pieNETWORKS Limited ABN 27 078 661 444

Public Internet Enabling Annual Report 2001

CORPORATE DIRECTORY

DIRECTORS

David Price (Chairman)

Campbell Smith (Managing Director)

Robert McBrier

Diane Sias

Ralph Ward-Ambler

SECRETARY

Craig Ferrier

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ASX Code:	PIE

pie networks

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pieNETWORKS LIMITED

CHAIRMAN'S LETTER

Dear Shareholder

The 2001 financial year has seen both new product development and geographic expansion for pieNETWORKS Limited. This has increased and diversified the Company's revenue base as well as presented a number of opportunities and challenges. A major avenue of revenue growth has been identified in a new product line; the development and deployment of individually branded, internet kiosks that are free to use for the consumer. These kiosks are often specific to the web sites of the businesses providing them. We have achieved both outright sales of these units and long term rental contracts with organisations such as BankWest.

Large sales create the potential for after sales revenues. For example, following the sale of 130 units to the Victorian Health Department in the 2000 financial year, fees for management and support of this network have been derived throughout the current financial year. I am pleased to report that the Victorian government recently extended this contract for a further twelve months with an option for a further twelve months thereafter.

These new products allow for better prediction of revenues and appropriately matched expenditure management. pie continues to derive a major revenue contribution from the pay per use pieLINK public access internet kiosks, however this revenue line as a percentage (of total revenue) is decreasing.

Start up of our UK operation occurred during the year. While the set up costs have been high a number of partnerships have been established and future opportunities identified. pie's UK strategy is to establish our presence and maximise revenue potential in the most cost effective manner possible.

As a small, rapidly growing company, directors believe the wisest course for the immediate future is to capitalise on the strong base that has been built and secure a position that will allow an aggressive approach to the markets pie serves as certainty and confidence returns following the events of early September.

This can best be achieved by securing the Company's cash flow position. A business plan is being put in place that will allow the Company to provide excellent service to its growing client base and operate at cash breakeven or better.

Whilst this may defer pursuing some of the more attractive but costly growth areas in the short term, it will ensure that there are resources available when the timing is again appropriate.

On behalf of the Board of Directors I should like to extend our thanks to all our hard working and dedicated employees for their tireless energy, ongoing commitment and support. Directors believe the year ahead will be challenging but, given the solid base your Company has established, one that provides opportunity.

Yours faithfully

David Price

CHAIRMAN

Overview

During the past year pieNETWORKS has diversified its offerings from coin operated internet kiosks placed in public locations to a manager of information kiosks and kiosk networks, distributing online content to a targeted audience. Uptake of the "free to consumer" internet device has been experienced in the government, banking and retail sectors.

The 2001 financial year has been one of revenue growth and diversification. In June 2001 the Company was named the fastest growing Western Australian (12th fastest Australian) technology business by the Deloitte Fast 50, an index ranking companies based on their revenue growth over a three year period. This growth is extremely pleasing considering it has been achieved in a market for IT goods and services that has contracted sharply over the last 12 months. The Company now manages over 650 internet kiosks in Australia and the UK.

Review of Operations

Group total revenue for the financial year of $2.4m represented an increase of 81.6%, up from $1.3m in the prior financial year. During the year the Company has invested heavily in starting up UK operations. The Company also invested in developing a broad range of kiosks and continuous update of the underlying technology that allows them to operate. In addition, the un-amortised balance of research and development was written off and research and development expenditure incurred during the year has been expensed. These factors, when combined, result in operating earnings before interest, tax, depreciation and amortisation ("EBITDA") for the current period of a loss of $5.3m compared with a loss of $1.0m in the prior period.

Australian Operations

For the current financial year total revenue in the Australian business unit increased 77.3% to $2.3m compared with $1.3m in the prior period. Sales of internet kiosks and associated management contracts accounted for 42% of revenue or $1.0m with coin revenue accounting for 38% or $0.9m. Advertising, licensing, interest and other revenue accounted for the balance.

EBITDA in the Australian business unit for the current financial year was a loss of $2.9m. Included within this figure is the Company's write off of the un-amortised balance of research and development and the expensing of research and development expenditure incurred during the year together totalling $1.5m. Excluding the effect of research and development, EBITDA for the Australian business unit was a loss of $1.4m in the current period compared with a loss of $0.8m in the prior period.

During the year the Company was awarded the contract from the WA Department of Commerce and Trade to install 100 internet kiosks over a three year period. Installation of these kiosks began in June 2001 and revenue from this contract is expected to increase during the 2002 financial year.

The Company installed and operated 130 internet Public Access Terminals, or "PATs", for the Victorian Department of Human Services ("DHS") during the year. The units are free for the public to access and provide dedicated access to the DHS's Better Health Channel web-site (www.betterhealthchannel.com.au). Since installation, hits on the Better Health Channel web site have increased tremendously and there have been up to 5,000 users accessing the network every week. The Company derived significant revenues from this contract during the financial year and in August 2001 the DHS extended the management contract for twelve months with an option to extend for a further twelve months.

Following the Company's capital raising and listing on the Australian Stock Exchange in April 2000, the Company committed significant resources to establishing and operating offices in Melbourne, Sydney and Brisbane as well as increasing the strength of the Perth R&D team. Operating expenses (including current year R&D expenditure) in the Australian business unit for the current financial year increased 88% to $3.4m from $1.8m in the prior period.

As at 30 June 2001 the Company had a cash balance of $2.2m. Notwithstanding the operating loss incurred during the financial year, the Directors are firmly focused on developing a solid future for the Company. A number of positive factors support the Company going forward with confidence. They include:

i) during August the Company completed a share placement, raising $0.94m after costs;

ii) during the 30 June 2001 financial year the Company incurred substantial but non recurring UK set up costs;

iii) the Company has secured a major government contract from the WA Department of Commerce & Trade to install 100 kiosks over a three year period; and

iv) in August the Company extended its contract to supply technology and manage 130 kiosks for the Victorian Department of Human Services for twelve months and with an option to extend for a further twelve months from 1 September 2002;

In August 2001 the Company secured a contract with BankWest to install and manage a network of internet terminals (kiosks and variations thereof) for a minimum twelve month term. There are currently 30 units installed in BankWest branches. The terminals enable BankWest's customers to become familiar with online banking and the internet in general.

