PIPE Networks Limited
ABN 21 099 104 122

Appendix 4E
ASX Preliminary Final Report
30 June 2007
Lodged with the ASX under Listing Rule 4.3A

Results for Announcement to the Market
Extracts from this report for announcement to the market:

Results for the 12 months ended 30 June 2007 represent the results for the Consolidated entity comprising PIPE Networks Limited (the Company) and the entities it controlled during the year. As the Consolidated entity was only established during the year the comparative information presented in this financial report is for the Company for the year ended 30 June 2006.

	12 months ended 30 June 2007 $ (,000)	12 months ended 30 June 2006 $ (,000)	Movement $(,000)	Movement %
Revenue from continuing operations	24,277	13,213	11,064	84%
Profit (loss) after income tax for the year attributable to members	4,831	2,838	1,993	70%
Net profit (loss) for the year attributable to members	4,831	2,838	1,993	70%
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	8,669	4,723	3,946	84%

Earnings per Share and Net Tangible Asset backing

	30 June 2007 Cents	30 June 2006 Cents
Basic earnings per security	12.07	8.22
Diluted earnings per security	12.05	8.18
Net tangible assets per security	92.54	54.70

Ratios

	30 June 2007 %	30 June 2006 %
Profit before tax / revenue		
Profit (loss) from ordinary activities before tax as a percentage of revenue	28%	30%
Profit after tax / equity interests		
Net profit (loss) from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	12%	13%

Dividends
Subsequent to year end, the Directors' have declared a fully franked dividend of 5.0 cents per fully paid share (2006 – 2.0 cents) payable on 12 October 2007 to shareholders registered as at 5:00pm 28 September 2007.

Commentary on Results for the Period
Please refer to the accompanying Directors' Report, financial statements and notes.

Audit/Review Status
This report is based on accounts that have been audited. A copy of the Auditor's Independence Declaration is attached to the accompanying Directors' Report. A copy of the Audit Opinion is attached to the accompanying financial statements.

Financial Statements
Refer to the accompanying director's report, financial statements and notes.

By order of the Board

Malcolm Thompson
Company Secretary
8 August 2007

PIPE Networks Limited

ABN 21 099 104 122

Directors Report and Financial Report for the year ended 30 June 2007

Contents

Directors' Report

Your directors present their report on PIPE Networks Limited (the Company) and its controlled entities for the financial year ended 30 June 2007.

Directors

The names of directors in office at any time during or since the end of the year are:

Roger Clarke – Chairman, Age 59, Appointed 25 January 2005
Mr Roger Clarke is the Chairman of the Board and has over 30 years commercial experience in the investment banking industry, with responsibilities in fund management, banking and corporate finance. He is also the Chairman of ABN AMRO Morgans Limited, and in this capacity has been involved in a significant number of initial public offerings, capital raisings and corporate transactions. His understanding of the Australian corporate finance sector brings a level of expertise that has proved pivotal in establishing the strategic investment focus of the Company.

Mr Clarke holds a Bachelor of Commerce degree and is a Chartered Accountant.

Other Current Directorships
Mr Clarke currently serves as a director on the board of the following listed companies:
- Tissue Therapies Ltd
- Trojan Equity Ltd
- White Sands Petroleum Ltd

Former Directorships in the last 3 years
Mr Clarke has not ceased any public company directorships within the last 3 years.

Greg Baynton – Non-Executive director, Age 38, Appointed 3 December 2004
Mr Greg Baynton is the founder and Managing Director of Orbit Capital, a boutique investment bank and holder of Financial Services Licence No. 230327. Orbit Capital is a private, independent investment bank that provides corporate advisory services, focusing on capital raisings, preparation for Stock Exchange listing and listed investment opportunities.

Mr Baynton holds a Bachelor of Business (Accountancy), a Master of Economic Studies (UQ), a Post-graduate Diploma in Applied Finance & Investment (SIA), and a Master of Business Administration in New Venture Management (QUT).

Mr Baynton is a Fellow of the Australian Institute of Company Directors and an Associate of the Securities Institute of Australia.

Other Current Directorships
Mr Baynton currently serves as a director on the board of the following listed companies:
- Lodestone Exploration Ltd
- Tissue Therapies Ltd

Former Directorships in the last 3 years
Mr Baynton has not ceased any listed company directorships in the last 3 years.

Lloyd Ernst – Non-Executive director, Age 41, Appointed 23 March 2005
Mr Lloyd Ernst has an established presence in the Australian internet industry, having worked with Microsoft Asia Pacific in its first foray into internet services. He was a co-founder of WebCentral Pty Ltd, a company established during 1997 as a business web hosting provider that went on to become Australia's largest web hosting provider.

Mr Ernst's extensive experience in the internet industry paired with his background in building successful technology companies adds another layer of depth to the Board of directors.

Other Current Directorships
Mr Ernst has no other current directorships in listed companies.

Former Directorships in the last 3 years
Mr Ernst has not ceased any public company directorships in the past 3 years.

Bevan Slattery – Chief Executive Officer/Managing Director, Age 36, Appointed 19 December 2001
Mr Bevan Slattery is the CEO/Managing Director and co-founder of the Company. He comes from a background in successfully building Australian IT companies and an earlier career in administration in state and local government.

