,790	24,299	65,790
Bad debt expense (recovery)		5,659	(161)	487	761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

		Consolidated		The Company	
In AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Operating loss before changes in working capital and provisions		(846,794)	(977,902)	(651,219)	(452,684)
(Increase)/decrease in trade and other receivables		21,899	(38,283)	(16,425)	(7,190)
(Increase)/decrease in prepayments		(16,557)	11,203	(14,486)	4,288
(Increase)/decrease in inventories and kiosks		(34,656)	143,493	(34,656)	109,623
(Increase)/decrease in other financial assets		10,778	(14,931)	10,904	(20,850)
(Increase)/decrease in other debtors		(24,077)	19,226	(24,077)	19,226
(Decrease)/increase in trade and other payables		(135,183)	(24,968)	455	(17,166)
(Decrease)/increase in unearned revenue		(14,336)	(31,077)	(38,550)	(1,097)
Increase/ (decrease) in provisions		26,802	(16,543)	26,802	(16,543)
		(1,012,124)	(929,782)	(741,252)	(382,393)
Interest paid		(1,715)	(1,772)	(1,715)	(1,772)
Net cash (used in) operating activities		(1,013,839)	(931,554)	(742,967)	(384,165)

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

Non-executive directors

Peter L Gunzburg (Chairperson)

Craig Ferrier

Executive directors

Campbell Smith (Managing Director)

Robert McBrier (Technical Director)

The key management personnel compensation included in 'personnel expenses' (see note 5) are as follows:

		Consolidated		The Company	
In AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Short-term employee benefits		399,638	266,516	399,638	266,516
Long-term employee benefits		833	3,073	833	3,073
Post-employment benefits		14,728	11,797	14,728	11,797
Equity compensation benefits		-	65,790	-	65,790
		415,199	347,176	415,199	347,176

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulation (2M.3.03 & 2M .06.04) is provided in the Remuneration Report section of the Directors' report on pages 10 to 15.

Apart from the details disclosed in this note and page 11 of the remuneration report, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Other key management personnel transactions with the Company or its controlled entities

The Company used the services of Seinecorp Pty Ltd, a company of which Mr Craig Ferrier is a director and shareholder in relation to the provision of company secretarial services. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

The aggregate amount recognised during the year relating to the above key management person was $36,000 (2005: $41,000).

Amounts receivable from and payable to key management personnel at reporting date arising from these transactions were as follows:

	Consolidated		The Company	
In AUD	**2006**	**2005**	**2006**	**2005**
Liabilities arising from the above transactions				
Current payables				
Trade creditors	3,000	13,000	3,000	13,000

Options over equity instruments

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

	Held at 1 July 2005	Granted as compensation	Exercised	Other changes*	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
Peter L Gunzburg	1,000,000	-	-	-	1,000,000	-	1,000,000
Craig Ferrier	1,075,000	-	-	(75,000)	1,000,000	-	1,000,000
Campbell Smith	5,000,000	-	-	-	5,000,000	-	5,000,000
Robert McBrier	3,000,000	-	-	-	3,000,000	-	3,000,000

* Other changes represent options that expired or were forfeited during the year.

	Held at 1 July 2004	Granted as compensation	Exercised	Other changes*	Held at 30 June 2005	Vested during the year	Vested and exercisable at 30 June 2005
Directors							
Peter L Gunzburg	512,500	1,000,000	-	(512,500)	1,000,000	1,000,000	1,000,000
Craig Ferrier	75,000	1,000,000	-	-	1,075,000	1,000,000	1,075,000
Campbell Smith	646,867	5,000,000	-	(646,867)	5,000,000	5,000,000	5,000,000
Robert McBrier	443,662	3,000,000	-	(443,662)	3,000,000	3,000,000	3,000,000

* Other changes represent options that expired or were forfeited during the year.

