



pieNETWORKS Limited

ABN 27 078 661 444

Annual report
30 June 2013

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Directors' Review

Dear Shareholder,

The year to June 2013 has been a somewhat frustrating year for the Board and difficult year for the Company.

The Company has continued to support its existing customers and operations following the significant operating cost reductions implemented in early 2012. This included continuing service and support of a range of existing kiosk customers, the Webphones installed for Telstra Corporation and the company's Webphone network in New Zealand. Operations in New Zealand are being optimised by removing a number of Webphones that have not delivered sufficient revenue and by relocating others to improve revenue.

The Company has received a number of enquiries for the supply of Webphones from potential customers in Europe and South America, and is developing a partnership with a Spanish based company to address those enquiries. Although none of the enquiries have borne fruit as yet, a Memorandum of Understanding was signed with Infopyme Comunicaciones S.L of Zaragoza Spain to market the Webphone to Infopyme's Telco customers in Europe and South America.

The company has, as previously advised, also pursued a number of potential acquisition opportunities for alternative businesses in its market sector. None of those has yet lead to an opportunity that would have added value for shareholders, and the board continues to actively seek out and address opportunities as they arise. The board will continue to pursue this opportunity and others in the interests of preserving and improving shareholder value.

The opportunities being considered include an expansion of the Company's business in the communications field, including potential acquisitions. One opportunity under consideration is the acquisition of a telecommunications company in South East Asia. The potential acquisition is still subject to due diligence and no agreement has been reached in relation to key commercial terms. The board will continue to pursue this opportunity and others in the interests of preserving and improving shareholder value.

During the year the Company raised \$1,109,999 from shareholders through a partially underwritten non renounceable rights issue, in addition a further \$470,000 was raised through a placement to a sophisticated investor, these fund raisings have kept the Company in a sound financial position.

In closing I want to thank our shareholders for their continued support.

For and on behalf of the board,



Peter Gunzburg
Chairman

pieNETWORKS Limited
 Directors' report
 For the year ended 30 June 2013

The directors present their report together with the financial statements of the Company, pieNETWORKS Limited, for the financial year ended 30 June 2013 and the auditor's report thereon.

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pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

1. Directors and company secretary

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

<i>Name, qualifications and independence status</i>	<i>Age</i>	<i>Experience, special responsibilities and other directorships</i>
Peter L Gunzburg BComm, ASIA Chairman Non-Executive Director	61	Over 20 years experience as a stockbroker. Currently the Chairman of Eurogold Limited (director since 2001), Brinkley Mining PLC and a director of Fleetwood Corporation Limited (director since 2002). Past Director of Resolute Limited, The Australian Securities Exchange Limited, Evers Reed Limited, CIBC World Markets Australia Limited, AIM listed Matra Petroleum PLC and Strike Oil Limited. Chairman of the Audit and Compliance Committee (since 30 January 2012, previously member) and Chairman of the Remuneration and Nomination Committee. Appointed 29 April 2002. Held the role of Chairman from 30 July 2002 to 10 August 2010. Reappointed Chairman on 6 February 2012.
Bill Zikou BEng, MBA Independent Non-Executive Director	62	Over 35 years experience in the telecommunications industry with 25 years in senior management and executive roles. His previous recent roles include CEO of Ericsson South East Europe (consisting of 9 countries) and CEO of Ericsson Australia, New Zealand and the Pacific islands. Member of the Audit and Compliance Committee and Remuneration and Nomination Committee. Appointed 10 August 2010.
Mark Pitts BBus, FCA Independent Non-Executive Director/Company Secretary	51	Over 25 years experience in business administration. Mr Pitts has had several senior financial management and consulting roles after leaving KPMG. He is a partner in corporate advisory firm Endeavour Corporate offering accounting; corporate and compliance advice; and governance services to listed public companies in Australia and elsewhere. Member of the Audit and Compliance Committee and Remuneration and Nomination Committee. Appointed Company Secretary 12 March 2008. Appointed Director on 6 February 2012.

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

2. 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	10	10	2	2	-	-
Bill Zikou	10	10	2	2	-	-
Mark Pitts	9	10	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

3. Corporate governance statement

The directors of pieNETWORKS Limited ("pie" or 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 (CGC) and as required by the ASX Listing Rules. 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 revised 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.

3.1 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 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.

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

3. Corporate governance statement (continued)

3.1 Board of Directors (continued)

The Chief Operating Officer is responsible to the Board for the day-to-day management of the Company. The role of management is to support the Chief Operating Officer in the implementation of the agreed strategy in accordance with the delegated authority of the Board. The Chairman liaises regularly with the Chief Operating Officer, 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 three 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 revised CGC Principles and Recommendations and appropriate materiality.

During the year, the Board comprised of three non-executive directors, including the Chairman. Mr Peter Gunzburg, the current Chairman and a Non-Executive Director, is a substantial shareholder of the Company and therefore would not be regarded as being independent consistent with the CGC criteria.

Mr Bill Zikou and Mr Mark Pltts, both Non-Executive Directors of the Company during the financial year, are regarded as being 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.

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

3. Corporate governance statement (continued)

3.1 Board of Directors (continued)

Meetings of the board

The Board meets formally at least six times a year and on other occasions, as required. The agenda for meetings is prepared by the Company Secretary in consultation with the Chairman. Standard items include the operations 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 Company 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.

3.2 Business Ethics

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; and
- Maintain a safe working environment.

Diversity Policy

The Board has implemented a Diversity Policy in accordance with best practice and governance guidelines. The Company believes that the promotion of diversity on its Boards, in senior management and within the organisation generally is good practice and strengthens its decision making.

The Diversity Policy operates to confirm existing employment practices which seek to attract and retain people by promoting an environment where employees are treated with fairness and respect and have equal access to opportunities as they arise. Diversity within the workforce includes such factors as religion, race, ethnicity, language, gender, disability and age.

The Company employs new employees and promotes current employees on the basis of performance, ability and attitude. The Board is continually reviewing its practices with a focus on ensuring that the selection process at all levels within the organisation is formal and transparent and that the workplace environment is open, fair and tolerant.

Gender Diversity

The Company, in keeping with the recommendations of the Corporate Governance Council provides the following information regarding the proportion of gender diversity in the organisation as at 30 June 2013:

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

3. Corporate governance statement (continued)
 3.2 Business ethics (continued)

	Male	Female	Total	Proportion female
PIE Board	3	-	3	0%
Senior Management	2	-	2	0%
Balance of Employees	1	2	3	67%
	6	2	8	25%

The recommendations of the Corporate Governance Council relating to reporting require a Board to set measurable objectives for achieving diversity within the organisation, and to report against them on an annual basis. The Company has implemented measurable objectives as follows:

Measurable Objective	Objective Satisfied	Comment
Adoption and promotion of a Formal Diversity Policy	Yes	The Company has adopted a formal diversity policy which has been made publicly available via the ASX and the Company's website.
To ensure Company policies are consistent with and aligned with the goals of the Diversity Policy	Yes	The Company's selection, remuneration and promotion practices are merit based and as such are consistent with the goals of the Company's Diversity Policy.
To provide flexible work and salary arrangements to accommodate family commitments, study and self-improvement goals, cultural traditions and other personal choices of current and potential employees.	Yes	The Company does, where considered reasonable, and without prejudice, accommodate requests for flexible working arrangements.
To implement clear and transparent policies governing reward and recognition practices.	Yes	The Company grants reward and promotion based on merit and responsibility as part of its annual and ongoing review processes.
To provide relevant and challenging professional development and training opportunities for all employees.	Yes	The Company seeks to continually encourage self-improvement in all employees, irrespective of seniority, ability or experience, through external and internal training courses, regular staff meetings and relevant on job mentoring.

The Company has not implemented specific measurable objectives regarding the proportion of females to be employed within the organisation or implement requirements for a proportion of female candidates for employment and Board positions. The Board considers that the setting of quantitative gender based measurable targets is not consistent with the merit and ability based policies currently implemented by the Company.

The Board will consider the future implementation of gender based diversity measurable objectives when more appropriate to the size and nature of the Company's operations.

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

3. Corporate governance statement (continued)
3.2 Business Ethics (continued)

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. All Directors and employees (including their immediate family or any entity for which they control investment decisions), must ensure that any trading in securities issued by the Company is undertaken within the framework set out in the Securities trading policy.

The Securities trading policy does not prevent Directors or employees (including their immediate family or any entity for which they control investment decisions) from participating in any share plan or share offers established or made by the Company. However, Directors or employees are prevented from trading in the securities once acquired if the individual is in possession of price sensitive information not generally available to all security holders.

In keeping with recent listing rule amendments, additional restrictions are placed on trading by Directors, Executives and other key management personnel as determined by the Chairman and Company Secretary from time to time ('Restricted Employees').