In 1998 Mr Slattery co-founded Infopro Technologies (subsequently renamed iSeek Limited) and obtained an exclusive technology and distribution licence for content filtering technology from US Internet Company N2H2 (www.n2h2.com). iSeek Limited was acquired by N2H2 in February 2000.

Mr Slattery was awarded 'Young Entrepreneur of the Year' in the Northern Region finals of the 2006 Ernst & Young Entrepreneur of the Year awards and was recently awarded an Honarary Masters in Business Administration from Central Queensland University. Both accolades were in recognition of his efforts in co-founding and building PIPE Networks Limited from a small private company into an ASX-Listed Telecommunications Carrier in just 5 years.

Mr Slattery is responsible for managing the operations of the Company and is currently spearheading the Company's research into the proposed submarine cable system between Sydney and Guam.

Other Current Directorships
Mr Slattery has no other current directorships in listed companies.

Former Directorships in the last 3 years
Mr Slattery has not ceased any listed company directorships in the past 3 years.

Stephen Baxter – Chief Technical Officer, Age 36, Appointed 19 December 2001
Mr Stephen Baxter is Chief Technical Officer (CTO) and co-founder of the Company.

Mr Baxter's extensive internet and telecommunications experience includes the establishment of SE Net, a successful Internet company based in Adelaide, South Australia. SE Net grew to be the largest ISP operation in the state with over 33,000 customers and 76 staff at peak.

Mr Baxter has also had extensive experience in the early establishment of Internet Exchanges. He was involved in the start up and then subsequently ran the South Australian Internet Exchange (SAIX). SAIX was a successful pilot, and at its peak 14 ISPs used the facility and it saved the local industry millions of dollars per year. While in Adelaide, Mr Baxter negotiated a joint offering agreement with AMCOM Telecommunications to aid in the rollout of an extensive fibre optic network.

Mr Baxter was awarded 'Young Entrepreneur of the Year' in the Northern Region finals of the 2006 Ernst & Young Entrepreneur of the Year awards. The award was in recognition of his efforts in co-founding and building PIPE Networks Limited from a small private company into an ASX-Listed Telecommunications Carrier in just 5 years.

Mr Baxter overseas technical operations for the Company including the construction of data centres, the inter-capital transmission network, DWDM network builds, VOIP Peering and many others. In addition Mr Baxter also represents PIPE Networks at various industry forums, responding to government papers and has recently been appointed to the Communications Alliance Expert Taskforce Consultation Steering Group, a group concerned with the next generation of broadband services in Australia.

Other Current Directorships
Mr Baxter has no other current directorships in listed companies.

Former Directorships in the last 3 years
Mr Baxter has not ceased any listed company directorships in the past 3 years.

Company secretary
Malcolm Thompson, Company Secretary & Chief Financial Officer, Appointed 25 January 2005

Mr Malcolm Thompson has over 16 years experience gained in public accounting practice, domestic and international commerce and government. Mr Thompson has held a variety of roles encompassing financial, management and systems accounting within complex organisations ranging from large government departments to high growth technology companies.

Mr Thompson holds a Bachelor of Commerce degree from Griffith University, a Post Graduate Diploma in Applied Finance & Investment from the Securities Institute of Australia, a Masters of Business Administration (MBA) from Deakin University and a Graduate Diploma in Applied Corporate Governance from Chartered Secretaries Australia. He is a Certified Practising Accountant (CPA), Chartered Secretary (ACIS), a Fellow of the Financial Services Institute of Australia (FINSIA) and a Justice of the Peace (JP).

Principal activities

During the year the principal continuing activities of entities within the consolidated entity were the provision of telecommunications services to internet service providers, telecommunications carriers and the corporate marketplace.

Operating results

The profit of the consolidated entity after tax amounted to $4.83 million. This compares with 2006 after tax profit of $2.84 million for PIPE Networks Limited representing a 70% increase.

Dividends – PIPE Networks Limited

Dividends paid during the year to members were:

	2007 ($,000)	2006 ($,000)
Final fully franked ordinary dividend for the year ended 30 June 2006 of 2 cents (2005 – NIL) per fully paid share paid 13 November 2006.	**787**	**-**
	787	**-**

In addition to the above dividends, since year end the Directors have declared a final franked dividend of 5 cents per fully paid share (2006 - 2.0 cents) payable on 12 October 2007 to shareholders registered as at 5:00pm on 28 September 2007.

Review of operations

A review of the operations of the Company during the financial year and significant changes in the state of affairs of the Company is as follows:

The 2006/07 financial year is the second full year of operations of the Company as an ASX-listed public company. At the direction of the Board of Directors, the Company has targeted capacity improvements aimed at continuing the growth profile of the Company. Key capacity improvements have been investment in revenue generating assets, internal management capabilities and internal controls and systems. To meet these key goals, the Company:

- Continued to expand its national fibre optic network.
- Added co-location capacity with a new facility constructed in Queensland and is investigating investment in international data capacity opportunities.
- Invested in the training and career development of existing staff while bringing highly experienced executives into the management team to maintain and enhance the current high standards of service delivery and operational effectiveness.
- Is reviewing, improving and integrating internal controls and systems to provide even better information flow within the Company and improve efficiency in the delivery of new services.

