pie networks

ANNUAL REPORT
30 JUNE 2008

pieNETWORKS Limited ABN 27 178 661 444

CORPORATE DIRECTORY

DIRECTORS
Peter Gunzburg *(Non-Executive Chairman)*
Campbell Smith (*Managing Director*)
Peter Abery *(Non-Executive Director)*
Craig Ferrier *(Non-Executive Director)*

SECRETARY
Mark Pitts

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AUDITORS
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SHARE REGISTRY
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HOME EXCHANGE
Australian Securities Exchange Limited
2 The Esplanade
PERTH WA 6000

ASX Code: PIE

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MANAGING DIRECTOR'S REVIEW

Dear Shareholder,

The past year saw the Company make substantial progress commercializing our Webphone Business Plan. This was achieved on a "shoestring budget" compared to other telecommunications product development companies and is testament to the quality of our loyal team.

Revenues from our 'first generation' trial Webphones in New Zealand continue to grow. Revenues have increased 70% from November 2007 to the end of September 2008.

As a result of Telecom New Zealand deciding in January 2008 not to sell us its indoor payphone sites, we began the process of securing our own sites to deploy our New Zealand Webphone network. We are currently in advanced negotiations with a number of owners of suitable real estate in New Zealand with a view to agreeing terms for the deployment of our second generation Webphones.

In July 2008 we announced the launch of our second generation Webphone. It is a quantum advance on our first generation Webphone which is already successfully operating in New Zealand. The second generation Webphone looks better, goes faster, does more, is easier to use, cost less to build and is designed to be produced in large volumes. We anticipate our first small production of second generation Webphones in the last quarter of 2008.

In July 2008 we announced the signing of our International Webphone Cooperation Agreement with BBG Global AG. The agreement sets out the terms by which pieNETWORKS and BBG Global will jointly market pieNETWORKS' Webphones at certain locations internationally (other than within Australia).

The BBG relationship is significant as BBG is the largest privately held international operator assisted call and credit card solutions company. BBG operates in over 65 countries in partnerships with national payphone operators as well as operating its own payphone networks in over 30 countries. BBG Global's services operate on over 350,000 payphones, in over 2.25 million hotel rooms and in over 100 airports internationally.

Yours faithfully,

Campbell Smith
Managing Director

"It is for the worldwide public payphone market that the Company has developed its Webphone and associated Webphone Business Plan."

DIRECTORS' REPORT

For the year ended 30 June 2008

The directors present their report together with the financial report of pieNETWORKS Limited ('the Company') and of the Group, being the Company and its subsidiary, for the financial year ended 30 June 2008 and the auditor's report thereon.

Contents of directors' report

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 Non-Executive Director	56	Over 20 years experience as a stockbroker. Currently the Chairman of Eurogold Limited (director since 2001) and a director of Fleetwood Corporation Limited (since 2002), a director of AIM listed Matra Petroleum PLC (since April 2006) and a director of Strike Oil Limited (since October 2006). Past director of Resolute Limited, The Australian Securities 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	43	Over 20 years experience in finance and sales and marketing. Co-founder and first managing director of the company. Appointed 23 May 1997.
Peter Abery Independent Non-Executive Director	60	Over 20 years extensive management experience at MD / CEO level. Previous recent roles include CEO of HPM Industries, CEO of Crown Castle UK Ltd and Crown Castle Australia Pty Ltd, and managing director of Vodafone Network in Australia. Non executive director of the Norfolk Group Limited (director since 31 May 2007) and Nomad Building Solutions Limited (director since 28 July 2008). Member of the Audit and Compliance Committee. Appointed 8 May 2007.
Craig Ferrier BBus, CPA Independent Non-Executive Director	46	Over 20 years experience in corporate and financial management of listed companies. Company Secretary from May 2001 until 12 March 2008. Member of the Audit and Compliance Committee. Appointed 10 September 2003.

2. COMPANY SECRETARY

Mr Mark Pitts was appointed as Company Secretary on 12 March 2008. Mr Pitts is a Chartered Accountant with over 25 years experience in statutory reporting and business administration. He has been directly involved with, and consulted to a number of public companies holding senior financial management positions. He is a partner in the corporate advisory firm Endeavour Corporate.

Mr Craig Ferrier, BBus, CPA, was company secretary from May 2001 until 12 March 2008. Mr Ferrier is a corporate finance specialist with substantial experience in managing listed companies in both an executive and advisory capacity.

3. DIRECTORS' MEETINGS

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

Director	Board Meetings		Audit and Compliance Committee Meetings		Remuneration & Nomination Committee Meetings[1]	
	A	B	A	B	A	B
Peter L Gunzburg	17	17	2	2	–	–
Campbell Smith	17	17	2	2	–	–
Craig Ferrier	16	17	2	2	–	–
Peter Abery	17	17	2	2	–	–

A – Number of meetings attended

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

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

4. CORPORATE GOVERNANCE STATEMENT

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

The Company operates in accordance with the principles of corporate governance as set out by the ASX Corporate Governance Council and as required by the ASX Listing Rules, it has not early adopted the Revised Governance Principals which have effect for the Financial Year commencing 1 July 2008. The Directors have implemented policies and practices which they believe will focus their attention and that of their Senior Executives on accountability, risk management and ethical conduct.

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

4.1 BOARD OF DIRECTORS

THE ROLES OF THE BOARD AND MANAGEMENT

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

Details of the background, experience and professional skills of each director are set out on page 5 of this Directors Report.

In summary the Board is responsible for:

- setting the strategic direction of the Company;
- appointing and removing the managing director;
- ratifying the appointment and/or removal of the Chief Financial Officer and the Company Secretary;
- reviewing and ratifying the systems of risk management, internal control and compliance;
- approving operating budgets;
- approving and monitoring 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;
- 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 three non-executive directors, including the Chairman, and one executive director, namely, the Managing Director. The current Board comprises two 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; and
- Mr Campbell Smith, Managing Director; who is an executive director.

Mr Craig Ferrier is a director of a company that provided company secretarial services to the Company until March 2008. The nature of the engagement is not regarded by the Board as limiting his independence. Mr Ferrier was a contract company secretary on a fixed amount during the year which is not material to his earnings. Since March 2008, Mr Mark Pitts was appointed as company secretary and Mr Ferrier remains a independent non-executive director of the Company.

Mr Peter Abery is a non-executive director of the Company and is regarded to be independent based on the criteria set out above.

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). However the Board considers that both its structure and composition are appropriate given the size of the Company and that the interests of the Company and its shareholders are well met.

MEETINGS OF THE BOARD

The Board meets formally at least eight times a year and on other occasions, as required. The agenda for meetings is prepared by the company secretary in consultation with the managing director. 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. CORPORATE GOVERNANCE STATEMENT (continued)

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.

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.

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

CONTINUOUS DISCLOSURE

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

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

4.3 COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

4.4 RISK MANAGEMENT

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

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

- delegated authority limits in respect of financial expenditure and other business activities;
- a comprehensive annual insurance programme;
- internal controls to safeguard the Company's assets and ensure the integrity of business processes and reporting systems;
- 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 the Group's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. Additionally, the 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.

4.6 REMUNERATION AND NOMINATION COMMITTEE

NOMINATION

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

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

At the date of this report, the Remuneration and Nomination Committee comprises Messrs Gunzburg, Ferrier and Abery. 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 $200,000 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.

4. CORPORATE GOVERNANCE STATEMENT (continued)

4.7 REMUNERATION REPORT – AUDITED

4.7.1 REMUNERATION POLICIES

OVERVIEW OF REMUNERATION POLICIES

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

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

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 may include both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) 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.

SHORT-TERM INCENTIVE BONUS

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

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 and remain outstanding.

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. A further 2,500,000 options were issued during 2007 with exercise prices ranging from 3 to 12 cents each.

On 9 May 2007 the Company announced that the Board had approved the allocation of 1,000,000 pieNETWORKS OIP (exercisable at 12 cents per share and expiring on 23 November 2010) to Mr Peter Abery following his engagement as a non-executive director. The issue of the options were approved at the Company's annual general meeting held in November 2007.

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

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 (2007: Nil).

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDERS WEALTH

In considering the Group'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.