In addition to the overriding prohibition against dealing in the Company's securities when a person is in possession of inside information, Restricted Employees and their associated parties are at all times prohibited from dealing in the Company's securities during prescribed 'closed' periods. The Company has nominated closed periods to run from the end of the financial quarter up to the day after the release date of the quarterly report. Restricted Employees must also obtain written consent from the Chairman or Managing Director/Chief Executive Officer prior to trading in the Company's securities.

The Securities trading policy also includes a clause prohibiting Directors and Executives from entering into transactions in associated products which operate to limit the economic risk of security holdings in the Company over invested entitlements.

Financial reporting

The Board requires the persons performing the roles of chief operating officer and financial controller 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 Company; 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.

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

3. Corporate governance statement (continued)

3.3 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.

3.4 Risk management

Management is ultimately responsible to the Board for the Company'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;
- regular cashflow reporting and capital adequacy monitoring;
- 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.

3.5 Audit & 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 all published financial statements of the Company;
- reviewing the scope and independence of external audits;
- advising on the appointment, performance and remuneration of external auditors;
- reviewing and evaluating risk management policies in the light of the Company's business strategy, capital strength, legal compliance requirements 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 persons performing the roles of chief operating officer and financial controller must state in writing to the Board that the Company'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 persons performing the roles of chief operating officer and financial controller 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.

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

3. Corporate governance statement (continued)

3.5 Audit & Compliance Committee (continued)

In view of the size of the Board, the Audit & Compliance Committee comprised all directors during the year ended 30 June 2013. Mr Peter Gunzburg is chairman of the committee. The external auditors and the financial controller are invited to committee meetings at the discretion of the committee.

3.6 Remuneration and Nomination Committee

Nomination

The Board has established a Remuneration & Nomination Committee that is comprised of all 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. No formal meetings of the committee were held during the year.

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

During the financial year, the Remuneration and Nomination Committee comprised Messrs Gunzburg, Zikou and Pitts. The role of the Remuneration & Nomination Committee is to ensure that appropriate remuneration policies are in place and that they meet the needs of the Company and 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.

During the 2013 year, the role of the Remuneration and Nomination Committee was undertaken by the full Board.

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 \$300,000 from which non-executive directors' fees may be paid.

The performance of the Chief Operating Officer 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 Chief Operating Officer.

3.7 Remuneration report - audited

3.7.1 Compensation policies

Remuneration is referred to as compensation throughout this report.

Overview of compensation policies

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

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

3.7 Remuneration report - audited

3.7.1 Compensation policies (continued)

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Other than the directors and executives identified in 3.7.2, 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 company executive" for the purposes of section 300A of the Corporations Act 2001 ("Act").

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

The Company does not provide non-cash benefits to key management personnel other than statutory superannuation contributions.

Fixed compensation

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

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

Performance linked compensation

Performance linked compensation 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), when in place, is intended to be 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 in place.

Long-term incentive

In general meeting on 11 April 2008, shareholders "renewed" the pieNETWORKS Option Incentive Plan "OIP".

On 27 November 2009, shareholders approved the grant of 16,500,000 (pre-share consolidation) options to directors. The options are exercisable at 1 cent and have an expiry date of 30 November 2014. The options were issued in three tranches with share price performance hurdles of 3 cents, 5 cents and 7 cents and vesting periods of 12 months, 24 months and 36 months, respectively. In accordance with their terms 13,500,000 of these options have since lapsed following the resignations of Mr Peter Abery, Mr Campbell Smith and Mr Craig Ferrier.

On 8 July 2010, shareholders approved the grant of 17,600,000 (pre-share consolidation) options to employees under the Company's Employee Option Incentive Plan. The options are exercisable at 1 cent each and have an expiry date of 30 June 2015. The options were issued in three tranches with share price performance hurdles of 3 cents, 5 cents and 7 cents and vesting periods of 12 months, 24 months and 36 months, respectively.

On 24 November 2010, shareholders approved the grant of 4,000,000 (pre-share consolidation) share options to Messrs Peter Abery and Bill Zikou. The options, which vested immediately upon grant, were issued with an exercise price of 3 cents each and an expiry date of 30 November 2014. 3,000,000 of these options have since lapsed following the resignation of Mr Peter Abery in accordance with their terms.

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 Directors' report (continued)
 For the year ended 30 June 2013

3.7 Remuneration report – audited (continued)

3.7.1 Compensation policies (continued)

On 29 November 2011, shareholders approved the grant of 10,000,000 (pre-share consolidation) share options to Mr Justin Milne (the former Chairman). The options, which vested immediately upon grant, were issued with an exercise price of 1.8 cents each and an expiry date of 30 November 2015. These options have since lapsed following the resignation of Mr Milne in accordance with their terms.

The grant of options to directors and employees 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 and employees by participating in the future growth and prosperity of the Company through share ownership. The ability to compensate directors and employees by way of a grant of options enables the Company to provide a means of non-cash compensation and thereby reduce the amount that would otherwise have to be paid in cash.

The Company has a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would arise from share price decreases.

As per the Securities trading policy Directors and Executives are not allowed to enter into transactions in associated products which operate to limit the economic risk of security holdings in the Company over unvested entitlements.

In addition, the Company operates an Employee Share Acquisition Scheme ("ESAS"). 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 (2012: Nil).

Consequences of performance on shareholders wealth

In considering the Company's performance and benefits for shareholder wealth, regard is had to the following indices in respect of the current financial year and the previous four financial years.

	2013	2012	2011	2010	2009
Net (loss)	(776,274)	(3,906,768)	(3,361,578)	(2,074,815)	(2,307,611)
Loss per share (cents per share)*	(1.50)	(10.8)	(11.4)	(9.0)	(16.5)
Dividends paid	-	-	-	-	-
Change in share price – (decrease)/increase	(\$0.24)	(\$0.021)	\$0.002	\$0.011	(\$0.03)
Return on capital	-	-	-	-	-
Net cash (used in) operations	(567,940)	(2,817,176)	(2,943,081)	(1,964,165)	(1,977,364)

*Amounts represent post share consolidation loss per share.

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. On 28 September 2011 the Company gave notice of the termination of the Consultancy Agreement with Gocom Pty Ltd and the engagement of Mr Smith as Managing Director/Chief Executive Officer of the Company. \$73,333 was paid in termination benefits to Mr Smith pursuant to the terms of the above consulting

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Directors' report (continued)
For the year ended 30 June 2013

3.7 Remuneration report – audited (continued)

3.7.1 Compensation policies (continued)

agreement. The Directors of the Company further resolved to pay Mr Smith an additional amount of \$169,334 in lieu of early termination and to issue to him 500,000 share options with an estimated fair value of \$7,000.

These additional payments were subject to shareholder approval, which was granted in the current financial year. Both the options and the cash payments were paid to Mr Smith in the 2013 financial period.

On 15 April 2005, the Company entered into a contract for services with Atamo Pty Ltd, a Company of which Mr S. Snell and Mr P. Barrow are directors and shareholders. The contract was for the provision of services of Mr Snell as Chief Operating Officer and Mr Barrow as Product Development Manager. The contract was for an initial period of 2 years and fees payable on the contract were based on market rates. The contract was terminated on 21 May 2012 at which time Mr Barrow ceased to be a Key Management Personnel. Mr S. Snell continues to act as the Company's Chief Operating Officer. Fees payable for the services that he provides are based on market rates.

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. Since 6 February 2012, payments made pursuant to this contract also compensate Mr Pitts for his role as a director.

On 22 March 2012, the Company entered a contract for services with Profound Accounting and Tax, an entity owned by Mr Ohimai Mukanda. The contract is for the supply of accounting, tax and financial management services. The contract is for no fixed term and fees payable are based on market rates for these types of services.

Non-executive directors

Shareholders in a general meeting have approved a directors' fee pool limit of \$300,000 from which non-executive directors' fees may be paid.