United Kingdom Operations

The UK business unit, which was in the start-up phase of the business cycle during the 00/01 financial year, recorded total revenue of $0.1m. EBITDA in the UK business unit for the current financial year was a loss of $2.4m (GBP 0.9m) compared with a loss of $0.2m in the prior period. The UK market is regarded as being well suited to pieNETWORKS' business model due to its large population, high population density and lower relative operating costs compared with Australia.

The UK business has now reached the stage where an awareness and demand for pieNETWORKS' products and services is evident. This was reflected with the deployment of 16 pieLINK kiosks at the recent Wimbledon Tennis Championships. A number of early stage sales and advertising contracts have been secured which are currently producing small revenue streams. However due to the higher than expected investment required to start up the UK operation we have restructured the UK business unit and slowed the marketing and development activities to minimise negative cash flow. We have committed to a short term goal of attaining operating break even in the UK operation.

MANAGING DIRECTOR'S REPORT

Product Development

The Company has made a number of exciting design enhancements that are providing a tangible competitive advantage in the market. During the financial year the Generation Four internet kiosk was developed. This unit type was placed at the 2001 Wimbledon Tennis Championships and utilised in the BankWest contract.

Development of the Linux based operating system and management information system ("MIS") has continued during the year. The web based MIS is used to monitor and record activity on internet kiosks where ever they are installed in the world. The monitoring system is used by our 7 day by 24 hour Customer Service Centre to ensure maximum availability of service, further enhancing our software's market leading reliability. The recording functions enable the measurement of all activity on each kiosk. Activity such as websites visited, time of visit, duration of visit and time of the day visited provide valuable information for our customers to knowledgeably manage their kiosk networks.

The Year Ahead

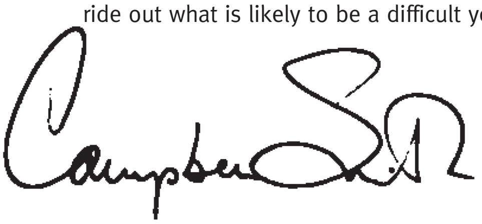
The achievements of the last year have provided a platform which puts the company in a position of strength and able to make choices. Sales have grown strongly, margins are satisfactory and the number of "blue chip" users of pie products and services continues to grow.

However events of recent weeks have indicated there is a greater level of uncertainty in many areas of business than has existed for many years.

As a small and rapidly growing company, pie's greatest challenge is to balance that growth within existing human and financial resources. Our strategy for the immediate future is to capitalize on the strong base that has been built and secure a position that will allow an aggressive approach to the markets that pie serves as certainty and confidence returns.

A business plan is being put in place that will allow the company to provide excellent service to its growing client base and operate at cash breakeven or better within existing cash reserves. Whilst this may defer pursuing some of the more attractive but costly growth areas in the short term, it will ensure that there are resources available when the timing is again appropriate.

I would like to close by thanking our professional, hardworking and loyal team. They have dedicated themselves to developing our business during a year of deteriorating economic conditions. They have built a business which with appropriate expense control and continued revenue growth I believe is positioned to ride out what is likely to be a difficult year ahead and prosper when business and consumer confidence returns.



Campbell Smith
Managing Director

DIRECTORS' REPORT

The directors present their report together with the financial report of pieNETWORKS Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entity, for the year ended 30 June 2001 and the auditors' report thereon.

Directors

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

Name	Age	Experience and special responsibilities
David Price Chairman	55	Co-founder and 50% owner of All Seasons Hotels and Resorts. Chairman of BigRedSky and consultant to several companies in asset management, business development and strategic roles. Appointed 30 July 1999.
Diane Sias Non-Executive Director	43	Consults in Europe and North America for McKinsey and Company. Past Chairman of the Australian Sports Drug Agency and BPAY Pty Ltd. Chairman of Audit Committee. Appointed 5 November 1999.
Campbell Smith Managing Director	36	Over ten years experience in finance and sales and marketing. Co-founder and first Managing Director of the Company. Appointed 23 May 1997.
Robert McBrier Technical Director	46	Wide ranging experience providing information technology solutions in Australia and overseas. Co-founder and first Technical Director of the Company. Appointed 23 May 1997.
Ralph Ward-Ambler AM	67	Currently the Chairman of AMRAD Corporation Limited and a board member of the National Gallery of Victoria Foundation. Previous Chairmanships include the State Bank of Victoria, the Australian Nuclear Science and Technology Organisation and the Management and Investment Companies Licensing Board. Other former appointments include Managing Director of McPherson's Limited, Executive Director of Caterpillar Australia Limited and Director of the National Mutual Life Association. Appointed 24 November 2000.

Directors' Meetings

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

	Meetings of the Board of Directors		Meetings of the Audit and Compliance Committee	
	A	B	A	B
David Price	12	12	-	-
Diane Sias	11	12	5	5
Campbell Smith	12	12	-	-
Robert McBrier	12	12	1	1
Ralph Ward-Ambler (1)	5	6	-	-

A – number of meetings attended

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

(1) – Appointed a director on 24 November 2000

Principal activities

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

REVIEW AND RESULTS OF OPERATIONS

Financial

The operating loss after income tax for the year ended 30 June 2001 was $ 5,573,093 (2000: $1,095,540).

Operational

During the year the consolidated entity continued development of its public access internet kiosk business in Australia and the UK. Commercialisation of the 4th generation cabinet design and significant development of the management information systems occurred during the year culminating with the deployment of 16 units at the 2001 Wimbledon Tennis Championships. At 30 June 2001 the consolidated entity had over 650 sold and sited kiosks.

Dividends

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

State of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year other than as reported elsewhere.

Events subsequent to balance date

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

- Since the end of the financial year the Company has issued 12,500,000 ordinary fully paid shares pursuant to a placement raising $941,451 net of costs.

Likely Developments

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

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

Environmental Regulation

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

Directors and Senior Executives' Emoluments

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

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow). Options are also issued under the various option incentive plans. The ability to exercise the options is conditional on the Company achieving certain performance hurdles.