Profit growth has been in line with expectations with marginally higher revenues offsetting costs associated with the investigation of a major project to construct an undersea fibre optic cable linking Australia to Guam (Project "Runway").

Growth in assets has seen NTA improve from 54.70 cents per share as at June 2006 to 92.54 cents per share as at June 2007. Revenue growth for the year has been up 84% over the past year to $24.3 million. This growth in revenue combined with strong cost control has resulted in diluted EPS growth from 8.18 cents per share for the prior financial year, to 12.05 cents per share this financial year.

Fibre assets have been the primary driver of revenue growth due to investment in new capacity leading to increased fibre available for lease. Total fibre available for lease has risen from 92.92 million metres available at June 2006 to over 141.01 million metres at June 2007. Of total fibre available, leased fibre has risen from 14.42 million metres leased as at June 2006 to 24.68 million metres at June 2007. Available capacity for new sales stands at 82.5% with the network footprint being 869 kilometres in metropolitan Brisbane, Sydney and Melbourne.

In accordance with the Company's stated investment approach, the investment in fibre assets is on the back of quality medium to long term contracts with large corporate, government and ISP customers. The Company has won over $40 million in contracts during the financial year with most being signed on a 3 to 5 year basis.

Of particular note were contracts to supply dark fibre backhaul capacity to leading ISPs to support ADSL2+ rollouts on the east coast and expanding Brisbane metropolitan networks for various State Government departments.

Growth in the business has seen an increase in costs associated with the delivery of services from $3.43 million in 2006 rising to $7.45 million in 2007, as well as staff numbers from 41 to 55 resulting in an increase in staff costs from $2.94 million in 2006 rising to $4.72 million in 2007. Due to the increase in network capacity and engineering involved, the Company has actively worked to contain costs to ensure margins are maintained and cash flow protected during this expansion phase.

Significant changes in the state of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

(a) An increase in issued capital of PIPE Networks Limited of $15,605,708 (from $17,310,844 to $32,916,552) as a result of:

	2007 $
Share Placement: issue of 5,000,000 shares at $3.20 each	16,000,000
ESOP – Employee share options exercised	36,000
Orbit Capital – Share options exercised	80,000
Cost of share options exercised transferred from options reserve	51,535
Less: transaction costs arising on share issue	(561,827)
	15,605,708

(b) Net cash received from the increase in issued capital will be used to settle the Company's existing debt facility and fund further investment in capital assets.

(c) An increase in available debt facilities was secured by the Company during the financial year. Under the facility, the Company has access to a maximum of $20,000,000 from ANZ Banking Group Limited.

(d) The incorporation of PIPE Transmission Pty Ltd, a wholly-owned subsidiary incorporated in October 2006.

(e) The incorporation of PIPE International (Australia) Pty Ltd, a wholly-owned subsidiary incorporated in February 2007 as a vehicle for the Sydney to Guam submarine cable project that is currently under consideration.

Matters subsequent to the end of financial year

On 6 July 2007, the Company announced that the Directors of the consolidated entity expect to make a formal announcement regarding the outcome of the feasibility studies on the construction of the submarine cable between Sydney and Guam (Project "Runway") in Sepetember.

On 9 July 2007, the Company settled the long term debt facility of $7,000,000 reported in the financial report.

On 3 August 2007, the Company entered into a settlement arrangement with a supplier over an ongoing dispute (as mentioned in Note 21 of the financial report). The settlement will have no material impact on the accounts for the year ended 30 June 2007.

On 8 August 2007, the Directors declared a final franked dividend of 5 cents per fully paid share (2006 - 2.0 cents) payable on 12 October 2007 to shareholders registered as at 5:00pm on 28 September 2007.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to be prejudicial to the commercial interests of the Company.

Directors meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the attendance at each meeting is as follows:

	Directors Meetings		Audit Committee		Remuneration Committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
R. Clarke	15	12	3	3	0	0
B. Slattery	15	14	3	3	0	0
S. Baxter	15	9	0	0	0	0
G. Baynton	15	14	3	3	0	0
L. Ernst	15	10	0	0	0	0

The Non-Executive directors acting as the Remuneration Committee met during a Board meeting to set performance bonuses for Messers Baxter and Slattery.

Remuneration report (audited)

This report outlines the remuneration arrangements for PIPE Networks' Directors and key management personnel in accordance with the requirements of the Corporations Act 2001. It also provides the remuneration disclosures required by Accounting Standard AASB 124 "Related Party Disclosures". The disclosures' in this report cover the Directors of PIPE Networks (Directors) and the key management personnel (Executives) having the greatest authority for managing the Company.

(a) **Principles used to determine the amount of remuneration**

Remuneration of Non-Executive directors

The board policy is to remunerate Non-Executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the executive and Non-Executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee option plan.

Employment contracts of Executive directors and Other key management personnel

The employment conditions of the Chief Executive Officer, Mr Bevan Slattery and Chief Technical Officer, and Mr Stephen Baxter and key management personnel are formalised in contracts of employment. All executives are permanent employees of PIPE Networks Limited, with no fixed contract term.

The Directors employment contracts stipulate a 12 week notice period for resignation or termination. The Company may terminate a director's employment contract without cause by providing 12 weeks written notice or making payment in lieu of notice, based on the individual director's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

Employment conditions of executives are formalised in contracts of employment with each executive. Remuneration of an executive is established on employment having regard to current market rates and independent recruitment advice where appropriate. Any review of remuneration, in the form of salary reviews, bonuses or long term incentives is at the discretion of the Executive directors, within guidelines established by the Non-Executive Board members acting as the Remuneration Committee.