For the year ended 30 June 2008

	2008	2007	2006	2005	2004
Net profit (loss)	(2,042,111)	(1,230,764)	(924,428)	(1,135,517)	(1,265,960)
Losses per share (cents per share)	(0.72)	(0.51)	(0.37)	(0.67)	(1.15)
Dividends paid	–	–	–	–	–
Change in share price – (decrease)/increase	($0.07)	$0.071	($0.002)	($0.013)	$0.020
Return of capital	–	–	–	–	–
Net cash (used in) operations	(2,030,394)	(1,337,701)	(953,839)	(931,554)	(690,579)

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

SERVICE AGREEMENTS

On 25 February 2000, pieNETWORKS Limited, Gocom Pty Ltd and Campbell Smith entered into a Consultancy Agreement pursuant to which the Company agreed to engage Gocom Pty Ltd as consultant to provide the services of Campbell Smith as managing director of the Company for a fixed term of 3 years. The contract was extended for a 3 year fixed term to 25 February 2006. 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 contract remains in force and either party may terminate the contract on 30 days written 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 $40,060. The contract was terminated on 12 March 2008 with Mr Ferrier's resignation as Company secretary. Mr Ferrier remains on the Board as non-executive Director.

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

NON-EXECUTIVE DIRECTORS

Shareholders in a general meeting have approved a directors' fee pool limit of $200,000 from which non-executive directors' fees may be paid. Since 1 April 2007 the Company has commenced paying directors fees to non-executive directors. Fees paid and payable to Seinecorp Pty Ltd here included fees payable in respect to services provided by that entity for company secretarial services up until March 2008 and Mr Ferrier as a non-executive director.

4. CORPORATE GOVERNANCE STATEMENT (continued)

4.7 REMUNERATION REPORT – AUDITED (continued)

4.7.2 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (COMPANY AND CONSOLIDATED)

Details of the nature and amount of each major element of remuneration of each director and executive officer of the Company are set out on the next page.

		Short-term			Post-employment	Other long term		Share-based payments			
		Salary & fees $	STI cash bonus $	Total $	Super-annuation benefits $	$	Termination benefits $	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors											
(i) Non-executive Directors											
Mr PL Gunzburg, Chairperson	2008	50,000	–	50,000	4,500	–	–	–	54,500	0%	0%
	2007	16,667	–	16,667	1,500	–	–	–	18,167	0%	0%
Mr P Abery *(appointed 8 May 2007)*	2008	33,000	–	33,000	5,430	–	–	71,618	110,048	65%	65%
	2007	5,323	–	5,323	479	–	–	–	5,802	0%	0%
Mr CJ Ferrier (1)	2008	52,060	–	52,060	–	–	–	–	52,060	0%	0%
	2007	42,000	–	42,000	–	–	–	–	42,000	0%	0%
(ii) Executive Directors											
Mr CD Smith, Managing Director	2008	200,000	–	200,000	–	–	–	–	200,000	0%	0%
	2007	200,000	–	200,000	–	–	–	–	200,000	0%	0%
Mr RJ McBrier, Technical Director (resigned 10 April 2007)	2007	119,375	–	119,375	10,744	–	80,275	–	210,394	0%	0%
Executives											
Mr S Snell, Chief Operating Officer	2008	207,585	–	207,585	–	–	–	–	207,585	0%	0%
	2007	149,600	–	149,600	–	–	–	–	149,600	0%	0%
Mr P Barrow, Project Manager	2008	172,800	–	172,800	–	–	–	–	172,800	0%	0%
	2007	76,335	–	76,335	–	–	–	–	76,335	0%	0%
Mr B Paul, Sales and Network Operations Manager	2008	137,500	–	137,500	12,375	–	–	–	149,875	0%	0%

		Short-term			Post-employment	Other long term		Share-based payments			
		Salary & fees $	STI cash bonus $	Total $	Super-annuation benefits $	$	Termination benefits $	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
	2007	116,346	–	116,346	10,471				126,817	0%	0%
Mr O Mukanda, Financial Controller (*appointed 25 October 2007)*	2008	60,654	–	60,654	5,459	–	–	–	66,113	0%	0%
Mr J Tsaban, Financial Controller (*appointed 13 July 2007, resigned 19 October 2007)*	2008	22,047	–	22,047	1,984	–	–	–	24,031	0%	0%
Total compensation: key management personnel (company and consolidated)	2008	935,646	–	935,646	29,748	–	–	71,618	1,037,012	7%	7%
	2007	725,646	–	725,646	23,194	–	80,275	–	829,115	0%	0%

(1) Includes director's fees and fees paid for company secretarial work provided in the period to 28 February 2008.

4.7 REMUNERATION REPORT – AUDITED (continued)

4.7.2 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (COMPANY AND CONSOLIDATED) – (continued)

DETAILS OF PERFORMANCE RELATED REMUNERATION

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

4.7.3 ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

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

4.7.4 EQUITY INSTRUMENTS

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

4.7.4.1 OPTIONS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

During the year, 1,000,000 options over ordinary shares in the Company were granted as compensation to Mr Peter Abery.

The fair value of the options is calculated at the date of grant using a binominal option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date.

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

Grant Date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
5/12/2007	3 years	$0.071	$0.12	$0.12	90.36%	5.84%	0%

The options were granted at no cost and vested immediately. The earliest exercise date was 5 December 2007 and the options expire 23 November 2010. No options have been granted since the end of the financial year.

No other options were granted as compensation to directors in 2007.

4.7.4.2 MODIFICATION OF TERMS OF EQUITY-SETTLED SHARE-BASED PAYMENTS

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

4.7.4.3 EXERCISE OF OPTIONS GRANTED AS COMPENSATION

During the financial year, no shares were issued upon the exercise of options previously granted as remuneration to key management personnel (2007: Nil).

4.7.4.4 ANALYSIS OF OPTIONS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

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

Director	Options granted Number	Options granted Date	% vested in year	% forfeited in year	Financial years in which grant vests
Peter Abery	1,000,000	5 Dec 2007	100%	–	2008

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

	Value of Options		
Director	Granted in year $ (A)	Exercised in year $	Lapsed in year $
Peter Abery	$71,618	–	–

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above. This amount is fully allocated to remuneration as it vested from the date of the grant, 5 December 2007.

There were no options granted to, exercised by or lapsed by Directors during the prior year.

5. PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were centred on the commercialisation of our Hotspot Webphone Business Plan. In preparation for the success of the Hotspot Webphone Business Plan we have also been transforming the Company from niche internet 'kiosk' business into a 'telco grade' project management, software and hardware supplier, capable of executing the substantial vision we have for the Hotspot Webphone business.

The Hotspot Webphone was launched in August 2006 and was met by immediate interest from potential customers in Australia, New Zealand and other overseas markets. In March 2007 the Company announced its first Hotspot Webphone contract being a six unit trial with Telecom New Zealand.

The Telecom New Zealand trial commenced on 29 March 2007 with the installation of the first Webphone in Sylvia Park Shopping Centre in Auckland. On 31 January 2008, the Company announced that although Telecom New Zealand will continue its trial of the Hotspot Webphone as per the Webphone Trial Services Agreement announced on 2 March 2007, Telecom New Zealand decided not to progress in discussions with the Company concerning the proposed strategic partnership to provide Webphone services in New Zealand.

Subsequent to year-end the Company announced that it has entered into a Webphone Cooperation Agreement with BBG Global AG. The agreement sets out the terms by which the Company and BBG Global will market the BBG Global telecommunication services and the Company's Webphones at certain locations internationally (other than within Australia). The Company also entered into a Manufacturing Service Agreement with Startronics Pty Ltd to manufacture the Company's second generation Webphone.

The Company will begin the deployment of its Webphone network in New Zealand after signing a Heads of Agreement with iStation Limited.

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 $2,042,111 compared with a net loss after tax of $1,230,764 in 2007.

The increase in net loss for the year was directly related to the increase in costs associated with the commercialisation of the Company's Hotspot Webphone Business Plan. In addition, the Company is part way through a transformation from a niche internet 'kiosk' business into a 'telco grade' project management, software and hardware supplier. This transformation has seen changes to the organisational structure and the addition of new staff increasing resourcing capability and capacity to manage the implementation of the Hotspot Webphone Business Plan.

7. DIVIDENDS

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

8. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 30 June 2008, with the exception of that listed below, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years:

- The Company entered into a short term loan agreement at arms length with its largest shareholder and Chairman, Mr Peter Gunzburg. The loan facility amounting to $400,000 bearing interest at 10% p.a. has been made available for working capital purposes, and is to be repaid from the proceeds of a capital raising or at the termination date 31 March 2009, whichever is earlier.