Directors and Senior Executives' Emoluments (continued)

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

	Base emolument $	Super contributions $	Non-cash benefits(A) $	Options issued(B) $	Total $
Director					
David Price	48,000	3,840	2,352	-	54,192
Diane Sias	27,500	-	2,352	-	29,852
Campbell Smith	175,000	-	2,352	-	177,352
Robert McBrier	150,000	-	2,352	-	152,352
Ralph Ward-Ambler	16,041	1,283	2,352	-	19,676
Officers					
Neil MacLachlan	60,944	-	2,352	-	63,296
Marc Montandon	51,057	4,084	2,352	2,653	60,146

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

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

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

During or since the end of the financial year, the Company granted options over unissued ordinary shares to the following directors and the two most highly remunerated officers of the Company as part of their remuneration:

Officers

Marc Montandon 150,000

1999/2000 Option Plan Options – exercisable 33% on or before 7 April 2001, 33% on or before 7 April 2002 and 34% on or before 7 April 2003 at $0.20 each. All options were granted during the financial year. No options have been granted since the end of the financial year.

Options granted over unissued shares:

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

Option Plan	Exercise Price	Number of shares
Founder Options (1)	see below	4,500,000
Mezzanine Options (2)	$0.50	6,250,565
1999/2000 Option Plan Options (3)	$0.20	1,000,000
pie Option Plan Options (4)	$0.30	2,080,000

(1) Founder Options:
33% exercisable on or before 7 April 2002 at $0.20 each;
33% exercisable on or before 7 April 2003 at $0.25 each;
34% exercisable on or before 7 April 2004 at $0.30 each.

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

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

(4) pie Option Plan Options are exercisable at any time after the second anniversary of listing on ASX and expire on 25 February 2005.

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

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

Directors' interests

The relevant interest of each director in the share capital of the companies within the consolidated entity and any other related body corporates, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary Shares	Options over Ordinary Shares
David Price	2,435,000	963,750
Diane Sias	860,000	450,000
Campbell Smith	10,354,131	2,024,367
Robert McBrier	10,191,317	1,883,662
Ralph Ward-Ambler	500,000	-

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify the following current directors of the Company, Mr David Price, Mr Campbell Smith, Mr Robert McBrier, Ms Diane Sias and Mr Ralph Ward-Ambler 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 lack of good faith. This agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of the conduct involving 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 insurance premiums of $16,465 in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including officers of the Company and directors, officers and secretaries of its controlled entity. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of all directors, and officers.

Dated at Perth this 31st day of August, 2001.

Signed in accordance with a resolution of the directors.

David Price

David Price

Chairman

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

	Note	Consolidated		Parent Entity	
		2001	2000	2001	2000
		$	$	$	$
Revenue from sale of goods	2	355,363	743,501	400,704	735,121
Revenue from rendering of services	2	1,655,720	403,132	1,587,876	403,132
Other revenues from ordinary activities	2	341,576	149,323	340,096	149,323
Total Revenue	2	2,352,659	1,295,956	2,328,676	1,287,576
Cost of goods sold		185,107	544,179	167,838	544,179
Service revenue expenses		1,632,510	393,446	1,473,587	393,446
Sales & marketing expenses		1,012,866	268,757	381,294	268,758
Administration & corporate expenses		3,120,179	866,953	1,775,727	865,952
Research & development		1,482,117	76,956	1,482,117	76,956
Foreign Exchange Translation		107,167	-	-	-
Other expenses from ordinary activities		385,806	241,205	2,597,410	241,206
Loss from ordinary activities before related income tax expense	3	(5,573,093)	(1,095,540)	(5,549,297)	(1,102,921)
Income tax (expense)/benefit relating to ordinary activities	5	-	-	-	-
Net loss		(5,573,093)	(1,095,540)	(5,549,297)	(1,102,921)
Basic loss per share (cents)	6	5.79	2.07		
Diluted loss per share (cents)	6	5.08	1.92		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 15 to 37.

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2001

	Note	Consolidated		Parent Entity	
		2001	2000	2001	2000
		$	$	$	$
Current Assets					
Cash assets	7	2,247,167	8,248,801	2,135,771	8,205,417
Receivables	8	414,486	388,118	355,726	381,118
Inventories	9	183,760	-	54,658	-
Other	10	46,509	9,239	13,312	9,238
Total Current Assets		2,891,922	8,646,158	2,559,467	8,595,773
Non-Current Assets					
Receivables	8	-	-	729,681	109,042
Other financial assets	11	-	-	10,000	10,000
Property, plant and equipment	12	1,981,189	1,080,990	1,324,654	1,004,990
Intangible assets	13	-	47,161	-	47,161
Other	14	-	598,902	-	598,902
Total Non-Current Assets		1,981,189	1,727,053	2,064,335	1,770,095
Total Assets		**4,873,111**	**10,373,211**	**4,623,802**	**10,365,868**
Current Liabilities					
Payables	15	777,212	743,788	511,450	743,788
Provisions	17	68,409	28,840	68,409	28,840
Total Current Liabilities		845,621	772,628	579,859	772,628
Total Liabilities		**845,621**	**772,628**	**579,859**	**772,628**
Net Assets		**4,027,490**	**9,600,583**	**4,043,943**	**9,593,240**
Equity					
Contributed equity	18	11,128,633	11,128,633	11,128,633	11,128,633
Accumulated Losses	19	(7,101,143)	(1,528,050)	(7,084,690)	(1,535,393)
Total Equity		**4,027,490**	**9,600,583**	**4,043,943**	**9,593,240**

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 6 to 34.