Performance-based remuneration

Performance-based components seek to align the rewards attainable by Executive directors and Executives with the achievement of particular objectives and the creation of shareholder value over the short and long term.

The Executive directors and Executives participated in performance-based remuneration during the period. A specified component of the Executive directors total remuneration was at risk and contingent upon the parent Company achieving its budgeted net profit after tax (NPAT) target for the year. Executives (with the exception of Mr Matthew Hollis) were awarded bonuses by the Remuneration Committee in recognition of their efforts in managing the growth of the Company during the period. Mr Hollis was awarded a bonus in relation to the April to June 2007 quarter for achieving specific sales targets.

Relationship of remuneration to performance

A cash performance bonus was awarded to the Executive directors, Mr Bevan Slattery and Mr Stephen Baxter in relation to the period. The bonus was an at-risk incentive and contingent on the achievement of budgeted NPAT targets approved by the Board.

Cash performance bonuses were also awarded to Executives after consideration of the rapid growth of the Company during the period and the efficient and effective management of that growth by key management personnel. The full Board acting as the Remuneration Committee ratified the bonuses at the July 2007 board meeting.

The Non-Executive Board members acting as the Remuneration Committee set any bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The Remuneration Committee reviews the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjusts future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Remuneration report (continued)

Company performance, shareholder wealth and director and executive remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to executives to encourage the alignment of personal and shareholder interests. The company believes this policy to have been effective in increasing shareholder wealth over the past two years.

The following table shows the gross revenue, profits and dividends for the last two years for the listed entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows an increase in profits each year as well as an increase or maintenance of dividends paid to shareholders. The improvement in the company's performance over the two years has been reflected in the company's share price with an increase each year. The board is of the opinion that these results can be attributed in part to the previously described remuneration policy and is satisfied that this continued improvement has lead to increased shareholder wealth over the past two years.

	Consolidated	Parent entity
	2007	2006
	$(,000)	$(,000)
Revenue	24,277	13,213
Net profit	4,831	2,838
	Cents	Cents
Share price at year end	3.43	2.10
Dividends	5.00	2.00

The Company has identified its key management personnel for the year ended 30 June 2007 as follows:

Board of Directors

Roger Clarke	Chairman – Non-Executive director
Greg Baynton	Director – Non-Executive director
Lloyd Ernst	Director – Non-Executive director
Bevan Slattery	Managing Director/CEO – Executive director
Stephen Baxter	Chief Technical Officer – Executive director

Other Key Management Personnel (Executives)

Malcolm Thompson	Company Secretary/Chief Financial Officer
Matthew Hollis	General Manager – Sales [resignation effective 29 June 2007]
Warwick Pye	General Manager – Sales [commenced 12 June 2007, assumed role 1 July 2007]

The Company has reassessed its executive structure and re-evaluated the definition of "Key Management Personnel" as defined by the AASB 124 Related Party Transactions. The Company has concluded that certain executives disclosed in prior periods do not meet the criteria set out in the standard, and as such the required disclosures have been updated.

Other Group Executives

Thomas Cannon	Operations Manager – Fibre Infrastructure
Tobias Carlisle	General Counsel and Assistant Company Secretary
Robert Purdon	Operations Manager – Managed Infrastructure

These executives do not meet the criteria for Key Management Personnel; however their remuneration is disclosed as they are among the 5 highest paid executives in the Company.

Remuneration report (continued)

(b) **Key management personnel remuneration for year ended 30 June 2007**

	Short-term benefits			Post-employment	Long-term benefits	Termination benefits	Share-based payments	Total	Per-formance based
2007	**Salary, fees & commissions**	**Non-monetary benefits**	**Cash bonus [1]**	**Super-annuation**			**ESOP**		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Directors									
Roger Clarke	42,000	-	-	3,780	-	-	-	45,780	-
Greg Baynton	32,700	-	-	-	-	-	-	32,700	-
Lloyd Ernst [2]	-	33,000	-	-	-	-	-	33,000	-
Bevan Slattery	148,633	6,926	45,872	17,628	-	-	-	219,059	23
Stephen Baxter	137,604	18,895	45,872	16,513	-	-	-	218,884	23
	360,937	58,821	91,744	37,921	-	-		549,423	
Executives									
Malcolm Thompson	127,339	-	55,046	16,415	-	-	-	198,800	28
Matthew Hollis	270,770	2,837	100,000	35,276	-	-	-	408,883	69
Warwick Pye	9,880	-	-	889	-	-	-	10,769	-
	407,989	2,837	155,046	52,580	-	-	-	618,452	
Other Group Executives									
Thomas Cannon	104,458	-	9,174	10,227	-	-	-	123,859	7
Tobias Carlisle [3]	137,615	-	4,587	12,798	-	-	4,100	159,100	3
Robert Purdon	86,087	-	9,174	8,574	-	-	-	103,835	9
	328,160	-	22,935	31,599	-	-	4,100	386,794	

[1] All cash bonuses relate to performance during the reporting period. Payments will be made within 3 months of the end of the financial year.