3.7.2 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company, and other key management personnel of the Company are:

		Short-term				Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Super-annuation benefits			Options (Note 3)			
		\$	\$	\$	\$	\$	\$	\$	\$			
DIRECTORS												
(i) Non-executive Directors												
Mr PL Gunzburg, Chairman	2013	40,000	-	-	40,000	3,600	-	-	778	44,378	2%	2%
	2012	40,000	-	-	40,000	3,600	-	-	3,422	47,022	7%	7%
Mr BV Zikou	2013	17,500	-	-	17,500	26,100	-	-	-	43,600	0%	0%
	2012	40,000	-	-	40,000	3,600	-	-	-	43,600	0%	0%
Mr ME Pitts, Company Secretary	2013	60,000	-	-	60,000	-	-	-	1,630	61,630	3%	3%
	2012	60,000	-	-	60,000	-	-	-	4,177	64,177	7%	7%
Mr JT Milne (Resigned 6 February 2012)	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	34,495	-	-	34,495	3,105	-	-	77,000	114,600	67%	67%
Mr P Abery (Resigned 27 July 2011)	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	4,286	-	-	4,286	386	-	-	(9,091)	(4,419)	(205%)	(205%)
Mr CJ Ferrier (Resigned 30 January 2012). Note 1 below.	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	116,814	-	-	116,814	-	-	-	(1,421)	115,393	(1%)	(1%)
(ii) Executive Directors												
Mr CD Smith, Managing Director (until 28/9/11) non-executive director (until 11 November 2011). Note 2 below	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	55,000	-	-	55,000	-	-	247,323	(22,727)	279,596	(8%)	(8%)
(iii) Executives												
Mr Craig Turner, Chief Executive Officer (Resigned 21 May 2012)	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	215,014	-	-	215,014	15,606	-	-	-	230,620	0%	0%
Mr S Snell, Chief Operating Officer	2013	48,755	-	-	48,755	-	-	-	-	48,755	0%	0%
	2012	176,320	-	-	176,320	-	-	-	9,081	185,401	5%	5%
Mr R. Bowler, General Manager Australia and New Zealand (Resigned 25 January 2012)	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	136,930	-	-	136,930	-	-	-	-	136,930	0%	0%
Mr P Barrow, Product Development Manager (Resigned 21 May 2012)	2013	-	-	-	-	-	-	-	-	-	-	-
	2012	184,800	-	-	184,800	-	-	-	9,081	193,881	5%	5%

3.7.2 Directors' and executive officers' remuneration

		Short-term				Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Super-annuation benefits			Options (Note 3)			
		\$	\$	\$	\$	\$	\$	\$	\$			
<i>Mr B Paul, Retail Sales and Customer Services Manager (Resigned 16 December 2011)</i>	2013	-	-	-	-	-	-	-	-	-	-	
	2012	153,925	-	-	153,925	7,341	34,402	31,731	9,340	236,739	4%	4%
<i>Mr O Mukanda, Financial Controller. Note 4 below.</i>	2013	80,652	-	-	80,652	-	-	-	-	80,652	0%	0%
	2012	122,765	-	-	122,765	9,551	8,604	18,462	7,783	167,165	5%	5%
Total compensation: key management personnel	2013	246,907	-	-	246,907	29,700	-	-	2,408	279,015	1%	1%
	2012	1,340,349	-	-	1,340,349	43,189	43,006	297,516	86,645	1,810,705	5%	5%

Notes to table of Directors' and executive officers' remuneration:

1. In 2012, includes an amount of \$91,850 payable for consulting services by Seinecorp Pty Ltd, an entity controlled by Mr CJ Ferrier and \$24,964 for director fees.
2. During the previous financial year, the Directors resolved to pay Mr CD Smith \$169,334 in lieu of early termination and to issue 500,000 (post-share consolidation) share options, with an estimated fair value at 30 June 2012 of \$4,656 to Mr Smith in addition to termination benefits of \$73,333 that were paid to him on termination of contract. These additional termination payments were subject to shareholder approval, which was granted on 26 November 2012. The additional payments and the issue of options were paid to Mr Smith in the current financial year.
3. In the 2012 year, share based payments for certain key management personnel include the 'true-up' of amounts previously expensed for non-vesting options.
4. In 2012, Mr Mukanda ceased as an employee of the Company and now provides services as a consultant under Profound Accounting and Tax.

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

3.7 Remuneration report – audited (continued)

3.7.3 Analysis of bonuses included in remuneration

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

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

3.7.4.1 Options over equity instruments granted as compensation

During the year, the Company did not grant any options to Directors and Executives.

3.7.4.2 Modification of terms of equity-settled share-based payment transactions

On 20 September 2012, the Company's shareholders, in general meeting, approved a share consolidation of the Company's issued capital on a 1 for 30 basis with any fractional entitlements being rounded to the nearest whole number. The record date for the capital consolidation was 22 October 2012. The number of share options outstanding and the exercise prices were also amended on a 1 for 30 basis.

3.7.4.3 Exercise of options granted as compensation

During the financial year, no shares were issued as a result of the exercise of options.

3.7.4.4 Vesting profile of options granted as compensation

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

Directors	Options granted		% vested in year	% forfeited in year	Financial years in which grant vests
	Number	Date			
Peter Gunzburg	100,000	27 Nov 2009	-	-	2011-2015
Bill Zikou	33,333	24 Nov 2010	-	-	2011
Mark Pitts	24,999	8 Jul 2010	-	-	2012-2015
Executives					
Stewart Snell	38,889	8 Jul 2010	-	-	2012-2015
Ohimai Mukanda	33,333	8 Jul 2010	-	-	2012-2015

3.7.4.5 Analysis of movements in options

There were no options granted to Directors and Executives during the year. In addition, no options were exercised or lapsed during the year.

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

4. Principal activities

The principal activities of the Company during the financial period were the continued development and commercialisation of its public internet access, WiFi and telephony terminals, network management systems and related services.

5. Operating and financial review

During the financial year, Pienetworks Limited (the Company) had an operating loss after income tax of \$776,274 (2012: 3,906,768).

The reduction in operating loss of 80.1% is attributable to cost restructuring undertaken by the Company's Board of directors as part of their continued focus on improving the profitability of the Company. To this effect, the Board deregistered the Company's subsidiary in the United Kingdom, PieNETWORKS PLC, which had been dormant in recent years. The Board also made minor amendments the Company's New Zealand webphone network aimed at improving profitability.

The Board continues to support the Company's existing product offering and is actively supporting the Telstra Network across Australian Airports. It is engaged at the time of this report in a potential upgrade to the network. In addition it has actively promoted the potential for the application of Web phone technology in other markets and is presently engaged in commercial discussions which may deliver a timely boost to the potential for the Company's business model.

The Board has however, outlined that it believes the Company needs to pursue other opportunities in order to achieve profitability and growth in shareholder value. To this end the Board has been actively reviewing a number of complementary businesses and investment opportunities.

On 6 August 2012, the Company announced a pro rata non renounceable entitlement issue (Entitlement Issue) to raise up to \$2,560,671. The Entitlement Issue comprised an offer to existing shareholders (partially underwritten by certain directors in the amount of \$700,000) and was combined with a placement. On 8 October 2012 the Company announced that it had issued 152,250,523 shares at 0.2 cents per share pursuant to the non-renounceable entitlement offer, to raise \$304,501. On 30 October 2012 the Company further announced that it had issued a further 13,424,960 ordinary shares at 6 cents per share to raise \$805,498 in part satisfaction of the shortfall to the Entitlement Issue.

On 20 September 2012, the Company announced that its members, in general meeting, had approved a share consolidation of the Company's issued capital on a 1 for 30 basis with any fractional entitlements being rounded to the nearest whole number. The record date for the capital consolidation was 22 October 2012.

On 25 February 2013, the Company issued 500,000 unlisted share options to Mr C. Smith, a former director, as a termination benefit. The options are exercisable at 30 cents per share on or before 30 June 2017.

6. 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.

7. Events subsequent to reporting date

Subsequent to 30 June 2013, 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 Company, the results of those operations, or the state of affairs of the Company, in future financial years.

On 5 July 2013, the Company announced that it had obtained the approval of shareholders, in general meeting, to issue up to 4,666,667 ordinary shares through a placement of ordinary shares at 6 cents per share. 2,500,000 of these options are to be issued in lieu of a consulting fee to Mr Leon Carr and Mr Michael Bailey.

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

8. Likely developments

The Company has received a number of enquiries for Webphones from potential international customers and progressed discussions with interested parties. The Company has signed a memorandum of understanding with a European based equipment manufacturer to investigate opportunities in Europe and South America. None of these enquiries has yet led to formal requests for quotation, but customers remain interested and have sought additional information.

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.

9. Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the Company 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	10,158,284	100,000
Bill Zikou	2,952,500	33,333
Mark Pitts	150,000	24,999

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

10. Share options

Options granted to directors and officers of the Company

Other than the options granted to Directors detailed in section 3.7.4.1 of this Directors' report, there were no options over ordinary shares in the Company granted to directors and officers of the Company during the reporting period or options 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 Incentive options	30 November 2014	\$0.30	100,000
Employee incentive options	30 June 2015	\$0.30	586,660
Director Incentive options	30 November 2014	\$0.90	33,333
Options to financial advisors	30 November 2015	\$0.90	666,666
Options to former director	30 June 2017	\$0.30	500,000
			1,886,659

Except for options granted to former directors and 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 and since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

11. Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the current directors of the Company Mr. Peter L Gunzburg, Mr. Bill Zikou, Mr. Mark Pitts 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, 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.

pieNETWORKS Limited
 Directors' report (continued)
 For the year ended 30 June 2013

12. 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 APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	2013 \$	2012 \$
Audit services:		
Auditors of the Company		
<i>KPMG Australia:</i>		
Audit and review of financial reports	63,273	67,100
	63,273	67,100
Services other than statutory audit:		
Auditors of the Company		
<i>KPMG Australia</i>		
Taxation services	10,100	15,139
	73,373	82,239

pieNETWORKS Limited
Directors' report (continued)
For the year ended 30 June 2013

13. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 65 and forms part of the directors' report for financial year ended 30 June 2013.

This report is made with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Peter Gunzburg', with a horizontal line underneath.