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2001

	Note	Consolidated		Parent Entity	
		2001	2000	2001	2000
		$	$	$	$
Cash flows from operating activities					
Cash receipts in the course of operations		2,077,179	729,317	2,058,179	727,936
Cash payments in the course of operations		(6,689,954)	(1,660,254)	(4,431,877)	(1,402,387)
Interest received		297,369	149,323	295,889	149,323
Net cash used in operating activities	28(ii)	(4,315,406)	(781,614)	(2,077,809)	(525,128)
Cash flows from investing activities					
Payments for property, plant and equipment		(1,579,061)	(833,130)	(962,374)	(776,768)
Payments for brand development and trademarks		-	(62,897)	-	(62,897)
Payments for research and development		-	(657,961)	-	(657,961)
Investment in subsidiary		-	-	-	(132,000)
Net cash used in investing activities		(1,579,061)	(1,553,988)	(962,374)	(1,629,626)
Cash flows from financing activities					
Proceeds from share issues		-	11,397,225	-	11,397,225
Payments for equity raising costs		-	(931,692)	-	(931,692)
Repayment of Borrowings		-	(10,000)	-	(10,000)
Payments for loans to subsidiary		-	-	(3,029,463)	(224,232)
Net cash provided by/(used) in financing activities		-	10,455,533	(3,029,463)	10,231,301
Net increase/(decrease) in cash held		(5,894,467)	8,119,931	(6,069,646)	8,076,547
Cash at the beginning of the financial year		8,248,801	128,870	8,205,417	128,870
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(107,167)	-	-	-
Cash at the end of the financial year	**28(i)**	**2,247,167**	**8,248,801**	**2,135,771**	**8,205,417**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 15 to 37.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

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

Going concern

The consolidated entity has incurred a loss during the year of $5,573,093 and its working capital at 30 June 2001 is $2 million. The accounts have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this to be appropriate for the following reasons:

i) as detailed in note 29, subsequent to the end of the financial year the Company has completed a successful share placement, raising $941, 451 net of costs;

ii) during the last financial year, the Company has invested heavily in starting up its UK operations ($2.6 million) and such an investment will not be repeated. The Company has restructured its UK operations and will continue to review the resources committed to it, based on its performance and strategic value. Cost reductions have been achieved elsewhere in the organisation and remain a clear focus of management;

iii) the Company has recently secured a further major government contract from the WA Department of Commerce & Trade to install a further 100 kiosks over a three year period, and is confident of securing further sales in this area;

iv) the Company has recently secured a contract with BankWest Limited to install and manage a network of kiosk units on a rental basis over a minimum of eighteen months;

v) the Company expects to extend its contract to supply technology and manage 130 kiosks for the Victorian Department of Human Services for twelve months with an option to extend for a further twelve months;

vi) the Company is evaluating alternative financing options for kiosks where they are under long term contract with major customers or channel partners as a means of increasing available financial resources.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Our success in the government and banking sector described above give us confidence of achieving similar additional contracts in the forthcoming year. All of the above give your directors confidence that the consolidated entity will be able to continue its operations into the foreseeable future.

(b) Reclassification of financial information

Some line items and sub-totals reported in the previous financial year have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB 1018 Statement of Financial Performance, AASB 1034 Financial Report Presentation and Disclosures and the new AASB 1040 Statement of Financial Position.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing accumulated losses from the face of the statement of financial performance to Note 19.

(c) Principles of consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entity ("the consolidated entity").

The balances, and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues.

SALE OF GOODS

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

RENDERING OF SERVICES

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

INTEREST REVENUE

Interest income is recognised as it accrues.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SALE OF NON-CURRENT ASSETS

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer.

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

RESEARCH AND DEVELOPMENT GRANTS

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

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

(f) Foreign Currency

TRANSACTIONS

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

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

TRANSLATION OF CONTROLLED FOREIGN ENTITIES

The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Taxation

INCOME TAX

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

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

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

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

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

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

(i) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes direct materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

MANUFACTURING ACTIVITIES

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

NET REALISABLE VALUE

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Receivables

TRADE DEBTORS

Trade debtors to be settled within 60 days are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(k) Investments

CONTROLLED ENTITY

Investment in controlled entity is carried in the Company's financial statements at the lower of cost and recoverable amount.

(l) Leased assets

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

OPERATING LEASES

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

(m) Property, plant and equipment

The consolidated entity has applied revised AASB1041 Revaluation of Non-Current Assets for the first time from 1 July 2000.

ACQUISITION

Items of property, plant and equipment are initially recorded at cost and depreciated as outlined below.

The cost of property, plant and equipment constructed by the Company includes the cost of materials and direct labour, an appropriate proportion of fixed and variable overheads.

SUBSEQUENT ADDITIONAL COSTS

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the Company in future years. Where these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPRECIATION

Items of property, plant and equipment are depreciated using the straight line method over their estimated useful lives.

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

Property plant and equipment	
Plant and equipment	20-40%

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

(n) Research and development costs

Research and development is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised on a straight-line basis over the period in which the related benefits are expected to be realised. Due to weakness in the broader market resulting in slower than anticipated revenue growth, the un-amortised balance of research and development was written off during the year (see note 3) and research and development expenditure incurred during the year has been expensed.

(o) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 days.

(p) Employee entitlements

WAGES, SALARIES, ANNUAL LEAVE AND SICK LEAVE

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represents the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates and includes related on-costs.

OPTION PLAN

The Company granted options to certain employees and Directors under the Company's option plans. Further information is set out in note 25 to the financial statements. Other than the costs incurred in administering the plans, which are expensed as incurred, the plans do not result in any expense to the consolidated entity.

SUPERANNUATION PLAN

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$
2. REVENUE FROM ORDINARY ACTIVITIES				
Sale of goods revenue from operating activities	355,363	743,501	400,704	735,121
Rendering of services revenue from operating activities	1,655,720	403,132	1,587,876	403,132
Other Revenues:				
From operating activities				
Interest income	297,369	149,323	295,889	149,323
Sale of Trade Name	15,000	-	15,000	-
Government Grants	29,207	-	29,207	-
Total Other Revenues	341,576	149,323	340,096	149,323
Total Revenue from ordinary activities	**2,352,659**	**1,295,956**	**2,328,676**	**1,287,576**

3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
Loss from ordinary activities before income tax has been arrived at after charging the following items:				
Depreciation of:				
plant and equipment	97,982	21,693	86,982	17,693
kiosks	502,528	114,328	477,375	114,328
Amortisation of:				
research and development expenditure	-	59,059	-	59,059
other intangibles	-	15,736	-	15,736
Total depreciation and amortisation	600,510	210,816	564,357	206,816
Net expense from movements in provision for:				
non-recovery of loan to controlled entity	-	-	2,408,824	115,576
diminution in value of investment in controlled entity	-	-	-	122,000
employee entitlements	39,569	74,391	39,569	74,391
Net bad and doubtful debt expense including movements in provision for doubtful debts	13,905	-	13,905	-
Net foreign exchange loss/(gain)	107,167	-	-	-
Operating lease rental expense:				
minimum lease payments	232,616	31,643	123,080	31,643
Research & Development expenditure:				
capitalised in previous years and now written off	598,902	-	598,902	-
expensed as incurred	883,214	-	883,214	-
Intangible Assets:				
capitalised in previous years and now written off	47,161	-	47,161	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$
4. AUDITORS REMUNERATION				
Audit services:				
Auditors of the Company - KPMG	45,162	16,500	23,000	16,500
Other services:				
Auditors of the Company - KPMG	8,150	40,635	8,150	40,635