8. EVENTS SUBSEQUENT TO REPORTING DATE (continued)

- The Company has engaged an international investment bank to assist with a proposed capital raising and funding for the Company's Webphone Business Plan and short to medium term permanent working capital requirements.
- Subsequent to year-end the Company has entered into a Webphone Cooperation Agreement with BBG Global AG. The agreement sets out the terms by which the Company and BBG Global will market the BBG Global telecommunication services and the Company's Webphones at certain locations internationally (other than within Australia).
- The Company entered into a Manufacturing Service Agreement with Startronics Pty Ltd to manufacture the Company's second generation Webphone.
- The Company will begin the deployment of its Webphone network in New Zealand after signing a Heads of Agreement with iStation Limited.

9. LIKELY DEVELOPMENTS

The Company will continue to pursue its stated policy of seeking to increase its revenues and profitability through the commercialisation of the Hotspot Webphone Business Plan.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company. During the financial year the Company focused the majority of its human and financial resources on the commercialisation of its Hotspot Webphone Business Plan.

10. DIRECTORS' INTERESTS

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

	Ordinary shares	Options over ordinary shares
Peter L Gunzburg	42,567,517[(1)]	1,000,000
Campbell Smith	11,554,131	5,000,000
Craig Ferrier	–	1,000,000
Peter Abery	–	1,000,000

[(1)] Includes up to 7,666,667 shares held by other parties and the subject of an agreement granting security over those shares, giving rise to a relevant interest pursuant to the Corporations Act.

11. SHARE OPTIONS

OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

Other than the options granted to Mr P Abery detailed in section 4.7.4.1 of this Director's report, 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.

UNISSUED SHARES UNDER OPTIONS

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

Option Plan	Expiry date	Exercise price	Number of shares
Director Options	28 April 2010	$0.03	10,000,000
Incentive Plan Options	23 November 2010	$0.03	5,050,000
Incentive Plan Options	23 November 2010	$0.12	3,000,000
			18,050,000

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

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

SHARES ISSUED ON EXERCISE OF OPTIONS

During the financial year, the Company has issued 600,000 ordinary shares as a result of the exercise of options, none of which were issued to key management personnel. The amount paid on each share was $0.03 and there are no amounts unpaid on the shares issued. Since the end of the financial year, the Company has issued no ordinary shares as a result of the exercise of options.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS

INDEMNIFICATION

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

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

INSURANCE PREMIUMS

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

13. NON-AUDIT SERVICES

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

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

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

13. NON-AUDIT SERVICES (continued)

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.

	Consolidated 2008 $	2007 $
Audit services:		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	68,078	84,330
Other regulatory audit services	–	–
Overseas KPMG Firms:		
Audit and review of financial reports	–	6,139
	68,078	90,469
Services other than statutory audit:		
Auditors of the Company		
KPMG Australia		
Taxation services	25,370	3,300
Overseas KPMG firms:		
Registered office services	–	737
	93,448	94,506

14. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 52 and forms part of the directors' report for financial year ended 30 June 2008.

This report is made with a resolution of the directors:

Peter L Gunzburg
Director

Dated at Perth this 30th day of September 2008.

INCOME STATEMENTS

For the year ended 30 June 2008

In AUD	Note	Consolidated 2008	Consolidated 2007	Company 2008	Company 2007
Revenue from sale of goods	*6*	337,925	374,064	337,925	374,064
Revenue from rendering services	*6*	831,658	863,707	831,658	854,827
Cost of sales		(198,765)	(249,122)	(198,765)	(259,536)
Gross profit		970,818	988,649	970,818	969,355
Other income from ordinary activities	*7*	40,355	36,903	23,405	13,547
Service revenue expenses		(433,661)	(485,857)	(433,661)	(485,857)
Sales and marketing expenses		(852,800)	(642,806)	(852,800)	(642,806)
Research and development expenses		(1,316,075)	(799,704)	(1,316,075)	(799,704)
Administrative and corporate expenses		(927,321)	(698,029)	(910,210)	(660,262)
Other expenses from ordinary activities	*8*	1,684	(2,876)	(7,689)	(25,699)
Results from operating activities		(2,517,000)	(1,603,720)	(2,526,212)	(1,631,426)
Financial income		45,308	30,263	45,308	30,263
Financial expenses		(22,140)	(5,274)	(1,767)	(1,479)
Net financing income	*10*	23,168	24,989	43,541	28,784
Loss before income tax		(2,493,832)	(1,578,731)	(2,482,671)	(1,602,642)
Income tax benefit	11	451,721	347,967	451,721	347,967
Loss for the year		(2,042,111)	(1,230,764)	(2,030,950)	(1,254,675)
Earnings per share for loss attributable to the ordinary equity holders of the Company:					
Basic loss per share (cents)	*20*	(0.724)	(0.507)		
Diluted loss per share (cents)	*20*	(0.724)	(0.474)		

The notes on pages 23 to 48 are an integral part of these consolidated financial statements.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 June 2008

		Consolidated		Company	
In AUD	Note	2008	2007	2008	2007
Income and expense recognised directly in equity		–	–	–	–
Loss for the period		(2,042,111)	(1,230,764)	(2,030,950)	(1,254,675)
Total recognised income and expense for the period	*19*	(2,042,111)	(1,230,764)	(2,030,950)	(1,254,675)

Other movements in equity arising from transactions with owners as owners are set out in note 19.

The notes on pages 23 to 48 are an integral part of these consolidated financial statements.

BALANCE SHEETS

As at 30 June 2007

In AUD	Note	Consolidated 2008	Consolidated 2007	Company 2008	Company 2007
Assets					
Cash and cash equivalents	*18*	697,438	1,220,031	697,438	1,220,031
Trade and other receivables	*17*	135,991	161,681	135,991	161,681
Inventories	*16*	124,933	107,345	124,933	107,345
Current tax assets	*15*	402,928	347,967	402,928	347,967
Other current assets		51,135	51,537	51,135	51,537
Total current assets		1,412,425	1,888,561	1,412,425	1,888,561
Property, plant and equipment	*12*	97,615	57,423	97,615	57,423
Intangible assets	*13*	11,459	30,868	11,459	30,868
Total non-current assets		109,074	88,291	109,074	88,291
Total assets		1,521,499	1,976,852	1,521,499	1,976,852
Liabilities					
Trade and other payables	*24*	235,720	274,598	222,868	272,907
Loans and borrowings	*21*	3,452	3,073	3,452	3,073
Employee benefits	*22*	129,936	113,497	129,936	113,497
Deferred revenue		85,603	91,893	85,603	91,893
Total current liabilities		454,711	483,061	441,859	481,370
Loans and borrowings	*21*	4,222	7,674	4,222	7,674
Employee benefits	*22*	20,331	16,229	20,331	16,229
Total non-current liabilities		24,553	23,903	24,553	23,903
Total liabilities		479,264	506,964	466,412	505,273
Net assets		1,042,235	1,469,888	1,055,087	1,471,579
Equity					
Share capital		17,968,492	16,425,652	17,968,492	16,425,652
Reserves		226,588	154,970	226,588	154,970
Accumulated losses		(17,152,845)	(15,110,734)	(17,139,993)	(15,109,043)
Total equity	*19*	1,042,235	1,469,888	1,055,087	1,471,579

The notes on pages 23 to 48 are an integral part of these consolidated financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2008

		Consolidated		Company	
In AUD	Note	2008	2007	2008	2007
Cash flows from operating activities					
Cash receipts from customers		1,305,941	1,460,020	1,305,941	1,405,938
Cash paid to suppliers and employees		(3,733,096)	(3,029,476)	(3,723,723)	(2,939,892)
Cash used in operations		(2,427,155)	(1,569,456)	(2,417,782)	(1,533,954)
Research and development tax offset rebate		396,761	231,755	396,761	231,755
Net cash (used in) operating activities	*18b*	(2,030,394)	(1,337,701)	(2,021,021)	(1,302,199)
Cash flows from investing activities					
Payment of loan to subsidiary		–	–	(9,373)	–
Proceeds from sale of property, plant and equipment		–	2,761	–	2,761
Interest received		43,541	23,596	43,541	23,522
Acquisition of property, plant and equipment	*12*	(73,187)	(31,067)	(73,187)	(31,067)
Acquisition of intangible asset	*13*	(2,320)	(3,436)	(2,320)	(3,436)
Net cash (used in) investing activities		(31,966)	(8,146)	(41,339)	(8,220)
Cash flows from financing activities					
Payment of finance lease liabilities		(3,073)	(3,082)	(3,073)	(2,722)
Proceeds from share issues	*19*	1,558,900	1,830,166	1,558,900	1,830,166
Payments for equity raising costs	*19*	(16,060)	(43,009)	(16,060)	(43,009)
Net cash provided by financing activities		1,539,767	1,784,075	1,539,767	1,784,435
Net (decrease)/increase in cash and cash equivalents		(522,593)	438,228	(522,593)	474,016
Cash and cash equivalents at 1 July		1,220,031	781,803	1,220,031	746,015
Cash and cash equivalents at 30 June	*18a*	697,438	1,220,031	697,438	1,220,031

The notes on pages 23 to 48 are an integral part of these consolidated financial statements.