No options held by key management personnel are vested but not exercisable at 30 June 2005 or 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Movements in shares

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

	Held at 1 July 2005	Purchases	Received on exercise of options	Sales	Held at 30 June 2006
Directors					
Peter L Gunzburg	22,925,334	-	-	-	22,925,334
Campbell Smith	11,364,131	200,000	-	-	11,564,131
Robert McBrier	9,691,317	-	-	-	9,691,317
Craig Ferrier	-	-	-	-	-
	43,980,782	200,000	-	-	44,180,782

	Held at 1 July 2004	Purchases	Received on exercise of options	Sales	Held at 30 June 2005
Directors					
Peter L Gunzburg	11,572,667	11,552,667	-	200,000	22,925,334
Campbell Smith	10,864,131	500,000	-	-	11,364,131
Robert McBrier	9,691,317	-	-	-	9,691,317
Craig Ferrier	-	-	-	-	-
	32,128,115	12,052,667	-	200,000	43,980,782

No shares were granted to key management personnel during the reporting period as compensation in 2006 or 2005.

29. OTHER RELATED PARTY DISCLOSURES

Identity of related parties

The consolidated entity has a related party relationship with its subsidiary (see note 26) and with its key management personnel (see note 28).

Other related party transactions

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries for operating capital and capital purchases. The intercompany loan is interest free and repayable on demand. At 30 June 2006 the amount owned by its subsidiary (pieNETWORKS plc) was $3,445,410 (2005: $3,445,410). A provision for impairment of $3,445,410 (2005: $3,445,410) has been recognised. The loan is not expected to be repaid within 12 months of the balance sheet date.

The operating loan made by the Company to its subsidiary (pieNETWORKS plc) is interest free and due on demand. At 30 June 2006, the amount owed to the Company was $1,559,794 (2005: $1,327,845). A provision for impairments of $1,559,794 (2005: $1,327,845) has been recognised giving rise to an impairment loss of $231,949 (2005: $560,060) The loan is not expected to be repaid within 12 months of the balance sheet date.

30. SUBSEQUENT EVENTS

Subsequent to the balance sheet 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. EXPLANATION OF TRANSITION TO AIFRSs

Reconciliation of equity

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
In AUD	**Note**	**1 July 2004**			**30 June 2005**			**1 July 2004**			**30 June 2005**		
Assets													
Cash and cash equivalents		742,979	-	742,979	1,793,880	-	1,793,880	522,813	-	522,813	1,721,247	-	1,721,247
Trade and other receivables		61,298	-	61,298	117,597	-	117,597	46,617	-	46,617	73,243	-	73,243
Inventories		50,891	-	50,891	6,875	-	6,875	14,667	-	14,667	6,875	-	6,875
Other assets	(c)	68,662	226,904	295,566	68,540	207,678	276,218	28,895	226,904	255,799	45,457	207,678	253,135
Total current assets		923,830	226,904	1,150,734	1,986,892	207,678	2,194,570	612,992	226,904	839,896	1,846,822	207,678	2,054,500
Receivables		-	-	-	-	-	-	164,339	-	164,339	-	-	-
Investment in subsidiaries		-	-	-	-	-	-	10,000	-	10,000	-	-	-
Property, plant and equipment		353,972	-	353,972	171,063	-	171,063	230,314	-	230,314	119,880	-	119,880
Intangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Total non-current assets		353,972	-	353,972	171,063	-	171,063	404,653	-	404,653	119,880	-	119,880
Total assets		1,277,802	226,904	1,504,706	2,157,955	207,678	2,365,633	1,017,645	226,904	1,244,549	1,966,702	207,678	2,174,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

Reconciliation of equity (continued)