[2] Mr Ernst's remuneration was comprised entirely of contracted services provided by the Company at commercial rates.

[3] Mr Carlisle commenced employment with the Company on 27 February 2006. Share options issued to Mr Carlisle are exercisable in blocks of 25% at different times over the current reporting period and the prior period. The amount disclosed relates only to the reporting period.

Remuneration report (continued)

(c) **Details of directors and executives remuneration for year ended 30 June 2006**

	Short-term benefits			Post-employment	Long-term benefits	Termination benefits	Share-based payments	Total	Per-formance based
2006	**Salary, fees & commissions**	**Non-monetary benefits**	**Cash bonus**	**Super-annuation**			**ESOP[1]**		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Directors									
Roger Clarke	42,000	-	-	3,780	-	-	-	45,780	-
Greg Baynton	32,700	-	-	-	-	-	-	32,700	-
Lloyd Ernst [2]	-	32,700	-	-	-	-	-	32,700	-
Bevan Slattery	116,015	5,249	-	10,441	-	-	-	131,705	-
Stephen Baxter	116,015	-	-	10,441	-	-	-	126,456	-
	306,730	37,949	-	24,662	-	-		369,341	
Executives									
Malcolm Thompson	94,495	-	-	8,505	-	-	5,747	108,747	-
Tobias Carlisle [3]	46,930	7,000	-	4,224	-	-	1,075	59,229	-
Matthew Hollis [4]	209,110	-	20,000	18,820	-	-	5,747	253,677	56
Robert Purdon	71,292	9,346	-	6,416	-	-	5,747	92,801	-
Thomas Cannon	90,153	-	-	8,114	-	-	5,747	104,014	-
Brent Paddon [5]	26,653	-	-	2,396	-	-	2,874	31,923	21
	538,633	16,346	20,000	48,475	-	-	26,937	650,391	

[1] The fair value of the options granted under the ESOP are calculated at the date of grant using a Black-Scholes model and allocated to each reporting period. Details of the inputs used in the calculation are disclosed in Note 25(c) of the 2006 Annual Report. This amount does not reflect the taxable value of the options to the executive.

[2] Mr Ernst's remuneration was significantly comprised of contracted services provided by the Company at commercial rates.

[3] Mr Carlisle commenced employment with the Company on 27 February 2006. Share options issued to Mr Carlisle are exercisable in blocks of 25% at different times over the reporting period and the subsequent periods. The amount disclosed relates only to the reporting period.

[4] Mr Hollis was promoted to the role of General Manager – Sales on 28 September 2005. Prior to this Mr Hollis was employed as a Senior Solutions Consultant. The cash bonus is for performance during the reporting period; refer to Part (a) of the Remuneration Report contained in the 2006 Annual Report for details.

[5] Mr Paddon resigned from the position of General Manager – Sales on 28 September 2005. Remuneration shown is for the time during the reporting period in which Mr Paddon was a member of the Company's key management personnel.

(d) **Share options granted to Key management personnel as compensation for the year ended 30 June 2007**

Directors

No share options were granted to directors as compensation during reporting period. For details on share options exercised, please refer to Note 27(b) of the Financial Report.

Executives

No share options were granted to executives during the reporting period. For details on share options exercised, please refer to Note 27(b) of the Financial Report.

(e) **Share options granted to Key management personnel as compensation for the year ended 30 June 2006**

Directors

No share options were granted to directors as compensation during the reporting period.

Executives

Details of share options granted as compensation during the reporting period under the Executive Share Option Plan ('ESOP') are outlined below:

2006	**No. options granted [1]**	**No. options vested & exercisable**	**Fair value per option**	**Exercise price**	**Amount paid or payable**	**Expiry date**	**Date exercisable**
Executives							
Malcolm Thompson	10,000	10,000	0.57	1.8	18,000	16/05/08	17/05/06
Tobias Carlisle [2]	10,000	2,500	0.43	1.8	18,000	16/05/08	30/06/06
Matthew Hollis	10,000	10,000	0.57	1.8	18,000	16/05/08	17/05/06
Robert Purdon	10,000	10,000	0.57	1.8	18,000	16/05/08	17/05/06
Thomas Cannon	10,000	10,000	0.57	1.8	18,000	16/05/08	17/05/06
	50,000	42,500					

[1] With the exception of Mr Carlisle as noted in [2] below, share options issued to executives under the ESOP were issued as a reward for the success of the Company to date since incorporation. No specific performance criteria were specified. The Board acting as the Remuneration Committee granted options to all employees of the Company as a reward for services rendered to date.

[2] Share options issued to Mr Carlisle were issued as a 'signing bonus' to align his interests with those of the Board and Shareholders. The shares are exercisable in blocks of 25% with the first block of shares being exercisable after 30 June 2006.

Shares under option

Un-issued ordinary shares of PIPE Networks Limited under option at the date of this report are as follows:

Date options granted	Expiry Date	Exercise price	Number under option
10/02/06	17/05/08	$1.80	115,000
24/03/06	29/06/08	$1.80	10,000

No option holder has any right under the options to participate under any other share issue of the Company or of any other entity.