1. REPORTING ENTITY

PieNETWORKS Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 75 Collingwood Street, Osborne Park WA 6017. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiary (together referred to as the "Group"). The Group primarily is involved in the development, manufacture, installation and management of fully managed and controlled "self service" internet access "infrastructure" and webphones.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

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

The financial statements were approved by the Board of Directors on 30 September 2008.

(B) GOING CONCERN BASIS

The Company and consolidated entity incurred a loss after tax for the year of $2,030,950 (2007: $1,254,675) and $2,042,111 (2007: $1,230,764) and has a surplus in working capital at 30 June 2008 of $970,567 (2007: $1,407,191) and $957,715 (2007: $1,405,500), 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:

- Subsequent to the end of the financial year, the Company entered into a short term loan agreement at arms length with its largest shareholder and Chairman, Mr Peter Gunzburg. The loan facility, amounting to $400,000 which bears interest at 10% p.a., has been made available for working capital purposes, and is to be repaid from the proceeds of a capital raising or at its termination date of 31 March 2009, whichever is earlier. Mr Gunzburg has confirmed to the Company that he will not seek repayment at that date should the Company not be in a position to repay. $300,000 of this facility currently remains unutilised.
- The Company has engaged an international investment bank to assist with a proposed capital raising and funding for the Company's Webphone Business Plan and short to medium term working capital requirements.
- In addition the arrangements noted in above, Directors also anticipate the on-going support of existing key shareholders, should it become necessary to seek working capital funding through other capital raisings programmes;
- The Company is continuing to develop relationships and pursue business opportunities of a scale that, in the Directors opinion, warrant the ongoing commitment of the Group's financial resources. Significant developments include the Company:
  - having entered into a Webphone Cooperation Agreement with BBG Global AG which sets out the terms by which the Company and BBG Global will market BBG Global telecommunication services and the Company's Webphones at certain locations internationally (other than within Australia)
  - having entered into a Manufacturing Service Agreement with Startronics Pty Ltd to manufacture the Company's second generation Webphone
  - Anticipating the execution of a number of agreements with suitable real estate owners, in the near future, for the development of its webphone network in New Zealand.

  The Directors remain confident that such activities will generate new sales and service opportunities ultimately leading to profitable and cash flow positive operations.
- Directors continue to monitor the operational and financial performance of the business and in the event that the Company is unable to source additional capital for its Webphone Business Plan within its anticipated timeframe, the Directors will take action to reduce costs, preserve cash and pursue alternatives for the webphone business and/ or the listed structure.

For the reasons discussed above, the directors are confident that the Company and consolidated entity will be able to continue their operations into the foreseeable future. Should the Company and consolidated entity be unsuccessful in raising sufficient capital and/or be unable to execute its Webphone Business Plan within a reasonable timeframe, there is significant uncertainty as to whether the Company and consolidated entity will continue as a going concern and therefore whether they 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 MEASUREMENT

The financial report is prepared on the historical cost basis.

(D) FUNCTIONAL AND PRESENTATION CURRENCY

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

2. BASIS OF PREPARATION (continued)

(E) USE OF ESTIMATES AND JUDGEMENTS

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

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

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

- note 16 – valuation of inventories
- note 17 – valuation of trade and other receivables
- note 23 – measurement of share-based payments

3. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF CONSOLIDATION

(i) Subsidiaries

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

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

(ii) Transactions eliminated on consolidation

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

(B) FOREIGN CURRENCY

(i) Foreign currency transactions

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

(ii) Foreign operations

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

(C) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

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

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

Cash and cash equivalents comprise cash balances and call deposits.

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

(ii) Share capital

Ordinary shares

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

(D) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and

its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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

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

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

(E) INTANGIBLE ASSETS

(i) Research and development

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

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

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

- capitalised software and implementation costs 2.5 years

(F) LEASED ASSETS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out 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 production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(H) IMPAIRMENT

(i) Financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

All impairment losses are recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Impairment losses are recognised in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(I) EMPLOYEE BENEFITS

(i) Defined contribution superannuation funds

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

(ii) Long-term service benefits

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

(iii) Short-term benefits

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

(iv) Share-based payment transactions

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

(v) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(J) PROVISIONS

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

(K) REVENUE

(i) Goods sold

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

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

(ii) Services

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

(iii) Rental income

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

(L) EXPENSES

(i) Lease payments

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

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

(ii) Finance income and expenses

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Finance income comprises interest income on funds invested, gains on the available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

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

(M) INCOME TAX

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

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

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

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

(N) SEGMENT REPORTING

A segment is a distinguishable component of the Group 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.

The Company comprises one business segment being the sale and operation of controlled “self service” internet access infrastructure. In addition the Company operates in one geographic segment being Australia.

(O) EARNINGS PER SHARE

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) GOODS AND SERVICES TAX

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

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

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

(Q) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- AASB 8 and AASB 2007-3: Operating Segments and consequential amendments to other Australian Accounting Standards. This new standard replaces AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.
  - *Application date of Standard:* 1 January 2009.
  - *Impact on Group Financial report:* AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.
  - *Application date for Group:* 1 July 2009.

- AASB 101 (Revised) and AASB 2007-8: Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards. The Standard introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.
  - *Application date of Standard:* 1 January 2009.
  - *Impact on Group Financial report:* These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.
  - *Application date for Group:* 1 July 2009.

- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations. The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.
  - *Application date of Standard:* 1 January 2009.
  - *Impact on Group Financial report:* The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.
  - *Application date for Group:* 1 July 2009.

4. DETERMINATION OF FAIR VALUES

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

(A) TRADE AND OTHER RECEIVABLES

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

(B) NON-DERIVATIVE FINANCIAL LIABILITIES

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

(C) SHARE-BASED PAYMENT TRANSACTIONS

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

5. FINANCIAL RISK MANAGEMENT

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board and the Audit & Compliance Committee is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

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

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

(A) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from transactions with customers and investments. For the Company it arises from receivables due from subsidiaries and customers.

Trade and other receivables

The Company's and Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company and the Group is not materially exposed to credit risk as the majority of their services are prepaid. Approximately 12% percent (2007: 12% percent) of the Group's revenue is attributable to sales transactions with its largest customer.

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

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

(B) LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance the Group's current and future operations, and consideration is given to the liquid assets available to the Company before commitment is made to future expenditure or investment.

(C) MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising any return.

Currency risk

The Group is exposed to currency risk on transactions with its foreign subsidiary that is denominated in a currency other than the respective functional currencies of the Group, the Australian dollar (AUD). The currency in which these transactions primarily are denominated GBP (UK Pound Sterling). The Company is exposed to currency risk on transactions that are denominated in currencies other than the functional currency of the Company, the Australian dollar (AUD).

Interest rate risk

As the Group has interest bearing assets, the Group's income and operating cash flows are exposed to changes in market interest rates. The assets are short term interest bearing deposits, and no financial instruments are employed to mitigate risk. (Note 25 – Financial Instruments).

(D) CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors closely monitors capital expenditure and cash flows as mentioned in (b). The Company's and Group's main objective has been to safeguard their ability to continue as a going concern by raising sufficient funds through equity to fund commercialisation of technology.