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
In AUD	**Note**		**1 July 2004**			**30 June 2005**			**1 July 2004**			**30 June 2005**	
Liabilities													
Trade and other payables		448,878	-	448,878	386,005	-	386,005	222,189	-	222,189	189,063	-	189,063
Employee benefits		85,351	-	85,351	104,830	-	104,830	85,351	-	85,351	104,830	-	104,830
Unearned revenues		147,537	-	147,537	113,246	-	113,246	114,344	-	114,344	113,246	-	113,246
Total current liabilities		681,766	-	681,766	604,081	-	604,081	421,884	-	421,884	407,139	-	407,139
Employee benefits		-	-	-	12,809	-	12,809	-	-	-	12,809	-	12,809
Total non-current liabilities		-	-	-	12,809	-	12,809	-	-	-	12,809	-	12,809
Total liabilities		681,766	-	681,766	616,890	-	616,890	421,884	-	421,884	419,948	-	419,948
Net assets		596,036	226,904	822,940	1,541,065	207,678	1,748,743	595,761	226,904	822,665	1,546,754	207,678	1,754,432
Equity													
Issued capital	(b)	12,577,397	16,991	12,594,388	14,572,927	65,568	14,638,495	12,577,397	16,991	12,594,388	14,572,927	65,568	14,638,495
Reserves	(a)	-	-	-	-	65,790	65,790	-	-	-	-	65,790	65,790
Retained earnings	(a),(b,(c)	(11,981,361)	209,913	(11,771,448)	(13,031,862)	76,320	(12,955,542)	(11,981,636)	209,913	(11,771,723)	(13,026,173)	76,320	(12,949,853)
Total equity attributable to equity holders of the parent		596,036	226,904	822,940	1,541,065	207,678	1,748,743	595,761	226,904	822,665	1,546,754	207,678	1,754,432

31. EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

(a) The consolidated entity applied AASB 2 to its active share-based payment arrangements at 1 July 2005 except for equity-settled share-based payment arrangements granted before 7 November 2002. The consolidated entity has granted equity-settled share-based payments during the 2005 and 2006 financial years.

Under previous GAAP, the consolidated entity did not account for equity settled share based payments. Such payments are now recognised at fair value in accordance with AASB 2.

The effect in the consolidated entity of accounting for equity-settled share-based payment transactions at fair value is to increase Administrative and corporate expenses by $65,790 for the financial year ended 30 June 2005. The adoption of AASB 2 is equity-neutral for both the Company and consolidated entity for equity-settled transactions with retained earnings decreasing by $65,790 and reserves increasing by $65,790. No impact arose on transition at 1 July 2004.

(b) The consolidated entity applied AASB 112 to its capital raising costs recognised directly in equity which requires the recognition of a deferred tax asset and a reduction to the amount debited to issued capital. As the consolidated entity and the Company do not meet the asset recognition criteria on transition on 30 June 2005 in respect to deferred tax assets, the resulting deferred tax assets have not been brought to account. As a consequence, on transition at 1 July 2004, issued capital has been increased by $16,991 and retained earnings decreased by $16,991 and at 30 June 2005 share capital has been increased by $65,568 and retained earnings decreased by $65,568 for both the Company and consolidated entity.

(c) Under previous GAAP the consolidated entity did not recognise Research & Developments Tax Benefits as an asset as the benefit could only be recognised if the realisation of the benefit was virtually certain. The test for virtually certainty is an extremely high level of probability.

In accordance with AIFRSs, the R& D tax benefit is recognised as an asset to the extent that it is probable that the future tax benefit can be realised.

As a result of meeting the probable tests, at 1 July 2004, the receivable asset has been increased by $226,904 with a corresponding increase in retained earnings and at 30 June 2005, the receivable asset has been increased by $207,678 with a corresponding increase in retained earnings for both the Company and consolidated entity.

As this AIFRS transitional adjustment was identified in the current year, the June comparative Income Statements and Balance Sheets differ to the balance disclosed at the 31 December 2005 Interim Financial Report.