5. INCOME TAX

(a) Income tax expense

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
Prima facie income tax expense calculated at 34% (2000: 36%) on the operating loss from ordinary activities	(1,894,851)	(394,394)	(1,886,761)	(397,052)
Decrease in income tax benefit due to: legal expenses	43,332	-	43,332	-
Total income tax benefit on operating loss calculated at 34% (2000: 36%)	(1,851,519)	(394,394)	(1,843,429)	(397,052)
Income tax benefit restated to 30% due to a reduction in company income tax rates for the year ended 30 June 2002. (2001: 34%). The income tax benefit is not expected to be reversed prior to that date.	217,825	21,910	216,874	22,059
Less: Future income tax benefit not brought to account	1,633,694	372,484	1,626,555	374,993
Income tax benefit on operating loss	-	-	-	-
The potential future income tax benefit arising from tax losses has not been recognised as an asset because recovery is not virtually certain.	2,006,178	372,484	2,001,548	374,993

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

6. EARNINGS PER SHARE

	Consolidated 2001	Consolidated 2000
Weighted average number of ordinary shares used in the calculation of basic loss per share	96,202,250	52,960,847
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted loss per share	109,728,294	57,078,724

Classification of securities as potential ordinary shares

Options to purchase ordinary shares not exercised at 30 June 2001 have not been included in the determination of basic earnings, but have been included in the determination of diluted earnings per share.

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
7. CASH ASSETS				
Cash	1,177,167	1,248,801	1,065,771	1,205,417
Bank short term deposits maturing within 30 days paying interest at a weighted average interest rate of 4.84% (2000: 6.1%)	1,070,000	7,000,000	1,070,000	7,000,000
	2,247,167	8,248,801	2,135,771	8,205,417
8. RECEIVABLES				
Current				
Trade debtors	407,754	324,390	348,994	317,390
Less: Provision for doubtful trade debtors	(13,905)	-	(13,905)	-
	398,849	324,390	335,809	317,390
Other debtors	20,637	63,728	20,637	63,728
	414,486	388,118	355,726	381,118
Non-current				
Loans to controlled entities	-	-	3,254,082	224,618
Less: Provision for non-recovery	-	-	(2,524,401)	(115,576)
	-	-	729,681	109,042

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$

9. INVENTORIES

Current				
Raw materials and stores - at cost	176,511	-	47,409	-
Work in progress- at cost	7,249	-	7,249	-
	183,760	-	54,658	-

10. OTHER CURRENT ASSETS

Prepayments	46,509	9,239	13,312	9,238

11. OTHER FINANCIAL ASSETS

NON CURRENT				
Investments in controlled entities – unlisted shares at cost	-	-	132,000	132,000
Less: Provision for diminution in the value of investment	-	-	(122,000)	(122,000)
	-	-	10,000	10,000

12. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment				
At cost	323,382	178,206	269,382	126,206
Accumulated depreciation	(118,332)	(24,350)	(107,332)	(20,350)
	205,050	153,856	162,050	105,856
Kiosks				
At cost	2,277,493	1,050,805	1,638,811	1,022,805
Accumulated depreciation	(501,354)	(123,671)	(476,207)	(123,671)
	1,776,139	927,134	1,162,604	899,134
Total	1,981,189	1,080,990	1,324,654	1,004,990

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

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

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
Plant and equipment				
At cost:				
Carrying amount at beginning of year	153,856	36,953	105,856	36,953
Additions	151,825	138,596	145,825	86,596
Write off of plant & equipment	(2,649)	-	(2,649)	-
Depreciation	(97,982)	(21,693)	(86,982)	(17,693)
Carrying amount at end of year	205,050	153,856	162,050	105,856
Kiosks				
At cost:				
Carrying amount at beginning of year	927,134	95,038	899,134	95,038
Transfers from kiosks under construction	681,181	946,424	447,342	918,424
Transfers to inventory for sale	(76,742)	-	(76,742)	-
Depreciation	(502,528)	(114,328)	(477,375)	(114,328)
Carrying amount at end of year	1,029,045	927,134	792,359	899,134
Under construction:				
Carrying amount at beginning of year	-	-	-	-
Additions	1,694,125	946,424	954,335	918,424
Transfers to plant and equipment	(681,181)	(946,424)	(447,342)	(918,424)
Transfers to inventory	(265,850)	-	(136,748)	-
Carrying amount at end of year	747,094	-	370,245	-
Total carrying amount of kiosks at end of year	1,776,139	927,134	1,162,604	899,134
Total	1,981,189	1,080,990	1,324,654	1,004,990

pieNETWORKS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$
13. INTANGIBLE ASSETS				
Trademarks – at cost	-	13,220	-	13,220
Accumulated amortisation	-	(5,000)	-	(5,000)
	-	8,220	-	8,220
Brand development	-	49,677	-	49,677
Accumulated amortisation	-	(10,736)	-	(10,736)
	-	38,941	-	38,941
	-	47,161	-	47,161
14. OTHER NON CURRENT ASSETS				
Research & development – at cost	-	657,961	-	657,961
Accumulated amortisation	-	(59,059)	-	(59,059)
	-	598,902	-	598,902
15. PAYABLES				
Trade payables	547,592	325,607	373,946	325,607
Other payables and accruals	229,620	418,181	137,504	418,181
	777,212	743,788	511,450	743,788

16. AMOUNTS PAYABLE/RECEIVABLE IN FOREIGN CURRENCIES

The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies, calculated at year-end exchange rates, are as follows:

Great Britain Pounds

Amounts payable:				
Current	265,762	-	-	-
Non-current	-	-	-	-
	265,762		-	-
Amounts receivable				
Current	92,956	-	-	-
Non-current	-	-	-	-
	92,956	-	-	-