There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6. REVENUE

	Consolidated		Company	
In AUD	**2008**	**2007**	**2008**	**2007**
Sales	337,925	374,064	337,925	374,064
Services	831,658	863,707	831,658	854,827
Total revenues	1,169,583	1,237,771	1,169,583	1,228,891

7. OTHER INCOME

	Consolidated		Company	
In AUD	**2008**	**2007**	**2008**	**2007**
Traineeship rebate	719	–	719	–
Net gain on sale of property, plant and equipment	–	1,547		1,547
Other	27,636	–	10,686	–
Rental income from property subleases	12,000	35,356	12,000	12,000
	40,355	36,903	23,405	13,547

8. OTHER EXPENSES

		Consolidated		Company	
In AUD	**2008**	**2007**	**2008**	**2007**	
Increase/(decrease) in provisions		(1,684)	1,845	7,689	26,049
Other		–	1,031	–	(350)
		(1,684)	2,876	7,689	25,699

9. PERSONNEL EXPENSES

		Consolidated		Company	
In AUD	**Note**	**2008**	**2007**	**2008**	**2007**
Wages and salaries		1,090,035	922,997	1,090,035	922,997
Other associated personnel expenses		68,582	49,622	68,582	49,622
Contributions to defined contribution superannuation funds	*22*	95,843	85,985	95,843	85,985
Consulting fees		1,133,131	588,774	1,133,131	588,774
Termination payment		–	80,275	–	80,275
Increase/(decrease) in liability for annual leave	*22*	8,635	(5,650)	8,635	(5,650)
Increase in liability for long service leave	*22*	4,102	(9,065)	4,102	(9,065)
Equity-settled transactions	*23*	71,618	64,881	71,618	64,881
		2,471,946	1,777,819	2,471,946	1,777,819

10. FINANCE INCOME AND EXPENSE

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Interest income	45,308	30,263	45,308	30,263
Financial income	45,308	30,263	45,308	30,263
Interest expense	1,767	1,684	1,767	1,479
Net foreign exchange expense	20,373	3,590	–	–
Financial expenses	22,140	5,274	1,767	1,479
Net finance income	23,168	24,989	43,541	28,784

11. INCOME TAX EXPENSE

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Current tax expense				
Current period – R&D tax credit	(402,929)	(347,967)	(402,929)	(347,967)
(Over) provided in prior years	(48,792)	–	(48,792)	–
	(451,721)	(347,967)	(451,721)	(347,967)

Numerical reconciliation between tax expense and pre-tax net profit

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Income tax using the domestic corporation tax rate of 30% (2007: 30%)	(748,150)	(473,619)	(744,801)	(480,793)
Increase in income tax expense due to:				
Non-deductible expenses	4,026	1,910	4,026	1,910
Write-down of related party loan	–	–	2,812	7,262
R&D costs	289,243	249,017	289,243	249,017
Tax losses and movements in deferred taxes not recognised	454,881	222,692	448,720	222,604
Decrease in income tax expense due to:				
R&D tax offset	(402,929)	(347,967)	(402,929)	(347,967)
	(402,929)	(347,967)	(402,929)	(347,967)
(Over) provided in previous years	(48,792)	–	(48,792)	–
Income tax benefit on pre-tax net loss	(451,721)	(347,967)	(451,721)	(347,967)

12. PLANT AND EQUIPMENT

In AUD	Consolidated Kiosks	Consolidated Equipment and fittings	Consolidated Total	Company Kiosks	Company Equipment and fittings	Company Total
Cost						
Balance at 1 July 2006	461,882	144,780	606,662	461,882	144,780	606,662
Acquisitions	–	31,067	31,067	–	31,067	31,067
Disposals	(116,257)	–	(116,257)	(116,257)	–	(116,257)
Balance at 30 June 2007	345,625	175,847	521,472	345,625	175,847	521,472
Balance at 1 July 2007	345,625	175,847	521,472	345,625	175,847	521,472
Acquisitions	47,585	25,602	73,187	47,585	25,602	73,187
Balance at 30 June 2008	393,210	201,449	594,659	393,210	201,449	594,659
Depreciation						
Balance at 1 July 2006	437,002	101,138	538,140	437,002	101,138	538,140
Depreciation charge for the year	15,669	23,817	39,486	15,669	23,817	39,486
Disposals	(113,577)	–	(113,577)	(113,577)	–	(113,577)
Balance at 30 June 2007	339,094	124,955	464,049	339,094	124,955	464,049
Balance at 1 July 2007	339,094	124,955	464,049	339,094	124,955	464,049
Depreciation charge for the year	12,800	20,195	32,995	12,800	20,195	32,995
Balance at 30 June 2008	351,894	145,150	497,044	351,894	145,150	497,044
Carrying amounts						
At 1 July 2006	24,880	43,642	68,522	24,880	43,642	68,522
At 30 June 2007	6,531	50,892	57,423	6,531	50,892	57,423
At 1 July 2007	6,531	50,892	57,423	6,531	50,892	57,423
At 30 June 2008	41,316	56,299	97,615	41,316	56,299	97,615

LEASED OFFICE EQUIPMENT

The Group leases office equipment under a finance lease agreement. At the end of the lease the Group has the option to purchase the equipment at a beneficial price. At 30 June 2008, the net carrying amount of leased equipment was $6,525 (2007: $9,669). The leased equipment secures the lease obligation (see note 21).

13. INTANGIBLE ASSETS

	Consolidated			Company		
In AUD	Software costs	Business management system costs*	Total	Software costs	Business management system costs	Total
Cost						
Balance at 1 July 2006	13,500	46,500	60,000	13,500	46,500	60,000
Acquisitions	–	3,436	3,436	–	3,436	3,436
Balance at 30 June 2007	13,500	49,936	63,436	13,500	49,936	63,436
Balance at 1 July 2007	13,500	49,936	63,436	13,500	49,936	63,436
Acquisitions	–	2,320	2,320	–	2,320	2,320
Balance at 30 June 2008	13,500	52,256	65,756	13,500	52,256	65,756
Amortisation						
Balance at 1 July 2006	5,400	3,100	8,500	5,400	3,100	8,500
Amortisation for the year	5,400	18,668	24,068	5,400	18,668	24,068
Balance at 30 June 2007	10,800	21,768	32,568	10,800	21,768	32,568
Balance at 1 July 2007	10,800	21,768	32,568	10,800	21,768	32,568
Amortisation for the year	2,700	19,029	21,729	2,700	19,029	21,729
Balance at 30 June 2008	13,500	40,797	54,297	13,500	40,797	54,297
Carrying amounts						
At 1 July 2006	8,100	43,400	51,500	8,100	43,400	51,500
At 30 June 2007	2,700	28,168	30,868	2,700	28,168	30,868
At 1 July 2007	2,700	28,168	30,868	2,700	28,168	30,868
At 30 June 2008	–	11,459	11,459	–	11,459	11,459

* Constitute implementation and installation costs.

AMORTISATION

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

14. INVESTMENTS

Investments in controlled entities are recorded net of an impairment write down of $131,613 (2007: $131,613).

15. TAX ASSETS AND LIABILITIES

CURRENT TAX ASSETS AND LIABILITIES

The current tax asset for the Group of $402,928 (2007: $347,967) and for the Company of $402,928 (2007: $347,967) represents the amount of income taxes recoverable in respect to the Company's Research and Development Tax Rebate offset.

UNRECOGNISED DEFERRED TAX ASSETS

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

	Consolidated		Company	
In AUD (net)	2008	2007	2008	2007
Deductible temporary differences	99,284	147,039	99,284	147,039
Tax losses	7,051,385	4,313,965	2,860,716	2,386,117
	7,150,669	4,461,004	2,960,000	2,533,156

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

16. INVENTORIES

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Raw materials and consumables	120,845	99,568	120,845	99,568
Work in progress	4,088	7,777	4,088	7,777
	124,933	107,345	124,933	107,345
Carrying amount of inventories stated at fair value less costs to sell	124,933	107,345	124,933	107,345

In the 2008 financial year raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $145,546 (2007: $185,381). Write-down of inventories to net realisable value amounted to $36,622 (2007: Reversal $84,663). The write-down and reversal are included in cost of sales.

17. TRADE AND OTHER RECEIVABLES

		Consolidated		Company	
In AUD	Note	2008	2007	2008	2007
Current					
Trade receivables		135,991	161,681	135,991	161,681
		135,991	161,681	133,716	161,681
Non-current					
Loans to subsidiaries	*27*	–	–	–	–

Trade and other receivables are recorded net of an impairment provision of $2,978 (2007: $4,662).