Peter Gunzburg
Director

Dated at Perth this 27th day of September 2013.

pieNETWORKS Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

<i>In AUD</i>	Note	2013	2012
Revenue from sale of goods	6	32,348	444,774
Revenue from rendering services	6	439,559	511,111
Cost of sales		(231,290)	(730,376)
Gross profit		240,617	225,509
Other income from ordinary activities	7	54,706	459,570
Network management expenses		(260,548)	(609,694)
Sales and marketing expenses		(23,860)	(642,370)
Research and development expenses		(198,200)	(939,281)
Administrative and corporate expenses		(650,942)	(2,468,448)
Other expenses from ordinary activities	8	(68,763)	(6,874)
Results from operating activities		(906,990)	(3,981,588)
Financial income		131,821	75,955
Financial expenses		(1,105)	(1,135)
Net financing income	10	130,716	74,820
Loss before income tax		(776,274)	(3,906,768)
Income tax expense	11	-	-
Loss after income tax attributable to Owners of the Company		(776,274)	(3,906,768)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(98,947)	(12,247)
Total comprehensive income attributable to Owners of the Company		(875,221)	(3,919,015)
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic and diluted loss per share (cents)	19	(1.50)	(10.83)

The notes on pages 28 to 61 are an integral part of these financial statements

pieNETWORKS Limited
Statement of changes in equity
For the year ended 30 June 2013

	Note	Attributable to shareholders of the Company			Accumulated losses	Total equity
		Share capital	Share option reserve	Translation reserve		
<i>In AUD</i>						
Balance at 1 July 2011		26,376,845	756,909	9,773	(24,896,849)	2,246,678
Total comprehensive income for the period						
Loss for the period		-	-	-	(3,906,768)	(3,906,768)
<i>Other comprehensive income</i>						
Foreign currency translation differences		-	-	(12,247)	-	(12,247)
Total comprehensive income for the period		-	-	(12,247)	(3,906,768)	(3,919,015)
Transactions with Owners, recorded directly in equity						
Issue of ordinary shares	18	2,098,250	-	-	-	2,098,250
Share-based payment transactions	22	-	295,522	-	-	295,522
Total transactions with Owners		2,098,250	295,522	-	-	2,393,772
Balance at 30 June 2012		28,475,095	1,052,431	(2,474)	(28,803,617)	721,435

	Note	Attributable to shareholders of the Company			Accumulated losses	Total equity
		Share capital	Share option reserve	Translation reserve		
<i>In AUD</i>						
Balance at 1 July 2012		28,475,095	1,052,431	(2,474)	(28,803,617)	721,435
Total comprehensive income for the period						
Loss for the period		-	-	-	(776,274)	(776,274)
<i>Other comprehensive income</i>						
Foreign currency translation differences		-	-	(98,947)	-	(98,947)
Total comprehensive income for the period		-	-	(98,947)	(776,274)	(875,221)
Transactions with Owners, recorded directly in equity						
Issue of ordinary shares	18	1,458,619	-	-	-	1,458,619
Share-based payment transactions	22	-	12,343	-	-	12,343
Total transactions with Owners		1,458,619	12,343	-	-	1,470,962
Balance at 30 June 2013		29,933,714	1,064,774	(101,421)	(29,579,891)	1,317,176

The notes on pages 28 to 61 are an integral part of these financial statements.

pieNETWORKS Limited
Statement of financial position
As at 30 June 2013

<i>In AUD</i>	Note	2013	2012
Assets			
Cash and cash equivalents	16(a)	1,384,293	521,302
Trade and other receivables	15	98,028	500,359
Inventories	14	21,448	83,564
Current income tax assets		909	1,954
Restricted cash	17	134,802	4,463
Other current assets		55,771	56,675
Total current assets		1,695,251	1,168,317
Restricted cash	17	113,722	105,709
Property, plant and equipment	12	40,848	60,371
Total non-current assets		154,570	166,080
Total assets		1,849,821	1,334,397
Liabilities			
Trade and other payables	23	346,735	343,531
Loans and borrowings	20	2,113	1,850
Employee benefits	21	26,847	44,759
Deferred revenue		20,487	24,830
Provisions	32	67,592	70,217
Total current liabilities		463,774	485,187
Loans and borrowings	20	3,340	5,453
Employee benefits	21	20,391	2,656
Provisions	32	45,140	119,666
Total non-current liabilities		68,871	127,775
Total liabilities		532,645	612,962
Net assets		1,317,176	721,435
Equity			
Share capital	18	29,933,714	28,475,095
Reserves		963,353	1,049,957
Accumulated losses		(29,579,891)	(28,803,617)
Total equity		1,317,176	721,435

The notes on pages 28 to 61 are an integral part of these financial statements.

pieNETWORKS Limited
Statement of cash flows
For the year ended 30 June 2013

In AUD	Note	2013	2012
Cash flows from operating activities			
Cash receipts from customers		452,467	991,282
Cash paid to suppliers and employees		(1,478,477)	(4,260,622)
Cash utilised in operating activities		(1,026,010)	(3,269,340)
Research and development tax offset rebate received		458,070	452,164
Net cash (used in) operating activities	16b	(567,940)	(2,817,176)
Cash flows from investing activities			
Interest received		30,032	67,412
Proceeds from sale of property, plant and equipment		-	1,781
Acquisition of property, plant and equipment		(54,765)	(254,494)
Acquisition of intangible asset		-	(1,194)
Net cash (used in) investing activities		(24,733)	(186,495)
Cash flows from financing activities			
Payment of finance lease liabilities		(1,850)	(1,620)
Proceeds from share issues	18	1,579,999	2,320,000
Payments for equity raising costs	18	(121,380)	(105,750)
Interest paid	10	(1,105)	(1,135)
Net cash provided by financing activities		1,455,664	2,211,495
Net increase/(decrease) in cash and cash equivalents		862,991	(792,176)
Cash and cash equivalents at 1 July		521,302	1,313,478
Cash and cash equivalents at 30 June	16a	1,384,293	521,302

The notes on pages 28 to 61 are an integral part of these financial statements.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

1. Entity

PieNETWORKS Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is C/- Suite 8, 7 The Esplanade, Mount Pleasant WA 6153. The Company is a for-profit entity primarily 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 financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 27 September 2013.

(b) Going concern basis

The Company incurred a loss after tax for the period of \$776,274 (2012: \$3,906,768) and has a surplus in working capital at 30 June 2013 of \$1,231,477 (30 June 2012: \$683,130). During the period, the Company used cash of \$567,940 (2012: \$2,817,176) in its operations and the Company has continued to have net cash outflows from its operations since 30 June 2013.

The financial report for the year ended 30 June 2013 has been prepared on the basis of going concern, which contemplates continuity of business activities including actively reviewing complementary business opportunities and the realisation of assets and settlement of liabilities in the ordinary course of business. Directors believe this to be appropriate and have prepared a cashflow forecast for the next 12 month period subsequent to the date of this report. The cash flow forecast takes into account, amongst other factors, contractual commitments relating to its New Zealand contracts and the reduced cash burn as a consequence of the major cost cutting activities and is dependent, amongst other matters, on the Company continuing to derive revenue from its current web-phone and kiosk networks at levels materially consistent with recent months. The Company anticipates having sufficient cash reserves for at least the next 12 months subsequent to the date of this report.

(c) Basis of measurement

The financial report is prepared on the historical cost basis.

(d) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency. The functional currency of the Company's New Zealand branch is New Zealand dollar.

(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 22 – measurement of share-based payments
- note 32 – measurement of onerous contract provisions

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Basis of Preparation

(i) Elimination of transactions

Inter-segment balances and any unrealised income and expenses arising from inter-segment transactions, are eliminated in preparing the financial statements.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company 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 year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. 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.

(iii) 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.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Loans and receivables are initially recognised on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

pieNETWORKS Limited
 Notes to the financial statements for the year ended 30 June 2013
 3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 3(g)).

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(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.

(c) 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, when the Company has an obligation to remove the assets or restore the site on which the assets 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.

(ii) Subsequent costs

Subsequent expenditure is capitalised only 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 and repairs are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. Items of property, plant and equipment are depreciated from the date they are ready to use.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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

- equipment and fittings 5 years
- kiosks and webphones 2.5 years

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

(d) 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 Company 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 accumulated impairment losses.

The R&D tax incentive is accounted for as a government grant (see note 3(g)).

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, 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 business management systems 2.5 years

(e) Leased assets

Leases in terms of which the Company 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 Company's statement of financial position.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

(e) Leased assets (continued)

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost, 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.

(g) Impairment

(i) Financial assets

A financial asset not classified as at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. 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, that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

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.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

3. Significant accounting policies (continued)

(g) Impairment (continued)

ii) Non-financial assets

The carrying amounts of the Company'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 and reflected in an allowance account against receivables.

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.

(h) 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 Company'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 Company's obligations. Any gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(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 are expected to vest, except for those that fail to vest due to market conditions not being met.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

3. Significant accounting policies (continued)

(h) Employee benefits (continued)

(v) Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company 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. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(i) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

(i) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at present value of the lower of the expected cost of terminating the contract and the expected cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on assets associated with that contract.