17. CURRENT PROVISIONS

Employee entitlements	68,409	28,840	68,409	28,840

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$
18. CONTRIBUTED EQUITY				
Issued and paid up share capital				
96,202,250 (2000: 96,202,250)				
Ordinary fully paid shares	11,128,633	11,128,633	11,128,633	11,128,633
Movements in ordinary share capital				
Balance at the beginning of year	11,128,633	560,200	11,128,633	560,200
Shares Issued:				
23,914,000 at 10 cents each	-	2,391,400	-	2,391,400
55,000 at 10 cents each	-	5,500	-	5,500
627,250 at 10 cents each	-	62,725	-	62,725
405,000 at 10 cents each	-	40,500	-	40,500
30,000,000 at 30 cents each	-	9,000,000	-	9,000,000
Less equity raising costs	-	(931,692)	-	(931,692)
Balance at end of year	11,128,633	11,128,633	11,128,633	11,128,633
19. ACCUMULATED LOSSES				
Accumulated losses at beginning of year	1,528,050	432,510	1,535,393	433,102
Net loss attributable to members of parent entity	5,573,093	1,095,540	5,549,297	1,102,291
Accumulated losses at end of year	7,101,143	1,528,050	7,084,690	1,535,393

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

20. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposures

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

	Weighted average interest rate	Floating interest rate $	Fixed interest maturing in 1 year or less $	Non-interest bearing $	Total
2001					
Financial assets					
Cash assets	4.84%	1,177,167	1,070,000	-	2,247,167
Receivables	-	-	-	414,486	414,486
	-	1,177,167	1,070,000	414,486	2,661,653
Financial liabilities					
Payables	-	-	-	777,212	777,212
Employee entitlements	-	-	-	68,409	68,409
	-	-	-	845,621	845,621
2000					
Financial assets					
Cash assets	6.1%	1,248,801	7,000,000	-	8,248,801
Receivables	-	-	-	388,118	388,118
	-	1,248,801	7,000,000	388,118	8,636,919
Financial liabilities					
Payables	-	-	-	743,788	743,788
Employee entitlements	-	-	-	28,840	29,840
	-	-	-	772,628	772,628

(b) Credit risk exposure

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

(c) Net fair values

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$

21. COMMITMENTS

Operating lease commitments

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
Future operating lease rentals not provided for in the financial statements and payable:				
Within one year	235,087	54,000	140,900	54,000
One year or later, but no later than five years	552,536	-	160,000	-
	787,623	54,000	300,900	54,000

22. EMPLOYEE ENTITLEMENTS

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
Aggregate employee entitlements, including on costs				
Current	68,409	28,840	68,409	28,840
Number of employees at year end	36	23	28	20

Superannuation plans

The Company contributes to several defined contribution employee superannuation plans.

Employee Share Option Plans

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

Name	Expiry Date	Exercise Price	Number of options issued		Unissued Options Available	
			2001	2000	2001	2000
pieNETWORKS Option Incentive Plan (1)	25/02/05	$0.30	2,080,000	2,080,000	1,520,000	1,520,000
1999/2000 Option Plan (2)	07/04/03	$0.20	1,000,000	350,000	400,000	1,050,000
2000/2001 Option Plan	(3)	$0.30	-	-	(3)	-

Pursuant to the 1999/2000 Option Incentive Plan the Company issued during the year 650,000 options over unissued ordinary shares to 7 employees. Details of the exercise periods and issue price are described in the above table.

The market value of shares under these options at 30 June 2001 was $0.08 (2000: $0.17)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

22. EMPLOYEE ENTITLEMENTS (CONTINUED)

Employee Share Option Plans (Cont)

Notes to schedule of employee share option plans:

1. pieNETWORKS Option Plan Options are exercisable on or before 25 February 2005 at $0.30 provided that the Company's shares are trading on Australian Stock Exchange at not less than $0.60 each.

2. 1999/2000 Option Plan Options are exercisable as follows: 33% on or before 7 April 2001, 33% on or before 7 April 2002 and 34% on or before 7 April 2003 or the date of employees termination. Any options not exercised in one exercise period may be carried forward and exercised in a subsequent exercise period.

3. At the annual general meeting of shareholders held on 24 November 2000 the 2000/2001 Option Incentive Plan was established. Pursuant to this plan the Company may issue in number up to 5% of its issued capital. The exercise price of options issued in accordance with the plan shall be the greater of 30 cents and the average market price of the shares during the 5 days prior to the grant of the options. As at reporting date no options had been issued under this plan.

In addition to the options described above, as at 30 June 2001 there are also a further 10,750,565 options over unissued shares outstanding, the details of which are set out in page 10 of the Directors' Report accompanying these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

23. DIRECTORS REMUNERATION

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$
Directors' income				
The number of directors of the Company whose income from the Company or any related party falls within the following bands				
$10,000 - $19,999	1	1	1	1
$20,000 - $29,999	1	2	1	1
$40,000 - $49,999	1	1	1	1
$60,000 - $69,000	1	-	-	-
$120,000 - $129,999	1	1	-	1
$130,000 - $139,999	-	1	-	1
$150,000 -$159,000	1	-	1	-
$170,000 -$179,000	1	-	1	-
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	623,815	358,582	433,425	333,375

Directors remuneration for the consolidated entity includes amounts paid to persons acting as directors of the Company's controlled entity pieNETWORKS plc.

24. EXECUTIVES REMUNERATION

	Consolidated		Parent Entity	
	2001	2000	2001	2000
The number of Australian based executive officers of the Company and of controlled entities, whose income from the Company or any related party and from entities in the consolidated entity falls within the following bands:				
$120,000 -$129,999	-	1	-	1
$130,000 -$139,999	-	1	-	1
$150,000 -$159,000	1	-	1	-
$170,000 -$179,000	1	-	1	-
Total income in respect of the financial year received, or due and receivable from the Company, entities in the consolidated entity or any related party whose income is $100,000 or more	329,704	253,750	329,704	253,750

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

25. RELATED PARTIES

Directors

The names of each person holding the position of director of pieNETWORKS Limited during the financial year are Mr David Price, Ms Diane Sias, Mr Campbell Smith, Mr Robert McBrier and Mr Ralph Ward-Ambler who was appointed a director during the year.

Details of directors remuneration are set out in note 23.