Loans to subsidiaries are recorded net of an impairment write down of $5,038,781 (2007:$ 5,029,408). During the year an impairment write down of $9,373 (2007: $24,204) was recorded.

18A. CASH AND CASH EQUIVALENTS

In AUD	Consolidated 2008	Consolidated 2007	Company 2008	Company 2007
Bank balances	67,295	107,688	67,295	107,688
Call deposits	630,143	1,112,343	630,143	1,112,343
Cash and cash equivalents in the statement of cash flows	697,438	1,220,031	697,438	1,220,031

The effective interest rate on call deposits in 2008 was 6.5% percent (2007: 5.6% percent).

18B. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In AUD	Note	Consolidated 2008	Consolidated 2007	Company 2008	Company 2007
Cash flows from operating activities					
Loss for the period		(2,042,111)	(1,230,764)	(2,030,950)	(1,254,675)
Adjustments for:					
Depreciation	*12*	32,995	39,486	32,995	39,486
Amortisation	*13*	21,729	24,068	21,729	24,068
Provision against loans to and investment in subsidiary	*17*	–	–	9,373	24,204
Foreign exchange translation		–	25,540	–	4,483
Net finance income	*10*	(43,541)	(24,989)	(43,541)	(28,784)
Write down in value of plant and equipment		–	535	–	535
Loss on sale of property, plant and equipment	*7*	–	1,547	–	1,547
Equity-settled share-based payment expense	*23*	71,618	64,881	71,618	64,881
Operating loss before changes in Working capital and provisions		(1,959,310)	(1,099,696)	(1,938,776)	(1,124,255)
Change in trade and other receivables		25,690	(60,057)	25,690	(70,120)
Change in other current assets		402	22,640	402	(2,499)
Change in inventories and kiosks		(17,588)	13,479	(17,588)	13,479
Change in tax assets		(54,961)	(116,212)	(54,961)	(116,212)
Change in trade and other payables		(38,878)	18,335	(50,039)	82,682
Change in deferred revenue		(6,290)	(7,017)	(6,290)	17,197
Change in provisions		20,541	(104,316)	20,541	(104,316)
Net cash (used in) operating activities		(2,030,394)	(1,337,701)	(2,021,021)	(1,302,199)

19. 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 2006		14,638,495	90,089	(13,879,970)	848,614
Total recognised income and expense		–	–	(1,230,764)	(1,230,764)
Equity-settled transactions, net of tax	*23*	–	64,881	–	64,881
Shares issued (net of costs)		1,787,157	–	–	1,787,157
Balance at 30 June 2007		16,425,652	154,970	(15,110,734)	1,469,888
Balance at 1 July 2007		16,425,652	154,970	(15,110,734)	1,469,888
Total recognised income and expense		–	–	(2,042,111)	(2,042,111)
Equity-settled transactions, net of tax	*23*	–	71,618	–	71,618
Shares issued (net of costs) (i)		1,542,840	–	–	1,542,840
Balance at 30 June 2008		17,968,492	226,588	(17,152,845)	1,042,235

(i) During the year, 86,205,555 shares were issued to raise $1,558,900 and $16,060 issue costs were incurred.

RECONCILIATION OF MOVEMENT IN CAPITAL AND RESERVES

Company *In AUD*	Note	Share capital	Share options reserve	Accumulated Losses	Total equity
Balance at 1 July 2006		14,638,495	90,089	(13,854,368)	874,216
Total recognised income and expense		–	–	(1,254,675)	(1,254,675)
Equity-settled transactions, net of tax	*23*	–	64,881	–	64,881
Shares issued (net of costs)		1,787,157	–	–	1,787,157
Balance at 30 June 2007		16,425,652	154,970	(15,109,043)	1,471,579
Balance at 1 July 2007		16,425,652	154,970	(15,109,043)	1,471,579
Total recognised income and expense		–	–	(2,030,950)	(2,030,950)
Equity-settled transactions, net of tax	*23*	–	71,618	–	71,618
Shares issued (net of costs) (i)		1,542,840	–	–	1,542,840
Balance at 30 June 2008		17,968,492	226,588	(17,139,993)	1,055,087

(i) During the year, 86,205,555 shares were issued to raise $1,558,900 and $16,060 issue costs were incurred.

SHARE CAPITAL

	The Company Ordinary shares	
	2008 No.	2007 No.
On issue at 1 July	259,206,137	238,744,500
Issued for cash	86,205,555	20,461,637
On issue at 30 June – fully paid	345,411,692	259,206,137

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.

20. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of $2,042,111 (2007: $1,230,764) and a weighted average number of ordinary shares outstanding of 281,784,426 (2007: 242,719,859), calculated as follows:

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

		Consolidated	
	Note	2008	2007
Issued ordinary shares at 1 July	*19*	259,206,137	238,744,500
Effect of share options exercised		547,541	59,178
Effect of shares issued		22,030,748	3,916,181
Weighted average number of ordinary shares at 30 June		281,784,426	242,719,859

Options to acquire ordinary shares granted by the Company and not exercised at the reporting date are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. At year end, none of the options on issue were considered to be dilutive. The options have not been included in the determination of basic earnings per share. Refer to note 23 for details of the options issued.

21. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's and the Group's interest-bearing loans and borrowings. For more information about the Company's and the Group's exposure to interest rate risk see note 25.

	Consolidated		The Company	
In AUD	2008	2007	2008	2007
Current liabilities				
Finance lease liabilities	3,452	3,073	3,452	3,073
Non-current liabilities				
Finance lease liabilities	4,222	7,674	4,222	7,674

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	Company and Consolidated					
In AUD	Future Minimum lease payments 2008	Interest 2008	Principal* 2008	Future Minimum lease payments 2007	Interest 2007	Principal* 2007
Less than one year	4,169	717	3,452	4,169	1,096	3,073
Between one and five years	4,516	294	4,222	8,685	1,011	7,674
	8,685	1,011	7,674	12,854	2,107	10,747

* Principal represents the present value of minimum lease payments.

The consolidated entity leases office equipment under a finance lease expiring in 3 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

CURRENT

	Consolidated		The Company	
In AUD	2008	2007	2008	2007
Liability for annual leave	95,123	86,488	95,123	86,488
Employees Superannuation	34,813	27,009	34,813	27,009
	129,936	113,497	129,936	113,497
NON CURRENT				
Liability for long-service leave	20,331	16,229	20,331	16,229
Total employee benefits	150,267	129,726	150,267	129,726

(a) Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as an expense was $95,843 for the financial year ended 30 June 2008 (2007: $85,985).

23. SHARE BASED PAYMENTS

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

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

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

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

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

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 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	5,050,000	Fully vested from the date of grant	5 years
Option grant to employees at 30 April 2007	2,000,000	Fully vested from the date of grant	4 years
Option grant to director at 5 December 2007	1,000,000	Fully vested from the date of grant	3 years
Total share options	18,050,000		

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

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at the beginning of the period	0.04	17,650,000	0.05	19,315,000
Forfeited during the period	–	–	0.13	(3,965,000)
Exercised during the period	0.03	(600,000)	0.03	(200,000)
Granted during the period	0.12	1,000,000	0.10	2,500,000
Outstanding at the end of the period		18,050,000		17,650,000
Exercisable at the end of the period	0.04	18,050,000	0.04	17,650,000

The options outstanding at 30 June 2008 have an exercise price in the range of $0.03 to $0.12 and a weighted average contractual life of 3 years.

During the financial year, 600,000 share options were exercised (2007: 200,000).

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 binomial model. The contractual life of the option is used as an input into this formula.

Fair value of share options and assumptions

In AUD	Key mgmt personnel 2008	Key mgmt personnel 2007	Senior employees 2008	Senior employees 2007
Fair value at grant date	71,618	–	–	64,881
Share price	0.12	–	–	0.07
Exercise price	0.12	–	–	0.03
Expected volatility (expressed as weighted average volatility used in the Binomial formula)	90.36%	–	–	60%
Option life (expressed as weighted average life used in the Binomial formula)	3 years	–	–	3.6 years
Expected dividends	–	–	–	–
Risk-free interest rate (based on national government bonds)	5.84%	–	–	5.82%

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.