Shares issued on the exercise of options

The following shares of PIPE Networks Limited were issued during the year ended 30 June 2007 on the exercise of options issued under the Employee Share Option Plan:

Date options exercised	Issue price of shares	Number issued
13/09/06	$1.80	5,000
15/03/07	$1.80	5,000
23/03/07	$1.80	5,000
02/05/07	$1.80	5,000

No amounts remain unpaid on any of the shares.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The Board of directors has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out in the table below:

	30 June 2007 $	30 June 2006 $
Remuneration of Hacketts Chartered Accountants for other services:		
Taxation and other services	**1,832**	-

Environmental regulation

The consolidated entity has assessed whether there are any significant environmental regulations which apply to it, and has determined there are none.

Insurance of officers

The Company has indemnified directors and officers to the maximum extent permitted by law, against any liability incurred by them as, or by virtue of their holding office as and acting in the capacity of, an officer of the Company. This does not include such liabilities that arise from conduct involving wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

Proceedings on behalf of the company

No proceedings have been brought, or intervened in, on behalf of the Company with leave of the Court under s.237 of the Corporations Act 2001.

Auditor independence declaration

A copy of the auditor's independence declaration as required under section 307C of The Corporations Act 2001 is attached to this report.

Rounding of amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

Bevan Slattery
CEO/Managing Director
Brisbane
8 August, 2007

Hacketts
CHARTERED ACCOUNTANTS

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BRISBANE QLD 4000

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8 August 2007

The Chairman
The Board of Directors
PIPE Networks Limited
Level 17, 127 Creek Street
Brisbane QLD 4001

Auditors Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of PIPE Networks Limited and Controlled Entities

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

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

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

Yours faithfully

Hacketts

Liam J Murphy
Audit Partner

AUDIT & ASSURANCE
CORPORATE ADVISORY
LITIGATION SUPPORT
TAXATION & BUSINESS ADVISORY

HACKETTS CHARTERED ACCOUNTANTS
ABN « 14 071 939 497

PIPE Networks Limited

ABN 21 099 104 122

Financial Report

for the year ended 30 June 2007

Contents

This financial report covers PIPE Networks Limited and its controlled entities.

PIPE Networks Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is :

PIPE Networks Limited
Level 9
127 Creek Street
Brisbane, Queensland
4000

Income Statements for the year ended 30 June 2007

	Notes	Consolidated 30 June 2007 $ (,000)	Parent entity 30 June 2007 $ (,000)	Parent entity 30 June 2006 $ (,000)
Revenue	2	**23,933**	**23,933**	12,699
Other income	2	**344**	**344**	514
		24,277	**24,277**	13,213
Direct costs of providing services		**(7,448)**	**(7,448)**	(3,427)
Network operating and maintenance costs		**(1,020)**	**(939)**	(460)
Marketing and advertising costs		**(296)**	**(296)**	(268)
Employee benefits expense		**(4,718)**	**(4,718)**	(2,935)
Depreciation and amortisation expense		**(1,758)**	**(1,758)**	(820)
Finance costs - net		**(418)**	**(418)**	(74)
Building and equipment rental costs		**(491)**	**(491)**	(383)
Corporate and administrative costs		**(711)**	**(664)**	(441)
Other expenses		**(598)**	**(598)**	(434)
Profit before income tax		**6,819**	**6,947**	3,971
Income tax expense	7a	**(1,988)**	**(2,026)**	(1,133)
Profit for the year		**4,831**	**4,921**	2,838
Profit attributable to members of PIPE Networks Limited		**4,831**	**4,921**	2,838
Earnings per share		**Cents**		**Cents**
Basic Earnings per share	30	**12.07**		8.22
Diluted Earnings per share	30	**12.05**		8.18

The above income statements should be read in conjunction with the accompanying notes.

Balance Sheets as at 30 June 2007

	Notes	Consolidated 30 June 2007 $ (,000)	Parent entity 30 June 2007 $ (,000)	Parent entity 30 June 2006 $ (,000)
Current assets				
Cash and cash equivalents	4	**14,930**	**14,930**	9,000
Trade and other receivables	5	**6,153**	**6,153**	3,866
Prepayments		**555**	**555**	271
Other current assets	6a	**567**	**567**	419
Total current assets		**22,205**	**22,205**	13,556
Non-current assets				
Trade and other receivables	5	**-**	**189**	-
Property, plant and equipment	11	**34,661**	**34,600**	20,537
Deferred tax assets	8	**471**	**433**	354
Other non-current assets	6b	**231**	**231**	-
Total non-current assets		**35,363**	**35,453**	20,891
Total assets		**57,568**	**57,658**	34,447
Current liabilities				
Trade and other payables	12	**4,113**	**4,113**	3,836
Accrued expenses	15	**1,526**	**1,526**	2,318
Borrowings	13a	**14**	**14**	13
Prepaid revenue	14a	**751**	**751**	861
Current tax liabilities	10	**384**	**384**	303
Provisions	16a	**201**	**201**	178
Total current liabilities		**6,989**	**6,989**	7,509
Non-current liabilities				
Borrowings	13b	**7,047**	**7,047**	3,560
Prepaid Revenue	14b	**1,974**	**1,974**	1,593
Deferred tax liabilities	9	**170**	**170**	2
Provisions	16b	**32**	**32**	16
Total non-current liabilities		**9,223**	**9,223**	5,171
Total liabilities		**16,212**	**16,212**	12,680
Net assets		**41,356**	**41,446**	21,767
Equity				
Issued capital	17	**32,917**	**32,917**	17,311
Reserves		**71**	**71**	132
Retained profits		**8,368**	**8,458**	4,324
Total equity		**41,356**	**41,446**	21,767