(j) 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, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

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 the extent of work performed.

(k) 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.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

3. Significant accounting policies (continued)

(k) Expenses (continued)

(ii) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in profit or loss using the effective interest method.

Financial costs comprise interest expense on borrowings and unwinding of the discount on provisions.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or loss position.

(l) 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.

In determining the amount of current tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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.

(m) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed by the Chief Operating Officer (COO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the COO include items directly attributable to a segment as well as those that can be allocated based on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

3. Significant accounting policies (continued)

(n) Earnings per share

The Company 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.

(o) 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.

(p) Government grants

Government grants that compensate the Company for expenses incurred are recognised in the profit and loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 30 June 2013, and have not been applied in preparing these financial statements. Except for those listed below, none of these is expected to have a significant effect on the financial statements of the Company.

- *AASB 9 Financial Instruments* becomes effective for the Company's 2014 financial statements and could change the classification and measurement of financial assets. The Company does to plan to adopt this standard early and the extent of the impact has not yet been determined.
- *AASB 13 Fair Value Measurement (2011)* AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The Company is currently reviewing its methodologies in determining fair values. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

4. Determination of fair values

A number of the Company'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. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

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Notes to the financial statements for the year ended 30 June 2013

4. Determination of fair values (continued)

(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 share 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.

The fair value of share based transactions with suppliers is measured by reference to the fair value of goods or services received. Where this cannot be measured directly, it is measured by reference to the fair value of share options granted. The measurement model and inputs are the same as those used for employee share options.

5. Financial Risk Management

The Company has 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 exposure to each of the above risks, its 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's business activities.

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from transactions with customers and cash holdings with financial institutions.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company is not materially exposed to credit risk as the majority of their services are prepaid. Approximately 31% percent (2012: 22% percent) of the Company's revenue is attributable to sales transactions with its largest customer. The Company's largest receivable balance at 30 June 2013 related to amounts to be claimed from the Australian Taxation Office under the Research and Development tax incentive program.

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.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

5. Financial Risk Management (continued)

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

Cash and cash equivalents, restricted term deposits

The Company maintains its bank accounts with major Australian and New Zealand financial institutions only.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

The Company 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 Company'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. Further information is set out in note 2(b).

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company'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 Company is exposed to currency risk on transactions with its foreign branch that is denominated in a currency other than the respective functional currency of the Company, being the Australian dollar (AUD). The currency in which these transactions primarily are denominated is NZD (New Zealand Dollar).

Transactions with foreign suppliers also expose the Company to currency risk. Such transactions are predominantly denominated in USD (United States Dollar).

Interest rate risk

As the Company has interest bearing assets, its 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 24 – Financial Instruments).

(d) Capital management

The Board's policy is to seek 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.

The Board's approach to capital management has been to regularly monitor the Company's capital and to seek additional funding from investors on an as needs basis so as to facilitate the Company's webphone deployment and commercialisation strategy.

Details of the fundraising activities by the Company during the year are set out in notes 18 and 30.

There were no changes in the Company's approach to capital management during the year. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

6. Revenue

<i>In AUD</i>	2013	2012
Sales	32,348	444,774
Services	439,559	511,111
Total revenues	471,907	955,885

7. Other income

<i>In AUD</i>	2013	2012
R&D tax incentive. (Note (i) below)	54,706	458,070
Traineeship rebate	-	1,500
	54,706	459,570

- (i) The Company has incurred certain research and development expenditure which it has reasonable assurance will qualify for a research and development tax incentive pursuant to the Research and Development Tax Incentive Program commencing 1 July 2011. The amount has been accounted for in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

8. Other expenses

<i>In AUD</i>	2013	2012
Increase/ (decrease) in bad debt provisions	54,656	(4,911)
Bad debts written off	14,107	10,634
Loss on disposal of non-current assets	-	1,151
	68,763	6,874

9. Personnel expenses

<i>In AUD</i>	Note	2013	2012
Wages and salaries		231,872	1,593,461
Other associated personnel expenses		2,733	81,117
Contributions to defined contribution superannuation funds	21	28,069	134,424
Consulting fees		291,976	1,195,288
Decrease in liability for annual leave	21	(3,999)	(109,942)
Increase/(decrease) in liability for long service leave	21	17,735	(35,565)
Equity-settled share based payment transactions	22	12,343	179,523
		580,729	3,038,306

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

10. Finance income and expense

<i>In AUD</i>	2013	2012
Interest income	30,032	67,412
Net foreign exchange gain	101,789	8,543
Financial income	131,821	75,955
Interest expense	(1,105)	(1,135)
Financial expenses	(1,105)	(1,135)
Net finance income	130,716	74,820

11. Income tax benefit

Numerical reconciliation between tax benefit and pre-tax net profit

<i>In AUD</i>	2013	2012
Loss for the period	776,274	3,906,768
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	(232,882)	(1,172,030)
Increase in income tax expense due to:		
Non-deductible expenses	3,703	2,131
R&D costs	36,471	81,080
Tax losses and movements in deferred taxes not recognised	192,708	1,088,819
Income tax benefit on pre-tax net loss	-	-

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

12. Property, plant and equipment

<i>In AUD</i>	Kiosks and Webphones	Equipment and fittings	Total
Cost			
Balance at 1 July 2011	547,349	374,148	921,497
Acquisitions	203,557	95,035	298,592
Disposals	(20,915)	(32,204)	(53,119)
Movements in exchange rates	(2,908)	(729)	(3,637)
Impairment and write offs	(263,553)	(202,298)	(465,851)
Balance at 30 June 2012	463,530	233,952	697,482
Balance at 1 July 2012	463,530	233,952	697,482
Acquisitions	6,738	48,027	54,765
Movements in exchange rates	34,259	864	35,123
Impairment and write offs	(32,860)	(54,370)	(87,230)
Balance at 30 June 2013	471,667	228,473	700,140
Depreciation			
Balance at 1 July 2011	275,095	243,097	518,192
Depreciation charge for the year	172,247	56,503	228,750
Movements in exchange	3,225	1,074	4,299
Disposals	(20,097)	(29,271)	(49,368)
Impairment and write offs	-	(64,762)	(64,762)
Balance at 30 June 2012	430,470	206,641	637,111
Balance at 1 July 2012	430,470	206,641	637,111
Depreciation charge for the year	22,082	14,965	37,047
Movements in exchange rates	32,797	857	33,654
Impairment and write offs	(41,734)	(6,786)	(48,520)
Balance at 30 June 2013	443,615	215,677	659,292
Carrying amounts			
At 1 July 2011	272,254	131,051	403,305
At 30 June 2012	33,060	27,311	60,371
At 1 July 2012	33,060	27,311	60,371
At 30 June 2013	28,052	12,796	40,848

Depreciation is included in administrative and corporate expenses in the income statement.

During the year, the Company recorded impairment losses of \$38,710 (2012: \$401,089) relating to Property, Plant and Equipment. These losses are disclosed as part of administrative and corporate expenses. The impairment losses have arisen as a consequence of the assessment by Directors as at 30 June 2013, that these assets will not be able to recover their carrying values from future cashflows.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

12. Property, plant and equipment (Continued)

Key determinants in these write downs include:

- an assessment that the scale and profitability of the New Zealand webphone network will not be sufficient to recover the carrying value of these assets; and
- the uncertainty of future arrangements with Telstra relating to further deployments of the Company's webphones resulting in the write-off of equipment and other assets acquired to support this deployment.

The recoverable amount of Property, Plant and Equipment was predominantly measured using a value in use model utilising a pre-tax discount rate of 15%. Other assets impaired were written off in full, based on the uncertainty in relation to future arrangements with Telstra

Leased office equipment

The Company leases office equipment under finance lease agreements. At the end of the leases the Company has the option to purchase the equipment at a beneficial price. At 30 June 2013, the net carrying amount of leased equipment was \$4,971 (2012: \$7,029). The leased equipment secures the lease obligations (see note 20).

13. Tax assets and liabilities

Unrecognised deferred tax assets

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

In AUD (net)	2013	2012
Deductible temporary differences	(830)	(139,540)
Tax losses	5,430,901	5,518,929
	<u>5,430,071</u>	<u>5,379,389</u>

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 entity can utilise the benefits there from.

14. Inventories

In AUD	2013	2012
Raw materials and consumables	21,448	78,814
Work in progress	-	4,750
	<u>21,448</u>	<u>83,564</u>

In the 2013 financial year raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$14,220 (2012: \$139,535). Write-down of inventories to net realisable value amounted to \$49,876 (2012: \$53,107). These write-downs are disclosed as part of administrative and corporate expenses.

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

15. Trade and other receivables

<i>In AUD</i>	2013	2012
Current		
Trade receivables	38,624	42,289
Other receivables	4,698	-
R&D tax incentive	54,706	458,070
	<u>98,028</u>	<u>500,359</u>

Trade and other receivables are recorded net of an impairment provision of \$68,116 (2012: \$13,449).