23. SHARE BASED PAYMENTS (continued)

EMPLOYEE EXPENSES

		Consolidated		Company	
In AUD	Note	2008	2007	2008	2007
Share options granted in 2008 – equity settled	*9*	71,618	–	71,618	–
Share options granted in 2007 – equity settled	*9*	–	64,881	–	64,881
Total expense recognised as employee costs		71,618	64,881	71,618	64,881

24. TRADE AND OTHER PAYABLES

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Payables and accrued expenses	235,720	274,598	222,868	272,907

25. FINANCIAL INSTRUMENTS

CREDIT RISK

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

		Carrying amount	
In AUD	Note	2008	2007
Trade and other receivables	*17*	135,991	161,681
Cash and cash equivalents	*18*	697,438	1,220,031
		833,429	1,381,712

The Company's and Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
In AUD	2008	2007
Australia	135,991	161,681
UK	–	–
	135,991	161,681

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

	Carrying amount	
In AUD	2008	2007
Corporate customers	25,616	26,783
Retail customers	110,375	134,898
	135,991	161,681

The Company's and Group's most significant customer, an Australian bank, accounts for $23,188 of the trade receivables carrying amount at 30 June 2008 (2007: $15,725).

IMPAIRMENT LOSSES

The aging of the Group's and Company's trade receivables at the reporting date were:

In AUD	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	27,390	–	43,307	–
Past due 0-30 days	19,621	–	60,557	–
Past due 31-90 days	88,980	2,978	57,817	4,662
	135,991	2,978	161,681	4,662

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

In thousands of AUD	2008	2007
Balance at 1 July	4,662	2,816
Impairment loss recognised	(1,684)	1,846
Balance at 30 June	2,978	4,662

Based on the Company's and Group's past customer default experience, the provision for impairment at year-end is considered to be sufficient. The Group and Company did not negotiate any new terms with its customers during or since the financial year to the date of this report.

The Company's and Group's cash bank account amounts were primarily held with Australian financial institutions which are considered to hold appropriate credit rating.

LIQUIDITY RISK

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

Consolidated
30 June 2008

In AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	235,720	(235,720)	(235,720)	–	–
Finance lease liabilities	7,674	(8,685)	(2,084)	(2,084)	(4,517)
	243,394	(244,405)	(237,804)	(2,084)	(4,517)

Consolidated
30 June 2007

In AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5years
Trade and other payables	274,598	(274,598)	(274,598)	–	–	–
Finance lease liabilities	10,747	(12,853)	(2,084)	(2,084)	(4,168)	(4,517)
`	285,345	(287,451)	(276,682)	(2,084)	(4,168)	(4,517)

25. FINANCIAL INSTRUMENTS (continued)

Company
30 June 2008

In AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	222,868	(222,868)	(222,868)	–	–
Finance lease liabilities	7,674	(8,685)	(2,084)	(2,084)	(4,517)
	230,542	(231,553)	(224,952)	(2,084)	(4,517)

Company
30 June 2007

In AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5years
Trade and other payables	272,907	(272,907)	(272,907)	–	–	–
Finance lease liabilities	10,747	(12,853)	(2,084)	(2,084)	(4,168)	(4,517)
	283,654	(285,760)	(274,991)	(2,084)	(4,168)	(4,517)

CURRENCY RISK

The Company's exposure to foreign currency risk is immaterial for disclosure purposes. At year-end, the Company had no financial assets or liabilities denominated in currencies other than its functional currency, the Australian dollar (AUD). Therefore the Company is not exposed to currency risk at year-end. The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	30 June 2008		30 June 2007	
	AUD	GBP	AUD	GBP
Trade and other payables	**12,852**	**6,206**	1,691	716
Gross balance sheet exposure	**12,852**	**6,206**	1,691	716

The following significant exchange rates applied during the year:

	2008		2007	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
AUD/GBP	0.4478	0.4829	0.4066	0.4236

SENSITIVITY ANALYSIS

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

AUD	Consolidated Loss	Company Loss
30 June 2008		
GBP	57,819	–
30 June 2007		
GBP	20,521	–

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

INTEREST RATE RISK

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

AUD	Consolidated Carrying amount 2008	Consolidated Carrying amount 2007	Company Carrying amount 2008	Company Carrying amount 2007
Fixed rate instruments				
Financial liabilities – finance lease	7,674	10,747	7,674	10,747
Variable rate instruments				
Financial assets	697,438	1,220,031	697,438	1,220,031

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INVESTMENTS

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

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

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

Consolidated *AUD*	Profit or loss 100bp increase	Profit or loss 100bp decrease
30 June 2008		
Variable rate instruments	6,974	(6,974)
30 June 2007		
Variable rate instruments	12,200	(12,200)

FAIR VALUES

Fair values versus carrying amounts

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

Consolidated *AUD*	30 June 2008 Carrying amount	30 June 2008 Fair value	30 June 2007 Carrying amount	30 June 2007 Fair value
Cash and cash equivalents	697,438	697,438	1,220,031	1,220,031
Receivables	135,991	135,991	161,681	161,681
Other current assets	51,135	51,135	51,537	51,537
Trade and other payables	(235,720)	(235,720)	(274,598)	(274,598)
Finance lease liabilities	(7,674)	(7,674)	(10,747)	(10,747)
	641,170	641,170	1,147,904	1,147,904

25. FINANCIAL INSTRUMENTS (continued)

Company	30 June 2008		30 June 2007	
In thousands of AUD	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	697,438	697,438	1,220,031	1,220,031
Receivables	135,991	135,991	161,681	161,681
Other current assets	51,135	51,135	51,537	51,537
Trade and other payables	(222,868)	(222,868)	(272,907)	(272,907)
Finance lease liabilities	(7,674)	(7,674)	(10,747)	(10,747)
	654,022	654,022	1,149,595	1,149,595

The basis for determining fair values is disclosed in note 4.

26. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Less than one year	57,602	82,691	57,602	82,691
Between one and five years	–	57,602	–	57,602
	57,602	140,293	57,602	140,293

The Group leases a warehouse and factory facility under an operating lease. The lease runs 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. The lease does not include contingent rentals.

During the financial year ended 30 June 2008, $136,495 was recognised as an expense in the income statement in respect of operating leases (2007: $164,265). $12,000 was recognised as income in the income statement in respect of subleases (2007: $35,356).

27. RELATED PARTIES

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

Non-executive directors

Peter L Gunzburg (Chairperson)
Peter Abery – Appointed 8 May 2007
Craig Ferrier

Executive directors

Campbell Smith (Managing Director)
Robert McBrier (Technical Director) – Resigned 10 April 2007

Executives

Stewart Snell (Chief Operating Officer)
Peter Barrow (Project Manager)
Bryan Paul (Sales and Network Operations Manager)
Ohimai Mukanda (Financial Controller) – Appointed 25 October 2007
Jackob Tsaban (Financial Controller) – Appointed 13 July 2007

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Short-term employee benefits	935,646	725,646	935,646	725,646
Share-based payments	71,618	–	71,618	–
Post-employment benefits	29,748	23,194	29,748	23,194
Termination benefits	–	80,275	–	80,275
	1,037,012	829,115	1,037,012	829,115

Apart from the details disclosed in this note, note 29 Subsequent events and the remuneration report, no director has entered into a material contract with the Company or the Group since the end of the financial year and there were no material contracts involving directors' interests existing at year-end.

OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

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

	Consolidated		Company	
In AUD	2008	2007	2008	2007
Liabilities arising from the above transactions				
Current payables				
Trade creditors	18,000	15,000	18,000	15,000

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 2007	Granted as compensation	Exercised	Other changes*	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors							
Peter L Gunzburg	1,000,000	–	–	–	1,000,000	–	1,000,000
Peter Abery	–	1,000,000	–	–	1,000,000	–	1,000,000
Craig Ferrier	1,000,000	–	–	–	1,000,000	–	1,000,000
Campbell Smith	5,000,000	–	–	–	5,000,000	–	5,000,000
Executives							
Bryan Paul	2,000,000	–	–	–	2,000,000	–	2,000,000

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

27. RELATED PARTIES (continued)

OPTIONS OVER EQUITY INSTRUMENTS (continued)

	Held at 1 July 2006	Granted as compensation	Exercised	Other changes*	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
Peter L Gunzburg	1,000,000	–	–	–	1,000,000	–	1,000,000
Peter Abery[1]	–	–	–	–	–	–	–
Craig Ferrier	1,000,000	–	–	–	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)	–	–	–
Executives							
Bryan Paul	2,000,000	–	–	–	2,000,000	–	2,000,000

* Other changes represent options that expired or were forfeited during the year, or were held at the time the director's employment ceased.