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

Directors' holdings of shares and share options

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

	2001 Number held	2000 Number held
pieNETWORKS Limited:		
Ordinary shares	25,617,115	24,387,115
Options over ordinary shares	5,398,029	5,384,279

Directors' transactions in shares and share options

During the year pieNETWORKS Limited granted options over 650,000 1999/2000 Option Plan options. No options were granted to directors during the year.

As at 30 June 2001 directors and their director-related entities had the following interest in shares and share options of the Company:

	Ordinary Shares	Founder Options	Mezzanine Options	1999/2000 Option Plan Options	pie Option Plan Options
Mr D Price	2,796,667	-	463,750	200,000	300,000
Ms D Sias	1,375,000	-	63,750	150,000	250,000
Mr C Smith	10,754,131	1,440,000	146,867	-	500,000
Mr R McBrier	10,191,317	1,440,000	43,662	-	400,000
Mr CR Ward Ambler	500,000	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

25. RELATED PARTIES (CONTINUED)

Directors transactions with the Company or its controlled entity

On 25 February 2000 pieNETWORKS Limited, Gocom Pty Ltd and Campbell Smith entered into a Consultancy Agreement pursuant to which the Company agreed to engage Gocom Pty Ltd as consultant to provide the services of Campbell Smith as managing director of the Company for a fixed term of 3 years. The fee to be paid to Gocom Pty Ltd is $175,000 per annum with the ability to earn a cash bonus of up to an additional $60,000 per annum if the Company achieves benchmarks which are to be determined by the independent directors of the Company.

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

Amounts paid to directors, including amounts paid pursuant to the agreements between Gocom Pty Ltd and Cerise Bay Pty Ltd are disclosed in Note 23 and in the directors report.

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

Non-director related parties

EQUITY INTERESTS IN RELATED PARTIES

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 26 to the financial statements.

TRANSACTIONS WITHIN WHOLLY OWNED GROUP

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

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

- The provision of non-interest bearing loans with no set term
- Sale and purchase of goods at cost plus 10%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

25. RELATED PARTIES (CONTINUED)

BALANCES WITH ENTITIES WITHIN THE WHOLLY OWNED GROUP

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

Receivables	**The Company**	
	2001	**2000**
	$	**$**
Aggregate amounts receivable from non-director related parties:		
Non trade receivables - current		
Wholly owned controlled entities	3,254,082	224,618

ACQUISITION/DISPOSAL OF CONTROLLED ENTITIES

The following controlled entities were acquired or disposed of during the financial year:

Acquisition of entities

During the financial year the consolidated entity incorporated pieMEDIA Pty Ltd.

26. CONTROLLED ENTITIES

Name of Entity	**Country of Incorporation**	**Class of Shares**	**Equity Holding**	
			2001	2000
			%	%
PARENT ENTITY				
pieNETWORKS Ltd	Australia	Ordinary		
CONTROLLED ENTITIES				
pieNETWORKS plc	United Kingdom	Ordinary	100	100
pieMEDIA Pty Ltd	Australia	Ordinary	100	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

27. SEGMENT INFORMATION

	Australia	United Kingdom	Intersegment Eliminations	Consolidated
	$	$	$	$
2001				
Revenue outside the consolidated entity	2,283,335	69,324	-	2,352,659
Intersegment revenue	45,341	-	45,341	-
Total revenue	2,328,676	69,324	45,341	2,352,659
Segment operating result	(3,140,473)	(2,387,279)	(45,341)	(5,573,093)
Loss from ordinary activities after income tax			(5,573,093)	
Segment assets	4,623,802	1,034,331	(785,022)	4,873,111
Total Assets				4,873,111
2000				
Revenue outside the consolidated entity	1,287,576	8,380	-	1,295,956
Intersegment revenue	-	-	-	
Total revenue	1,287,576	8,380	-	1,295,956
Segment operating result	(865,730)	(229,810)	-	(1,095,540)
Loss from ordinary activities after income tax				(1,095,540)
Segment assets	10,365,868	126,334	(118,991)	10,373,211
Total assets				10,373,211

Industry Segments

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

Geographical Segments

The consolidated entity operates predominantly in Australia with operations in the United Kingdom.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

28. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of Cash

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

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	$	$	$	$
Cash assets	1,177,167	1,248,801	1,065,771	1,205,417
Short term deposits	1,070,000	7,000,000	1,070,000	7,000,000
	2,247,167	8,248,801	2,135,771	8,205,417

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

	Consolidated 2001	Consolidated 2000	Parent Entity 2001	Parent Entity 2000
Loss from ordinary activities after income tax	(5,573,093)	(1,095,540)	(5,549,297)	(1,102,921)
Add non-cash items:				
Depreciation and amortisation	600,510	210,816	564,357	206,816
Provision against loans to and investment in subsidiary	-	-	2,408,824	237,190
Research & development write off	598,902	-	598,902	-
Intangible assets write off	47,161	-	47,161	-
Issue of shares as consideration for services	-	40,500	-	40,500
Cost of goods sold	78,353	-	78,353	-
Foreign exchange translation	107,167	-	-	-
Net cash used in operating activities before change in assets and liabilities:	(4,141,000)	(844,224)	(1,851,700)	(618,415)
Change in assets and liabilities during the financial year:				
(Increase)/decrease in prepayments	(37,270)	(9,238)	(4,074)	(9,238)
(Increase)/decrease in debtors	(26,368)	(378,640)	25,392	(371,640)
(Decrease)/increase in accounts payable	33,423	424,124	(232,338)	447,801
(Decrease)/increase in provisions	39,569	26,364	39,569	26,364
(Increase)/Decrease in inventories	(183,760)	-	(54,658)	-
Net cash used in operating activities	(4,315,406)	(781,614)	(2,077,809)	(525,128)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

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

(iii) Non-cash financing activities

During the prior year the consolidated entity repaid directors loans with an aggregate fair value of $62,725 by way of an issue of shares and options and issued shares and options in satisfaction of certain services received by directors to an aggregate fair value of $40,500. These transactions have not been reflected in the statement of cash flows.

29. EVENTS SUBSEQUENT TO BALANCE DATE

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

- Since the end of the financial year the Company has issued 12,500,000 ordinary fully paid shares pursuant to a placement raising $941,451 net of costs.