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity for the year ended 30 June 2007

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
	Notes	$ (,000)	$ (,000)	$ (,000)
Issued capital				
Ordinary share capital at beginning of year		**17,311**	**17,311**	3,691
Share capital issued during year		**16,116**	**16,116**	14,190
Cost of share options exercised transferred from options reserve		**52**	**52**	-
Transaction costs	17	**(562)**	**(562)**	(570)
Balance of share capital at end of year		**32,917**	**32,917**	17,311
Options reserve				
Options reserve at beginning of year		**132**	**132**	40
Share options expensed during the year		**-**	**-**	92
Share options exercised during the year		**(52)**	**(52)**	-
Share options forfeited during the year		**(9)**	**(9)**	-
Balance of options reserve at end of year		**71**	**71**	132
Retained earnings				
Retained earnings at beginning of year		**4,324**	**4,324**	1,486
Profit attributable to members of the entity		**4,831**	**4,921**	2,838
Dividends paid during the year		**(787)**	**(787)**	-
Retained earnings at end of year		**8,368**	**8,458**	4,324
Total equity at the end of the year		**41,356**	**41,446**	21,767

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows for the year ended 30 June 2007

	Notes	Consolidated 30 June 2007 $ (,000)	Parent entity 30 June 2007 $ (,000)	Parent entity 30 June 2006 $ (,000)
Cash flows related to operating activities				
Receipts from customers (inclusive of goods and services tax)		**24,109**	**24,109**	12,927
Payments to suppliers and employees (inclusive of goods and services tax)		**(21,025)**	**(20,897)**	(5,419)
		3,084	**3,212**	7,508
Finance costs		**418**	**418**	(74)
Interest received		**326**	**326**	142
Net operating cash flows	20	**3,828**	**3,956**	7,576
Cash flows related to investing activities				
Payment for property, plant and equipment		**(16,083)**	**(16,023)**	(17,712)
Net investing cash flows		**(16,083)**	**(16,023)**	(17,712)
Cash flows related to financing activities				
Proceeds from issues of shares and other equity securities		**15,472**	**15,472**	13,460
Proceeds from borrowings		**3,500**	**3,500**	3,560
Advances to controlled entities		**-**	**(188)**	-
Dividends paid		**(787)**	**(787)**	
Net financing cash flows		**18,185**	**17,997**	17,020
Net increase (decrease) in cash held		**5,930**	**5,930**	6,884
Cash and cash equivalents at beginning of year		**9,000**	**9,000**	2,116
Cash and cash equivalents at end of year	4	**14,930**	**14,930**	9,000

The above statements of cash flows should be read in conjunction with the accompanying notes.

Note 1 Summary of significant accounting policies

This financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of PIPE Networks Limited and controlled entities, and PIPE Networks Limited as an individual parent entity. PIPE Networks Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of PIPE Network Limited and controlled entities, and PIPE Networks Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) **Basis of preparation of financial report**

The accounting policies set out below have been consistently applied to all years presented.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(b) **Principles of consolidation**

A controlled entity is any entity PIPE Networks Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in Note 26 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

As the controlled entities were incorporated by PIPE Networks Limited during the current period, no comparatives have been provided for the consolidated entity in respect of the previous corresponding period.

(c) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Revenue from Dark Fibre and Tele-housing services are recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use/benefit derived from the leased asset is diminished.
(ii) Metered internet traffic revenue and peering revenue are recognised upon the acceptance of the service delivered to the customer.
(iii) Interest revenue is recorded when received in cash, or accrued at the rate applicable to the financial instrument on which it is earned.

(d) **Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Company and its wholly owned Australian resident subsidiaries have not elected to form a tax consolidated group.

Note 1 Summary of significant accounting policies (continued)

(e) **Property, plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation or impairment losses.

(i) **Plant and equipment**

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(ii) **Depreciation**

Depreciation is calculated on a straight line basis to write off the net cost or re-valued amount of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful life of each class of Property, plant and equipment is as follows:

Plant and equipment	3 – 7 years
Fibre optic cable	25 years
Network equipment	3 – 5 years
Computer hardware and software	3 – 5 years
Leasehold improvements	5 years

(f) **Impairment of assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) **Capital Works in progress**

The cost of assets constructed in-house is accumulated as capital works-in-progress until the asset is ready for use. Costs include the relevant proportion of directly attributable overheads, incurred in construction of an asset. Where assets from partially completed projects are placed in service, depreciation is recorded from the date of first use.

(h) **Leases**

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits. Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The leased asset is amortised on a straight line basis over the term of the lease, or where it is likely that the entity will obtain ownership of the asset, over the life of the asset. Other operating lease payments are charged to the income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(i) **Provisions**

Provisions are recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain, but can be reliably measured.

(j) **Employee benefits**

(i) ***Wages, salaries and annual leave***

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the period-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the entity expects to pay as at reporting date.

(ii) ***Long service leave***

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of the maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

(iii) ***Superannuation plan***

The company contributes to several defined benefit and defined contribution superannuation plans. Contributions are recognised as an expense as they are made.

