



APPENDIX 4C COMMENTARY 31 MARCH 2012

The quarter ending 31 March 2012 saw a number of issues develop for the Company as it endeavoured to deliver on its business model for an Australian network of Hotspot Webphones.

Hotspot Webphone & Telstra

As previously advised to the market, following the successful conclusion of a market assessment (in conjunction with Telstra) the Company announced that it and Telstra would enter into a negotiation period in order to agree the terms for the deployment of a larger network of pieNETWORK's Hotspot Webphones in the Australian market.

Progress was slow, in particular given the degree of positive comment we had received in relation to the performance of the Hotspot Webphone during the market assessment. The Board took the decision to approach Telstra executive at the highest level with a view to getting some certainty as to order quantities and timing.

On 13 February 2012, the Company announced that it had requested that the ASX grant a voluntary suspension of trading in the Company's securities pending discussions with Telstra which were aimed at determining if or when Telstra might be able to advise the Company that it had concluded its considerations for a business case.

On 19 March 2012, the Company announced that Telstra had been unable to advise the Company of when the deliberations for a Webphone business case might conclude. The Board immediately took a number of steps to preserve the value of its product and to begin the process of looking at alternative business opportunities for PIE.

The Company continues to support the NZ Network in Shopping Centres and at Christchurch and Wellington Airports together with the Telstra Assessment Network in Australia and they are both operating well. However given the delays experienced the Board has formed the view that it is in the best interests of shareholders to consider alternative business strategies, notwithstanding that discussions with Telstra continue.

Corporate

During the latter half of last year the Company announced the relocation of its head office from Perth to Sydney. The intention being to locate the Company's Chief Executive and business development functions closer to major current and potential customers. At the same time it was announced that the Company's long time Managing Director Mr Campbell Smith would leave the Company and Mr Craig Turner was appointed as the Group's acting Chief Executive Officer as at that date.

On 6 February 2012 the Company announced that it had restructured the composition of its Board of Directors following the Resignation of Mr. Justin Milne as Chairman and Director of the Company. Mr Peter Gunzburg resumed the role of Non-executive chairman and Mr Mark Pitts was appointed as a Non-executive director.

Mr Stewart Snell continues in the role of Chief Operating Officer, for the Company and is managing the day to day operations.



Quarterly Financials

The Company undertook a major cost reduction exercise in order to reduce the Company's cash burn and make the existing business self sustaining. The executive team has been significantly reduced and overheads extensively cut enabling the Directors to focus on alternatives for the Company.

During the quarter there was a net cash outflow from operating activities of \$771K (vs \$595K the preceding quarter) the outflows in this quarter did include a number of one off costs associated with the cost reduction exercise.

The Company had \$1.109M in cash at the end of the quarter.

The Company recently lodged its Half Year Interim Financial Report and will now make application to ASX to have its ordinary securities re-quoted.

Principal and Registered Office

In conjunction with cost reduction measures the Company has moved out of its two offices in Sydney and Osborne Park. New address and contact details are set out below.

Principal Place of Business

C/-
21 River Road,
Bayswater WA 6053
Ph: +61 8 6143 3446
Email: ssnell@pienetworks.com
Web: www.pienetworks.com

Registered Office

C/-
Suite 8, 7 The Esplanade
Mt Pleasant WA 6153

Peter Gunzburg

Chairman
25 May, 2012

Appendix 4C

Quarterly report For entities admitted On the basis of commitments

Introduced 31/3/2000, Amended 30/09/2001, 24/10/2005, 17/12/2010

Name of entity
pieNETWORKS Limited

ABN
27 078 661 444

Quarter ended ("current quarter")
31 March 2012

Consolidated statement of cash flows

Cash flows related to operating activities

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from customers	232	939
1.2 Payments for		
(a) (i) administrative staff costs	(193)	(661)
(a) (ii) technology staff costs (note 1)	(271)	(799)
(a) (iii) sales and marketing staff costs	(37)	(379)
(b) advertising and marketing	(40)	(202)
(c) research and development (note 1)	(94)	(690)
(d) leased assets		
(e) other working capital	(389)	(1,119)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	21	64
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other – Tax Rebate	-	452
Net operating cash flows	(771)	(2,395)

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.8 Net operating cash flows (carried forward)	(771)	(2,395)
Cash flows related to investing activities		
1.9 Payment for acquisition of: (a) businesses (item 5) (b) equity investments (c) intellectual property (d)(i) physical non-current assets (e) other non-current assets	(4)	(133)
1.10 Proceeds from disposal of: (a) businesses (item 5) (b) equity investments (c) intellectual property (d) physical non-current assets (e) other non-current assets		
1.11 Loans to other entities		
1.12 Loans repaid by other entities		
1.13 Other		
Net investing cash flows	(4)	(133)
1.14 Total operating and investing cash flows	(775)	(2,528)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	2,320
1.16 Proceeds from the sale of forfeited shares		
1.17 Proceeds from borrowings		
1.18 Repayment of borrowings		
1.19 Dividends paid		
1.20 Other - equity raising costs	-	(108)
Net financing cash flows	-	2,212
Net increase (decrease) in cash held	(775)	(316)
1.21 Cash at beginning of quarter/year to date	1,879	1,421
1.22 Exchange rate adjustments to item 1.20	5	4
1.23 Cash at end of quarter	1,109	1,109

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.24 Aggregate amount of payments to the parties included in item 1.2	44
1.25 Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount Available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements	110	-

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	145	25
4.2	Deposits at call	854	1,747
4.3	Bank overdraft		
4.4	Other -Term Deposits	110	107
Total: cash at end of quarter (item 1.23)		1,109	1,879

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
2. This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 25 May 2012
 Company Secretary

Print name: Mark Pitts

Notes

1. Research & Development represents those costs associated with R&D activities other than personnel costs. For the purposes of the Appendix 4C the personnel component of R&D expenditure has been disclosed at item 1.2 (a)(ii) – Technology Staff Costs. R&D expenditure (and Technology Staff costs) has been classified as a cash flow from an operating activity in the current period.
2. Commentary on the cashflow for the period is included in the accompanying update and accordingly the Appendix 4C should be read in conjunction with that report.
3. *Preparation:*
The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position.

The definitions in, and provisions of, *AASB 107: Cash Flow Statements* apply to this report except for the paragraphs of the Standard set out below.

- 20.1 reconciliation of cash flows arising from operating activities to operating profit or loss.
- 51 itemised disclosure relating to maintaining operating capacity
- 52 itemised disclosure relating to segment reporting