(d) The effect of the above adjustments on retained earnings is as follows:

		Consolidated		The Company	
In AUD	**Note**	**1 July 2004**	**30 June 2005**	**1 July 2004**	**30 June 2005**
Employee benefits	(a)	-	(65,790)	-	(65,790)
Deferred tax	(b)	(16,991)	(65,568)	(16,991)	(65,568)
R&D tax benefit	(c)	226,904	207,678	226,904	207,678
Total adjustment to retained earnings		209,913	76,320	209,913	76,320
Attributable to:					
Equity holders of the parent		209,913	76,320	209,913	76,320
		209,913	76,320	209,913	76,320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

Reconciliation of loss for 2005

In AUD	Note	Consolidated Previous GAAP	Consolidated Effect of Transition to AIFRSs	Consolidated AIFRSs	The Company Previous GAAP	The Company Effect of Transition to AIFRSs	The Company AIFRSs
Revenue from sale of goods		433,462	-	433,462	433,462	-	433,462
Revenue from rendering services		889,646	-	889,646	889,646	-	889,646
Cost of sales		(151,482)	-	(151,482)	(151,482)	-	(151,482)
Gross profit		1,171,626	-	1,171,626	1,171,626	-	1,171,626
Other revenues from ordinary activities		4,750	-	4,750	4,750	-	4,750
Service revenue expenses		(645,631)	-	(645,631)	(645,631)	-	(645,631)
Sales and marketing expenses		(499,189)	-	(499,189)	(499,189)	-	(499,189)
Research and development expenses		(532,640)	-	(532,640)	(532,640)	-	(532,640)
Administrative and corporate expenses	(a)	(635,293)	(65,790)	(701,083)	(635,293)	(65,790)	(701,083)
Other expenses from ordinary activities		(8,476)	-	(8,476)	(8,476)	-	(8,476)
Operating loss before financing profit		(1,144,853)	(65,790)	(1,210,643)	(1,144,853)	(65,790)	(1,210,643)
Financial income		44,347	-	45,960	44,347	-	44,347
Financial expenses		(1,772)	-	(1,772)	(1,772)	-	(1,772)
Net financing profit		42,575	-	42,575	42,575	-	42,575
Loss before tax		(1,102,278)	(65,790)	(1,168,068)	(1,102,278)	(65,790)	(1,168,068)
Income tax benefit relating to ordinary activities	(c)	226,904	(19,226)	207,678	226,904	(19,226)	207,678
Loss after tax but before loss of discontinued operation		(875,374)	(85,016)	(960,390)	(875,374)	(85,016)	(960,390)
Loss of discontinued operation, net of tax		(175,127)	-	(175,127)	(169,163)		(169,163)
Loss for the year		(1,050,501)	(85,016)	(1,135,517)	(1,044,537)	(85,016)	(1,129,553)
Attributable to:							
Equity holders of the parent		(1,050,501)	(85,016)	(1,135,517)	(1,044,537)	(85,016)	(1,129,553)
Loss for the period		(1,050,501)	(85,016)	(1,135,517)	(1,044,537)	(85,016)	(1,129,553)
Basic loss per share from continuing operations (cents)		0.627		0.678			

32. CHANGES IN ACCOUNTING POLICY

In the current financial year the Group adopted AASB 132: Financial Instruments: Disclosures & Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has not had any material impact on the Company or consolidated entity at 1 July 2005.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes and the remuneration disclosures that are contained in sections4.7.1, 4.7.2 , 4.7.4.1, 4.7.4.2 and 4.7.4.3 of the Remuneration Report in the Directors' report, set out on pages 20 to 52, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

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

(b) the remuneration disclosures that are contained in sections 4.7.1, 4.7.2 , 4.7.4.1, 4.7.4.2 and 4.7.4.3 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

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

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and financial controller for the financial year ended 30 June 2006 required by Section 295A of the Corporations Act 2001.

Date at Perth this 27th day of September 2006

Signed in accordance with a resolution of the directors:

Peter L Gunzburg

Director

KPMG

Independent audit report to members of pieNetworks Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both pieNetworks Limited (the "Company") and pieNetworks Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in sections 4.7.1, 4.7.2, 4.7.4.1, 4.7.4.2 and 4.7.4.3 of the directors' report and not in the financial report.

The Remuneration report also contains information in 4.7.3, 4.7.4.3 and 4.7.4.4 and 4.7.4.5 not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration 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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' 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 and the remuneration disclosures comply with AASB 124. 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 and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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.