16a. Cash and cash equivalents

<i>In AUD</i>	2013	2012
Bank balances	53,348	44,677
Call deposits	1,330,945	476,625
Total Cash and cash equivalents in the statement of cash flows	<u>1,384,293</u>	<u>521,302</u>

The effective interest rate on call deposits was 2.77% (2012: 4.00%).

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

16b. Reconciliation of cash flows from operating activities

<i>In AUD</i>	<i>Note</i>	2013	2012
Cash flows from operating activities			
Loss for the period		(776,274)	(3,906,768)
<i>Adjustments for:</i>			
Depreciation	12	37,047	228,750
Amortisation		-	838
Interest income	10	(30,032)	(67,412)
Interest expense	10	1,105	1,135
Write down in value of plant and equipment		38,710	400,880
Write down in value of inventories		49,876	53,107
Write down in value of trade and other receivables		68,763	5,723
Unrealised foreign exchange gains		(108,768)	(20,790)
Equity-settled share-based payment expense	22	12,343	179,523
Operating loss before changes in Working capital and provisions		(707,230)	(3,125,014)
Change in trade and other receivables		(124,502)	(465,082)
Change in other current assets		904	20,171
Change in inventories		12,240	284,070
Change in other income tax assets		1,045	(6,536)
Change in trade and other payables		(126,796)	63,958
Change in deferred revenue		(4,343)	(54,647)
Change in employee provisions		(177)	(176,143)
Change in other provisions		(77,151)	189,883
Cash utilised in operating activities		(1,026,010)	(3,269,340)
R&D tax incentive/ offset rebate received		458,070	452,164
Net cash (used in) operating activities		(567,940)	(2,817,176)

17. Restricted cash

<i>In AUD</i>	2013	2012
Current assets		
Restricted cash deposits*	4,802	4,463
Funds received for shares issued post year end	130,000	-
Total current restricted cash	134,802	4,463
Non-current assets		
Restricted cash deposits*	113,722	105,709
Total non-current restricted cash	113,722	105,709
Total restricted cash	248,524	110,172

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

17. Restricted cash deposits (continued)

*Restricted term deposits of \$118,524 (2012: \$110,172) are being held by ASB Bank New Zealand Ltd as security for bank guarantees of NZ\$135,000 and NZ\$5,700 in favour of Westfield New Zealand Ltd and AMP Capital Property Portfolio Ltd, respectively. The effective interest rate on those deposits was 3.17% (2012: 4.56%).

18. Capital and reserves

Share capital

	The Company Ordinary shares			
	2013 No.	2013 \$	2012 No.	2012 \$
On issue at 1 July	37,111,150	28,475,095	32,277,817	26,376,845
Issued for cash	26,332,767	1,458,619	4,833,333	2,098,250
On issue at 30 June – fully paid	63,443,917	29,933,714	37,111,150	28,475,095

During the year, 26,332,767 (2012: 4,833,333) shares were issued to raise \$1,579,999 (2012: \$2,320,000) before \$121,380 (2012: \$221,750) of issue costs, including \$Nil (2012: \$116,000) of share based payments, were incurred.

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.

On 20 September 2012, the Company announced that its members, in general meeting, had approved a share consolidation of the Company's issued capital on a 1 for 30 basis with any fractional entitlements being rounded to the nearest whole number. The record date for the capital consolidation was 22 October 2012.

Share options reserve

The share option reserve comprises the cumulative fair value of vested and vesting options provided as compensation by the Company.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

19. Loss per share

Basic Loss per share

The calculation of basic and diluted loss per share at 30 June 2013 was based on the loss attributable to ordinary shareholders of \$776,274 (2012: \$3,906,768) and a weighted average number of ordinary shares outstanding of 51,650,991 (2012: 36,120,713), calculated as follows:

Weighted average number of ordinary shares

	Note	2013	2012
Issued ordinary shares at 1 July	18	37,111,150	32,277,817
Effect of shares issued		14,539,841	3,842,896
Weighted average number of ordinary shares at 30 June		51,650,991	36,120,713

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

19. Loss per share (continued)

Options to acquire ordinary shares granted by the Company and not exercised at the reporting date which are considered to be potential ordinary shares are included in the determination of diluted earnings per share to the extent to which they are dilutive. At 30 June 2013, none of the options on issue were considered to be dilutive and accordingly the options have not been included in the determination of diluted loss per share. Refer to note 22 for details of the options granted.

20. Loans and borrowings

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

<i>In AUD</i>	2013	2012
Current liabilities		
Finance lease liabilities	2,113	1,850
Non-current liabilities		
Finance lease liabilities	3,340	5,453

Finance lease liabilities

Finance lease liabilities of the Company are payable as follows:

<i>In AUD</i>	Future Minimum lease payments	Interest	Principal*	Future Minimum lease payments	Interest	Principal*
	2013	2013	2013	2012	2012	2012
Less than one year	2,715	602	2,113	2,715	865	1,850
Between one and five years	3,669	329	3,340	6,384	931	5,453
	<u>6,384</u>	<u>931</u>	<u>5,453</u>	<u>9,099</u>	<u>1,796</u>	<u>7,303</u>

* Principal represents the present value of minimum lease payments.

The Company leases office equipment under a finance lease expiring in 3 years. At the end of the lease term, the Company has the option to purchase the equipment at a price deemed to be a bargain purchase option.

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Notes to the financial statements for the year ended 30 June 2013

21. Employee benefits

<i>In AUD</i>	2013	2012
Current		
Liability for annual leave	19,823	23,822
Employee superannuation	7,024	20,937
	<u>26,847</u>	<u>44,759</u>
Non Current		
Liability for long-service leave	20,391	2,656
Total employee benefits	<u>20,391</u>	<u>2,656</u>

(a) Defined contribution superannuation funds

The Company makes contributions to a defined contribution superannuation fund. The amount recognised as an expense was \$28,069 for the financial year ended 30 June 2013 (2012: \$134,424).

22. Share based payments

On 28 April 2005 the Company established a share option programme "pieNETWORKS OIP" that entitles employees to subscribe for shares in the entity. All figures below (current and comparative) reflect post share consolidation number of options.

The terms and conditions of the grants in 2013 and 2012 are as follows:

Grant date / employee entitled	Number of instruments	Note	Vesting conditions	Exercise price	Contractual life of options
Options outstanding at 1 July 2011					
Option grant to director at 27 November 2009	550,000	(i)	Vest in 3 tranches over 3 years	\$0.30	5 years
Option grant to employees and contractors 8 July 2010	586,660		Vest in 3 tranches over 3 years	\$0.30	5 years
Option grant to CPS Securities at 8 July 2010	666,666	(ii)	Fully vested from the date of grant	\$1.5	2.7 years
Option grant to directors at 24 November 2010	133,333	(iii)	Fully vested from the date of grant	\$0.9	4 years
	<u>1,936,659</u>				
Options granted during 2012					
Option grant to directors at 29 November 2011	333,333	(iv)	Fully vested from the date of grant	\$0.54	4 years
Option grant to Bell Porter Securities at 29 November 2011	666,666	(v)	Fully vested from the date of grant	\$0.9	4 years
	<u>999,999</u>				
Options granted during 2013					
Option grant to former director at 26 November 2012	500,000	(vi)	Fully vested from the date of grant	\$0.30	4.6 years
	<u>500,000</u>				
Total share options	<u>3,436,658</u>				

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

22. Share based payments (continued)

- (i) 450,000 of these options expired unexercised in the previous year.
- (ii) The Company granted these options pursuant to the terms of an advisory mandate and services related to an equity raising. These options expired unexercised in the current year.
- (iii) 100,000 of these options expired unexercised in the previous year.
- (iv) These options expired unexercised in the previous year.
- (v) These options were issued as part consideration for advisory and equity raising services.
- (vi) These options were issued as part of a termination payment to Mr. Smith, a former director of the Company.

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2013	2013	2012	2012
Outstanding at the beginning of the period	0.89	2,053,325	0.75	1,936,659
Expired during the period	1.50	(666,666)	0.50	(883,333)
Granted during the period	0.30	500,000	0.78	999,999
Outstanding at the end of the period	0.52	1,886,659	0.89	2,053,325
Exercisable at the end of the period	0.65	1,199,999	1.19	1,366,666

The options outstanding at 30 June 2013 have exercise prices of \$0.30 and \$0.90 and a weighted average contractual life of 4.6 years.

There were no options exercised during the financial year (2012: Nil).

The fair value of options granted to Mr C Smith, a former director of the Company, at grant date has been determined using the Binomial model, which is considered to approximate the fair value of the services rendered, utilising the following assumptions:

Item	
Underlying share spot price	\$0.032
Exercise price	\$0.30
Grant date	26 November 2012
Expiration date	30 June 2017
Life of options	5 Years
Volatility	70%
Risk free rate	2.58%
Fair value	\$0.014

The full cost of these options was recognised as a termination expense in the income statement in the previous financial year.