1. During 2007 the Board approved the issue of 1,000,000 options to Mr. Peter Abery, with granting subject to shareholder approval which was obtained at the 2007 Annual General Meeting.

All options held by key management personnel are vested and exercisable at 30 June 2008 and 2007.

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 2007	Purchases	Received on exercise of options	Other changes	Held at 30 June 2008
Directors					
Peter L Gunzburg	24,220,849	11,111,111	–	–	35,331,960
Campbell Smith	11,564,131	–	–	–	11,564,131
Craig Ferrier	–	–	–	–	–
Peter Abery	–	–	–	–	–
Executives					
Bryan Paul	1,115,556	–	–	–	1,115,556
Peter Barrow	355,555	144,445	–	–	500,000
	37,256,091	11,255,556	–	–	48,511,647

	Held at 1 July 2006	Purchases	Received on exercise of options	Other changes	Held at 30 June 2007
Directors					
Peter L Gunzburg	22,925,334	1,295,515	–	–	24,220,849
Campbell Smith	11,564,131		–	–	11,564,131
Craig Ferrier	–	–	–	–	–
Peter Abery[1]	–	–	–	–	–
Robert McBrier[2]	9,691,317	–	–	(9,691,317)	–
Executives					
Bryan Paul	1,115,556	–	–	–	1,115,556
Peter Barrow	355,555	–	–	–	355,555
	45,651,893	1,295,515	–	(9,691,317)	37,256,091

[1] Appointed 8 May 2007.
[2] Resigned 10 April 2007, accordingly no holding disclosed as at 30 June 2007.

No shares were granted to key management personnel during the reporting period as compensation in 2008 or 2007.

NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries for capital purchases. The intercompany capital loan is interest free and repayable on demand. At 30 June 2008 the amount owed by its subsidiary (pieNETWORKS plc) was $3,445,410 (2007: $3,445,410). A provision for impairment of $3,445,410 (2007: $3,445,410) has been recognised. The loan will not be called within 12 months of the reporting date.

The operating loan made by the Company to its subsidiary (pieNETWORKS plc) is interest free and due on demand. At 30 June 2008, the amount owed to the Company was $1,593,371 (2007: $1,583,998). A provision for impairments of $1,593,371 (2007: $1,583,998) has been recognised giving rise to an impairment loss of $9,373 (2007: $24,204). The loan will not be called within 12 months of the reporting date.

28. GROUP ENTITIES

		2008	2007
Parent entity			
pieNETWORKS Limited	Australia		
Subsidiaries			
pieNETWORKS Plc	United Kingdom	100%	100%

In the financial statements of the Company, investments in subsidiaries are measured at cost less impairment losses. Refer to note 14. The Company has no investments in associates or jointly controlled entities.

29. SUBSEQUENT EVENTS

Subsequent to 30 June 2008, with the exception of that listed below, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years:

- The Company entered into a short term loan agreement at arms length with its largest shareholder and Chairman, Mr Peter Gunzburg. The loan facility amounting to $400,000 bearing interest at 10% p.a. has been made available for working capital purposes, and is to be repaid from the proceeds of a capital raising or at the termination date 31 March 2009, whichever is earlier.
- The Company has engaged an international investment bank to assist with a proposed capital raising and funding for the Company's Webphone Business Plan and short to medium term permanent working capital requirements.
- Subsequent to year-end the Company has entered into a Webphone Cooperation Agreement with BBG Global AG. The agreement sets out the terms by which the Company and BBG Global will market the BBG Global telecommunication services and the Company's Webphones at certain locations internationally (other than within Australia).
- The Company entered into a Manufacturing Service Agreement with Startronics Pty Ltd to manufacture the Company's second generation Webphone.
- The Company will begin the deployment of its Webphone network in New Zealand after signing a Heads of Agreement with iStation Limited.

30. AUDITORS' REMUNERATION

	Consolidated		Company	
In AUD	**2008**	**2007**	**2008**	**2007**
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	68,078	84,330	68,078	84,330
Overseas KPMG Firms:				
Audit and review of financial reports	–	6,139	–	–
	68,078	90,469	68,078	84,330
Other services				
Auditors of the Company				
KPMG Australia				
Taxation services	25,370	3,300	25,370	3,300
Overseas KPMG Firms:				
Registered office services	–	737	–	–
	93,448	94,506	93,448	87,630

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 the Remuneration Report in the Directors' report, set out on pages 4 to 18, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);

(c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures,* the Corporations Act 2001 and the Corporations Regulations 2001*;* and

(d) for the reasons set out in note 2(b), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 2008 required by Section 295A of the Corporations Act 2001.

Dated at Perth on this 30th day of September 2008.

Signed in accordance with a resolution of the directors:

Peter L Gunzburg

Director

KPMG

Independent auditor's report to the members of pieNETWORKS Limited

Report on the financial report

We have audited the accompanying financial report of pieNETWORKS Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

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

   (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

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 2(b), there is significant uncertainty as to whether the Company and the Group will be able to continue as a going concern and therefore whether they 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.

Report on the remuneration report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of pieNETWORKS Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

M Beevers
Partner

Perth
30 September 2008

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 2008 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

M Beevers
Partner

Perth
30 September 2008

as at 30 September 2008

DISTRIBUTION SCHEDULE AND NUMBER OF HOLDERS OF EQUITY SECURITIES

	Listed Shares	
Range	Number of Holders	Securities Held
1 – 1,000	82	7,219
1,001 – 5,000	135	498,446
5,001 – 10,000	206	1,759,250
10,001 – 100,000	650	30,000,281
100,001 and over	391	313,146,496
	1,464	345,411,692

There are 724 shareholders holding unmarketable parcels at 30 September 2008 representing 8,366,290 fully paid ordinary shares.

20 LARGEST HOLDERS OF QUOTED EQUITY SECURITIES AS AT 30 SEPTEMBER 2008

Rank and Name		No. Shares Held	% Capital
1	MR PETER LYNTON GUNZBURG	23,434,184	6.78
2	GOCOM PTY LTD	11,454,131	3.32
3	TROVEX PTY LTD	11,111,111	3.22
4	GIVERNY HOLDINGS PTY LTD	9,631,802	2.79
5	MR ROBERT JOHN MCBRIER	9,491,297	2.75
6	NEFCO NOMINEES PTY LTD	9,310,000	2.70
7	RIVISTA PTY LTD	6,000,000	1.74
8	WESTBLOCK SERVICES PTY LTD	5,920,000	1.71
9	ATAMO PTY LTD	5,555,555	1.61
10	ENERVIEW PTY LTD	5,555,555	1.61
11	TOPSFIELD PTY LTD	5,391,450	1.56
12	SOLERO NOMINEES PTY LTD	5,325,000	1.54
13	AVANTEOS INVESTMENTS LIMITED No1 ACCT	5,000,000	1.45
14	MOUTIER PTY LTD	4,944,443	1.43
15	BOUDGARD NOMINEES PTY LTD	4,853,000	1.40
16	IAN SANDOVER & ASSOCIATES PTY LTD	4,800,000	1.39
17	KITSON PTY LTD	4,200,000	1.22
18	BOND STREET CUSTODIANS LIMITED	3,800,000	1.10
19	AVANTEOS INVESTMENTS LTD FSP IDPS AACT	3,313,895	0.96
20	SANDRA GILLIAN JONES	3,303,406	0.96
		142,394,829	**41.24**

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, 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*	42,567,517	12.32

*Includes up to 7,666,667 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 30 SEPTEMBER 2008

Unquoted Securities	Number on issue	Exercise Price	Expiry Date
Director Options	10,000,000	$0.03	28 April 2010
	1,000,000	$0.12	5 December 2007
pie Incentive Plan Options	5,050,000	$0.03	23 November 2010
	2,000,000	$0.12	23 November 2010

NAMES OF PERSONS HOLDING MORE THAN 20% OF A GIVEN CLASS OF UNQUOTED SECURITIES (OTHER THAN EMPLOYEE OPTIONS) AS AT 30 SEPTEMBER 2008

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

RESTRICTED SECURITIES AS AT 30 SEPTEMBER 2008

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 in operation by pieNETWORKS Limited.

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www.**pienetworks**.com

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