KPMG

Audit opinion

In our opinion:

1 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 2006 and of their performance for the financial year ended on that date; and;

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

(b) other mandatory financial reporting requirements in Australia; and

2 the remuneration disclosures that are contained in sections 4.7.1, 4.7.2, 4.7.4.1, 4.7.4.2 and 4.7.4.3 of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 Related *Party Disclosures*.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(b), there is significant uncertainty as to whether the Company and consolidated entity will be able to continue as a going concern and therefore whether it will be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

J G Robinson

J G Robinson
Partner

Perth
27 September 2006

LEAD AUDITOR'S INDEPENDENCE DECLARATION

KPMG

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

To: the directors of pieNetworks Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

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

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

KPMG

KPMG

J G Robinson

J G Robinson
Partner

Perth
27 September 2006

ADDITIONAL INFORMATION

Distribution schedule and number of holders of equity securities as at 22 September 2006

	1-1,000	1,001-5,000	5,001 -10,000	10,001 -100,000	100,001- Max	Total
Fully paid ordinary shares	9	105	155	333	245	847
Directors Options	-	-	-	-	4	4
pie Option Plan Options	-	-	3	6	4	13
2000/01 Option Plan Options	-	-	6	4	-	10
2005 pie Incentive Plan Options	-	-	-	5	11	16

Number of Holders Holding less than a marketable parcel of fully paid ordinary shares as at 22 September 2006: 441

20 Largest holders of quoted equity securities as at 22 September 2006

Rank and Name		No. Shares Held	% Capital
1	MR PETER LYNTON GUNZBURG	12,352,667	5.17
2	TROVEX PTY LTD	10,152,667	4.25
3	GOCOM PTY LTD	9,854,131	4.13
4	GIVERNY HOLDINGS PTY LTD	9,631,802	4.03
5	MR ROBERT JOHN MCBRIER	9,191,297	3.85
6	MR DENIS JOHN REYNOLDS	7,760,442	3.25
7	NEFCO NOMINEES PTY LTD	7,700,000	3.23
8	WESTBLOCK SERVICES PTY LTD	5,920,000	2.48
9	RIVISTA PTY LTD	5,760,000	2.41
10	TOPSFIELD PTY LTD	5,291,450	2.22
11	MR DAVID BOUDVILLE & MS LEE GARDINER	4,300,000	1.80
12	PILLAGE INVESTMENTS PTY LTD	4,000,000	1.68
13	POVLIC PTY LTD	3,735,000	1.56
14	IBELLA COMPANY LIMITED	3,600,000	1.51
15	SOLERO NOMINEES PTY LTD	3,500,000	1.47
16	MR RICHARD WILLIAM BALSTON	2,645,730	1.11
17	ALET INVESTMENTS PTY LTD	2,157,043	0.90
18	MR MICHAEL GILMOUR	2,000,000	0.84
19	MR SWEE KHOON LEE	2,000,000	0.84
20	PELOTON PTY LTD	2,000,000	0.84

ADDITIONAL INFORMATION

Substantial Shareholders

As at 22 September 2006, 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	%
Peter Gunzburg*	33,722,725	14.17
Bryan Paul	12,659,580	5.32

* Includes up to 11,217,391 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.

Unquoted securities on issue as at 22 September 2006:

Unquoted Securities	No. on issue	Exercise Price	Expiry Date
Pie Option Plan Options	1,215,000	$0.30	30 June 2007
2000/01 Option Plan Options	250,000	$0.30	30 June 2007
Director Options	10,000,000	$0.03	28 April 2010
2005 pie Incentive Plan Options	7,850,000	$0.03	22 November 2011

Names of persons holding more than 20% of a given class of unquoted securities (other than employee options) as at 22 September 2006:

Securities	Name	Number of Securities
Director Options	Mr Campbell Smith	5,000,000
	Mr Robert McBrier	3,000,000

Restricted Securities as at 22 September 2006

There are no restricted securities on issue.

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

On-Market Buy Back

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

This page has been left blank intentionally.

This page has been left blank intentionally.

pie
networks