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

22. Share based payments (continued)

The fair value of options granted to Bell Porter Securities (in 2012) at grant date has been determined using the Binomial model, which is considered to approximate the value of services received, utilising the following model assumptions:

Item	
Underlying share spot price	\$0.45
Exercise price	\$0.90
Grant date	29 November 2011
Expiration date	30 November 2015
Life of options	4 Years
Volatility	70%
Risk free rate	4.50%
Fair value	\$0.174

The full cost of these options has been recognised as issued capital costs.

The fair value of options granted to Mr J Milne (in 2012) at grant date has been determined using the Binomial model, utilising the following model assumptions:

Item	
Underlying share spot price	\$0.45
Exercise price	\$0.54
Grant date	29 November 2011
Expiration date	30 November 2015
Life of options	4 Years
Volatility	70%
Risk free rate	4.50%
Fair value	\$0.231

The full fair value of these options has been recognised as a share based payment in the income statement. These options lapsed unexercised on resignation of Mr. J Milne on 6 February 2012.

Share based costs

<i>In AUD</i>	Note	2013	2012
Recognised in profit and loss			
Share options granted to employees	9	12,343	179,523
Recognised in equity			
Share options granted to financial advisors in relation to capital raising		-	115,999
		<u>12,343</u>	<u>295,522</u>

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

23. Trade and other payables

<i>In AUD</i>	2013	2012
Payables and accrued expenses	216,735	343,531
Payables for share issue not finalised in the period	130,000	-
Trade and other payables	<u>346,735</u>	<u>343,531</u>

24. Financial instruments

Credit risk

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

<i>In AUD</i>	Note	Carrying amount	
		2013	2012
Trade and other receivables	15	98,028	500,359
Cash and cash equivalents	16(a)	1,384,293	521,302
Restricted cash	17	248,524	110,172
		<u>1,730,845</u>	<u>1,131,833</u>

The Company's maximum exposure to credit risk for trade and other receivables by geographic region was:

<i>In AUD</i>	Carrying amount	
	2013	2012
Australia	96,163	496,386
New Zealand	1,865	3,973
	<u>98,028</u>	<u>500,359</u>

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

<i>In AUD</i>	Carrying amount	
	2013	2012
Wholesale customers	24,248	9,491
Retail customers	14,376	32,798
Other receivables(Note (i) below)	59,404	458,070
	<u>98,028</u>	<u>500,359</u>

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

24. Financial instruments (continued)

- (i) Other receivables comprise the amount to be received by the Company from the Australian Taxation Office pursuant to its R&D Tax Incentive applications and amounts refundable to the Company following the lodgement of its fringe benefits tax returns.

The Company's most significant customer accounts for \$24,248 of the trade receivables carrying amount at 30 June 2013 (2012: \$9,491).

Impairment losses

\$39,042 of the Company's trade receivables are past due (2012: \$31,436). The aging of the Company's trade receivables at the reporting date was:

<i>In AUD</i>	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	17,617	-	24,120	-
Past due 0-30 days	13,532	-	1,569	-
Past due 31-90 days	25,510	18,035	29,867	13,267
	56,659	18,035	55,556	13,267

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

<i>In thousands of AUD</i>	2013	2012
Balance at 1 July	13,267	12,637
Impairment loss recognised	4,768	630
Balance at 30 June	18,035	13,267

Based on past customer default experience, the provision for impairment at the year-end is considered to be sufficient for the Company.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

30 June 2013

In AUD

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Trade and other payables	346,735	(346,735)	(346,735)	-	-	-
Finance lease liabilities	5,453	(6,384)	(1,358)	(1,357)	(2,714)	(955)
	352,188	(353,119)	(348,093)	(1,357)	(2,714)	(955)

30 June 2012

In AUD

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Trade and other payables	343,531	(343,531)	(343,531)	-	-	-
Finance lease liabilities	7,303	(9,099)	(1,357)	(1,358)	(2,715)	(3,669)
	350,834	(352,630)	(344,888)	(1,358)	(2,715)	(3,669)

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

24. Financial instruments (continued)

Currency risk

The Company was not exposed to foreign currency risk during the years ended 30 June 2013 and 30 June 2012.

The following significant exchange rates applied during the year:

	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
	2013	2013	2012	2012
AUD/NZD	1.2497	1.1871	1.2831	1.2771

Interest rate risk

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

	Carrying amount	
AUD	2013	2012
Fixed rate instruments		
Financial liabilities – finance lease	(5,453)	(7,303)
Financial assets –term deposits	118,524	110,172
Variable rate instruments		
Cash and cash equivalents	1,384,293	521,302
Financial assets-Other restricted cash	130,000	-

Fair value sensitivity analysis for fixed rate investments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. 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) loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Loss	
AUD	100bp increase	100bp decrease
30 June 2013		
Variable rate instruments	(15,143)	15,143
30 June 2012		
Variable rate instruments	(5,213)	5,213

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

24. Financial instruments (continued)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities approximate their carrying amounts shown in the statement of financial position due to their short term nature. The basis for determining fair values is disclosed in note 4.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In AUD</i>	2013	2012
Less than one year	9,800	28,000
Between one and five years	-	9,800
	9,800	37,800

The Company leased a warehouse and factory facility under an operating lease. The lease was for a period of 3 years, with an option to renew the lease after that date. The lease expired on 30 April 2012 and was not renewed.

In addition, the Company leases office space in Sydney under an operating lease. The lease is for a period of 2 years, with an option to renew the lease after that date. The Company also leases office space in Perth under a sublease arrangement. The sublease is ongoing and can be terminated on a month's notice.

During the financial year ended 30 June 2013 \$59,182 was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases and subleases (2012: \$123,122).

26. Capital and other commitments

Capital commitments

<i>Contracted but not provided for:</i>	2013	2012
Less than one year	-	82,360
	-	82,360

27. Related parties

The following were key management personnel of the Company 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)

Bill Zikou

Mark Pitts

Executives

Stewart Snell (Chief Operating Officer)

Ohimai Mukanda (Financial Controller)

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

27. Related parties (continued)

Key management personnel compensation

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

In AUD	2013	2012
Short-term employee benefits	246,907	1,340,349
Share-based payments	2,408	86,645
Post-employment benefits	29,700	43,189
Termination benefits	-	297,516
Other long term benefits	-	43,006
	<u>279,015</u>	<u>1,810,705</u>

Individual directors and executive compensation disclosure

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by the Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

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

Key management personnel and director transactions

Mr. S. Snell, a key management person of the Company, holds a position in another entity, Atamo Pty Ltd, that results in him having control or significant influence over the financial or operating policies of that entity.

The Company transacted with Atamo Pty Ltd in the reporting period. The terms and conditions of transactions with Atamo Pty Ltd were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Key management personnel and entities over which they have control or significant influence were as follows:

In AUD	Note	Transaction value year ended		Balance outstanding	
		30 June 2013	2012	at 30 June 2013	2012
Key management person					
S. Snell	(i)	135,898	157,553	8,197	4,020
		<u>135,898</u>	<u>157,553</u>	<u>8,197</u>	<u>4,020</u>

- (i) The Company used technical consultancy services of Atamo Pty Ltd in relation to product development and other related research and development activities. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The Company also entered into a sublease arrangement with Atamo Pty Ltd for the supply of office space for the Company's operations in Perth. Rents paid under the sublease arrangement are based on normal market rates and are due and payable on normal payment terms. These amounts exclude compensation paid to Mr S.Snell in connection with performance of his key management person role.

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

Options over equity instruments

The movement during the reporting period in the number of options (post-share consolidation) 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 2012	Granted as compensation	Other changes (i)	Expired	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
Directors							
Peter L Gunzburg	100,000	-	-	-	100,000	-	-
Bill Zikou	33,333	-	-	-	33,333	-	33,333
Mark Pitts	24,999	-	-	-	24,999	-	-
Executives							
Stewart Snell	38,872	-	-	-	38,872	-	-
Ohimai Mukanda	33,333	-	-	-	33,333	-	-

	Held at 1 July 2011	Granted as compensation	Other changes (i)	Expired	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
Directors							
Peter L Gunzburg	100,000	-	-	-	100,000	-	-
Bill Zikou	33,333	-	-	-	33,333	-	33,333
Mark Pitts	24,999	-	-	-	24,999	-	-
Justin Milne	-	333,333	-	(333,333)	-	333,333	-
Craig Ferrier	100,000	-	-	(100,000)	-	-	-
Peter Abery	200,000	-	-	(200,000)	-	-	-
Campbell Smith	250,000	-	-	(250,000)	-	-	-
Executives							
Stewart Snell	38,872	-	-	-	38,872	-	-
Peter Barrow	38,872	-	(38,872)	-	-	-	-
Bryan Paul	40,000	-	(40,000)	-	-	-	-
Ohimai Mukanda	33,333	-	-	-	33,333	-	-

(i) Other changes include changes in holdings on cessation or resignation as Key Management Personnel.