30. CONTINGENT LIABILITIES

The Company has been named as a defendant in two related actions commenced in the Supreme Court of Western Australia. The plaintiffs seek unspecified damages against the Company. The Company has applied for and obtained summary judgement against the plaintiffs in one of the actions. The Company will vigorously defend the remaining action. Based on legal advice received to date the Company is confident there is no case to answer.

DIRECTORS' DECLARATION

In the opinion of the directors of pieNETWORKS Limited:

(a) the financial statements and notes, set out on pages 12 to 37, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2001 and of its performance, as represented by the results of its operations and their cash flows, for the year ended on that date; and

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

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

Dated at Perth this 31st day of August, 2001

Signed in accordance with a resolution of the directors:

David Price
Chairman

KPMG

Independent audit report to the members of pieNETWORKS Limited

SCOPE

We have audited the financial report of pieNETWORKS Limited for the year ended 30 June 2001, consisting of the statements of financial performance, statements of financial position, statement of cash flows, accompanying notes, and the directors' declaration set out on pages 12 to 38. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

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

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

AUDIT OPINION

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

a) the Corporations Act 2001, including:

   i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2001 and of their performance for the year ended on that date; and

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

b) other mandatory professional reporting requirements.

KPMG

KPMG
Chartered Accountants Perth

A M Kitchen

A M KITCHEN
Partner
31 August 2001

Corporate Governance Practices and Conduct

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

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

Audit and Compliance Committee

The Audit and Compliance Committee meet at regular intervals and as required by corporate governance matters arising from time to time. The Audit and Compliance Committee's main activities comprise the overview of the company's accounting and financial reporting, relationship with the auditors, legal compliance, internal control procedures and risk management.

Current members include Diane Sias, Chairman of the committee and non-executive director, Robert McBrier, Technical Director and Jason Clifton, General Manager.

Remuneration Arrangements

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

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

Identification and Management of Risk

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

Share Restriction policy

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

Ethical Standards

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

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

Substantial Shareholders

As at 31 August 2001, substantial shareholders in pieNETWORKS, and the number of equity securities held are listed below:

Substantial shareholder	Ordinary Shares	%	Founders Options	Mezzanine Options	1999/2000 Option Plan	Pie Option Plan Options
Campbell Smith	10,354,131	9.53	1,440,000	84,367	-	500,000
Robert McBrier	10,191,317	9.37	1,440,000	43,662	-	400,000
Peter Gunzburg	9,117,667	8.39	-	512,500	-	-
Bryan Paul	10,381,802	9.55	1,440,000	28,785	-	130,000

The number of Holders of each class of securities as at 31 August 2001:

Number of Holders	Description
819	Ordinary fully paid shares
4	Founders options
10	1999/2000 Option Plan Options
19	Mezzanine Options
5	Pie Option Plan Options
1	Underwriter Options (1)

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

Voting Rights

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

FULLY PAID ORDINARY SHARES:

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

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

OPTIONS:

No voting rights

Distribution schedule of Holders of Equity Securities as at 31 August 2001

	1-1,000	1,001-5,000	5,001-10,000	10,001-100,000	100,001-Max
Fully paid ordinary shares	9	155	208	361	86
Founders Options	-	-	-	-	4
Mezzanine Options	-	-	-	9	10
1999/2000 Option Plan Options	-	-	-	6	4
Pie Option Plan Options	-	-	-	-	5
Underwriter Options	-	-	-	-	1

Number of Holders Holding less than a marketable parcel of fully paid ordinary shares as at 31 August 2001: 269

20 Largest holders of quoted equity securities as at 31 August 2001

Rank and Name		No. Shares Held	% Capital
1	Exchange Nominee Pty Ltd	11,583,836	10.66
2	Gocom Pty Ltd	9,854,131	9.07
3	Cerise Bay Pty Ltd	9,691,317	8.92
4	Giverny Holdings Pty Ltd	9,631,802	8.86
5	Trovex Pty Ltd	4,950,000	4.55
6	ECAT Devolopment Capital Limited	4,885,000	4.49
7	Bay Securities P/L	3,127,331	2.88
8	Phoenix Properties International Pty Ltd	2,666,667	2.45
9	Enerview Pty Ltd	2,560,000	2.36
10	Ryan Australia Pty Ltd	2,400,000	2.21
11	Westpac Custodian Nominees Ltd	2,350,000	2.16
12	Lee, Mr Swee Khoon	2,000,000	1.84
13	Nefco Nominees Pty Ltd	1,972,000	1.81
14	Rivista Pty Ltd	1,750,000	1.61
15	Lucas, Frank	1,300,000	1.20
16	D'Cruze, Patrick	1,200,000	1.10
17	Daccsar Pty Ltd	1,196,667	1.10
18	Jayleaf Holdings Pty Ltd	900,000	0.83
19	Sias, Diane	860,000	0.79
20	Caboche, Delores	849,460	0.78

Restricted Securities as at 31 August 2001:

Securities	Amount on Escrow	Date of Release from Escrow
Fully paid ordinary Shares	31,723,173	7 April 2002
Mezzanine Options	733,065	7 April 2002
Founders Options	4,320,000	7 April 2002
Pie Option Plan Options	1,580,000	7 April 2002
99/00 Option Plan Options	350,000	7 April 2002
Underwriter Options	500,000	7 April 2002

Unquoted Securities on Issue as at 31 August 2001:

Unquoted Securities	Number on issue	Number of Holders
Mezzanine Options	6,250,565	19
Founders Options	4,500,000	4
Pie Option Plan Options	1,580,000	5
99/00 Options	1,000,000	10
Issuer Options	500,000	1

Names of persons holding more than 20% of a given class of Unquoted Securities as at 31 August 2001:

Securities	Name	Number of Securities
Mezzanine Options	Phoenix Properties Pty Ltd	1,750,000
Founder Options	Cerise Bay Pty Ltd	1,440,000
	Gocom Pty Ltd	1,440,000
	Giverny Holdings Pty Ltd	1,440,000
Underwriter Options	CIBC World Market Securities Limited	500,000

On-Market Buy Back

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

Use of cash and assets

During the time from the admission of pieNETWORKS Limited on the Australian Stock Exchange to the 30 June 2001, pieNETWORKS Limited has consistently used all cash and assets readily convertible into cash available at the time of its admission in a way consistent with its business objectives.

pieNETWORKS LIMITED