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

27. Related parties (continued)

Movements in shares

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

	Held at 1 July 2012	Purchases	Sales	Other changes (i)	Held at 30 June 2013
Directors					
Peter L Gunzburg	3,711,990	7,988,603	(605,769)	-	11,094,824
Bill Zikou	37,500	2,915,000	-	-	2,952,500
Mark Pitts	75,000	75,000	-	-	150,000
Executives					
Stewart Snell	66,639	-	-	-	66,639
	<u>3,891,129</u>	<u>10,978,603</u>	<u>(605,769)</u>	<u>-</u>	<u>14,263,963</u>

	Held at 1 July 2011	Purchases	Sales	Other changes (i)	Held at 30 June 2012
Directors					
Peter L Gunzburg	4,037,823	-	-	(325,833)	3,711,990
Bill Zikou	37,500	-	-	-	37,500
Mark Pitts	75,000	-	-	-	75,000
Campbell Smith	572,304	-	-	(572,304)	-
Craig Ferrier	37,500	-	-	(37,500)	-
Peter Abery	84,366	-	-	(84,366)	-
Justin Milne	-	34,666	-	(34,666)	-
Executives					
Stewart Snell	66,639	-	-	-	66,639
Bryan Paul	41,833	-	-	(41,833)	-
Peter Barrow	56,489	-	-	(56,489)	-
	<u>5,009,454</u>	<u>34,666</u>	<u>-</u>	<u>(1,152,991)</u>	<u>3,891,129</u>

(i) Other changes include changes in holdings on cessation or resignation as Key Management Personnel.

No shares were granted to key management personnel during the reporting period as compensation in 2013 or 2012.

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

28. Group entities

		2013	2012
Parent entity			
pieNETWORKS Limited	Australia		
Subsidiaries			
pieNETWORKS Plc	United Kingdom	-	100%

Subsidiaries

On 18 December 2012, the Company wound up pieNETWORKS PLC, its subsidiary in the United Kingdom. The UK subsidiary had been dormant and the Company's investments in the subsidiary had been fully written off in previous years. Therefore exclusion of the UK subsidiary from the Group has no effect on the reporting entity's profit from ordinary activities not does it affect the prior period comparatives.

29. Operating segments

The Company has two reportable segments, as detailed below, which are the Company's strategic operational units. The strategic operational units operate in separate geographical locations and offer similar products and services, and are managed centrally because they require similar administrative, operational and marketing support. For each strategic operational unit, the Chief Operating Officer (COO) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Company's reportable segments:

- Australia – Includes manufacture, distribution and management of self service telecommunications infrastructure within Australia.
- New Zealand – Includes assembly, distribution and management of self service telecommunications infrastructure within New Zealand.

There is some level of integration between the two segments. The integration includes transfers of webphone units and component parts between the two segments. The accounting policies of the two segments are the same as those described in notes 2 and 3.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/loss after income tax as included in the internal management reports that are reviewed by the Company COO. Segment profit/loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of the two segments. Inter-segment pricing is determined on an arm's length basis.

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

29. Operating segments (continued)

Information about reportable segments

	Australia		New Zealand		Total	
In AUD	2013	2012	2013	2012	2013	2012
External revenue	397,068	844,509	74,839	111,376	471,907	955,885
Inter-segment revenue	-	84,474	-	-	-	84,474
Total segment revenue	397,068	928,983	74,839	111,376	471,907	1,040,359
Other income	54,706	459,570	-	-	54,706	459,570
Interest income	26,407	62,429	3,625	4,983	30,032	67,412
Interest expense	(1,105)	(1,135)	-	-	(1,105)	(1,135)
Impairment of inventories	(50,829)	(74,095)	953	20,988	(49,876)	(53,107)
Impairment of property, plant and equipment	(38,710)	(131,233)	-	(269,856)	(38,710)	(401,089)
Depreciation and amortisation	(24,585)	(64,296)	(12,462)	(205,046)	(37,047)	(269,342)
Segment (loss)/ profit after tax	(918,137)	(4,608,034)	18,985	(666,201)	(899,152)	(5,274,235)
Segment assets	1,661,554	1,155,084	188,267	179,313	1,849,821	1,334,397
Capital expenditure	54,765	96,229	-	203,557	54,765	299,786
Segment liabilities	372,208	418,563	1,586,524	1,497,608	1,958,732	1,916,171

pieNETWORKS Limited
Notes to the financial statements for the year ended 30 June 2013

29. Operating segments (continued)

Reconciliation of reportable segment revenues, loss, assets and liabilities and other material items

<i>In AUD</i>	2013	2012
Revenue		
Total revenue for reportable segments	471,907	1,040,359
Elimination of inter-segment revenue	-	(84,474)
Company total revenue	471,907	955,885
Loss		
Total loss for reportable segments	(899,152)	(5,274,235)
Impairment of intersegment assets	122,878	1,303,209
Elimination of inter-segment profits	-	64,258
Company loss after tax	(776,274)	(3,906,768)
Assets		
Total assets for reportable segments	1,849,821	1,334,397
Company total assets	1,849,821	1,334,397
Liabilities		
Total liabilities for reportable segments	1,958,732	1,916,171
Elimination inter-segment liabilities	(1,426,087)	(1,303,209)
Company total liabilities	532,645	612,962

Other material items 2013

In AUD

	Reportable segment totals	Adjustments	Company totals
Interest revenue	30,032	-	30,032
Interest expense	(1,105)	-	(1,105)
Depreciation and amortisation	(37,047)	-	(37,047)
Impairment of inventories	(49,876)	-	(49,876)
Impairment of property, plant and equipment	(38,710)	-	(38,710)

Other material items 2012

In AUD

	Reportable segment totals	Adjustments	Company totals
Interest revenue	67,412	-	67,412
Interest expense	(1,135)	-	(1,135)
Depreciation and amortisation	(269,342)	39,754	(229,588)
Impairment of inventories	(53,107)	-	(53,107)
Impairment of property, plant and equipment	(401,089)	-	(401,089)

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

29. Operating segments (continued)

Major Customer

Revenues from one customer of the Company's Australian segment amounts to 31% (2012: 22%) of the Company's total revenue. The customer represents \$148,274 (2012: \$207,785) of the Company's total revenues.

30. Subsequent events

On 5 July 2013, the Company announced that it had obtained the approval of shareholders, in general meeting, to issue up to 4,666,667 ordinary shares through a placement of ordinary shares. 2,500,000 of these shares are to be issued in lieu of a consulting fee to Mr Leon Carr and Mr Michael Bailey.

Other than the matters discussed above, 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 Company, the results of those operations, or the state of affairs of the Company, in future financial years.

31. Auditors' remuneration

In AUD

Audit services

Auditors of the Company

KPMG Australia:

Audit and review of financial reports

	2013	2012
	63,273	67,100
	63,273	67,100

Other services

Auditors of the Company

KPMG Australia

Taxation services

	2013	2012
	10,100	15,139
	10,100	15,139

pieNETWORKS Limited

Notes to the financial statements for the year ended 30 June 2013

32. Provisions

<i>In AUD</i>	2013	2012
Current		
Provision for onerous contracts	67,592	70,217
Current provisions	67,592	70,217
Non-current		
Provision for onerous contracts	45,140	119,666
Non-current provisions	45,140	119,666
Total provisions	112,732	189,883

The Company has recognised a provision for onerous contracts of \$112,732 (Jun 2012: 189,883) in relation to its contracts with Westfield and AMP shopping centres in New Zealand. The Company has assessed these contracts as onerous in the light of reduced opportunities for further revenue development in shopping centre webphones, reduced business development resources assigned to the New Zealand market and the high costs of terminating or continuing with these contracts. The provision is determined based on the least net cost of exiting from the contracts, which is the lower of the cost of fulfilling them and any compensation or penalties arising from the failure to fulfil them.

In estimating the cost to fulfil contract obligations, uncertainties about the amount and timing of outflows include monthly phone and internet usage revenue, RBNZ Government bond rates and ISP and phone operating costs.

Movements in Provisions

<i>In AUD</i>	2013	2012
Opening balance 1 July	189,883	-
(Decrease)/increase in provision	(77,151)	189,883
Closing balance 30 June	112,732	189,883

Directors' declaration

- 1 In the opinion of the directors of pieNETWORKS Limited ('the Company'):
 - (a) the financial statements and notes that are set out on pages 24 to 61 and the remuneration report in paragraph 3.7.1 to 3.7.4 of the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
 - (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 operating officer and financial controller for the financial year ended 30 June 2013.
- 3 The directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Perth on 27th day of September 2013.

Signed in accordance with a resolution of the directors:



Peter Gunzburg
Director



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 statement of financial position as at 30 June 2013, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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 financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in paragraphs 3.7.1 to 3.7.4 of the directors' report for the year ended 30 June 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.




Grant Robison
Partner

Perth

27 September 2013



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 2013 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


Grant Robinson
Partner

Perth

27 September 2013