(iv) ***Share-based payments***

Benefits are provided to employees in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares. Shares issued under the Executive Share Option Plan are 'equity-settled transactions' and have the characteristics of an option to buy shares and are therefore treated as options. Options are recognised in full on grant date, where services have already been rendered by the employee to the company; or over the vesting period, where the services will be rendered by the employee at some future point in time.

(k) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

Note 1 Summary of significant accounting policies (continued)

(l) **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within financial liabilities in current liabilities on the balance sheet.

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(m) **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 the GST incurred is not recoverable from the taxation authority. In these circumstances, 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.

(n) **Critical accounting estimates and judgements**

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates - Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. 'Value in use' calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of plant and equipment for the year ended 30 June 2007.

(o) **New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below:

- AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038] AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and parent entity's financial instruments.

- AASB-I 10 Interim Financial Reporting and Impairment AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

The financial report was authorised for issue on 8 August 2007 by the board of directors.

(p) **Financial Instruments**

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist.

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost. Unlisted available-for-sale financial assets exist within active markets and could be disposed of if required.

Note 2 Revenue and expenses

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
(a)	**Operating activities:**			
	Lease income from Dark Fibre operating leases	**20,311**	**20,311**	10,119
	Lease income from Tele-housing operating leases	**1,414**	**1,414**	1,031
		21,725	**21,725**	11,150
	Other sales and services	**2,025**	**2,025**	1,549
	Rebate income	**183**	**183**	-
	Total revenue	**23,933**	**23,933**	12,699
(b)	**Non-operating activities:**			
	Interest revenue	**326**	**326**	142
	Gain on settlement of liability	**-**	**-**	370
	Other miscellaneous income	**18**	**18**	
	Gain on disposal of fixed assets	**-**	**-**	2
	Other income	**344**	**344**	514
(c)	**Profit for the year**			
	The following expense items are relevant in explaining the financial performance for the period:			
	Bad and doubtful debts expense	**(13)**	**(13)**	(19)
	Direct costs of providing services	**(7,448)**	**(7,448)**	(3,427)
	Operating lease rental expense	**(490)**	**(490)**	(383)
	Finance costs	**(418)**	**(418)**	(74)
	Depreciation expense	**(1,758)**	**(1,758)**	(820)

Note 3 Segment Information

PIPE Networks Limited operates predominantly in one business segment being Telecommunications services. PIPE Networks Limited's customers are located predominantly in Australia.

Note 4 Cash and cash equivalents

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$ (,000)	$ (,000)	$ (,000)
Cash on hand and at bank	**14,930**	**14,930**	9,000
Total cash and cash equivalents at the end of period	**14,930**	**14,930**	9,000
Balances per statement of cash flows	**14,930**	**14,930**	9,000

Note 5 Trade and other receivables

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
(a)	**Current**			
	Trade receivables	**6,159**	**6,159**	3,885
	Provision for impairment of receivables	**(6)**	**(6)**	(19)
		6,153	**6,153**	3,866
(b)	**Non-current**			
	Loans to wholly-owned subsidiaries	**-**	**189**	-
		-	**189**	-

The Company requires trade debtors to pay amounts due in accordance with agreed payment terms. Payment terms are generally 30 days from date of invoice. The Company's policy is to raise a provision against debts that have been outstanding for greater than 90 days at balance date.

Note 6 Other assets

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
(a)	**Current**			
	Accrued Income	**229**	**229**	38
	Deposits	**245**	**245**	5
	Other assets	**93**	**93**	376
		567	**567**	419
(b)	**Non-current**			
	Other assets	**231**	**231**	-
		231	**231**	-

Note 7 Taxation

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
	Income tax expense			
(a)	**The components of income tax expense comprise:**			
	Current tax expense	**1,821**	**1,821**	1,197
	Deferred tax	**133**	**171**	(63)
	Adjustments for previous years	**34**	**34**	(1)
	Total current income tax expense in income statement	**1,988**	**2,026**	1,133
(b)	**Numerical reconciliation of effective income tax rate**			
	The income tax expense for the period differs from the amount calculated on the profit. The differences are reconciled as follows:			
	Profit from continuing operations before income tax expense	**6,819**	**6,947**	3,971
	Income tax calculated at Australian tax rate of 30% (2005: 30%)	**2,046**	**2,084**	1,191
	Tax effect of:			
	• Non deductible expenses	**18**	**18**	14
	• Costs associated with raising capital	**(110)**	**(110)**	(72)
	Income tax attributable to entity	**1,954**	**1,992**	1,133
	Adjustment for prior year underprovision	**34**	**34**	-
	Income tax expense at effective tax rate of 28.7% (2006: 28.6%)	**1,988**	**2,026**	1,133

Note 8 Deferred Tax Assets

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
(a)	**Deferred tax assets comprise temporary differences attributable to:**			
	Amounts recognised in profit and loss:			
	Provisions	**90**	**90**	90
	Expenses claimed on Finance leases	**-**	**-**	1
	Interest expense on Commercial Bills	**-**	**-**	2
	Tax losses	**38**	**-**	-
		128	**90**	93
	Amounts recognised directly in equity:			
	Transaction costs on equity issue	**343**	**343**	261
		471	**433**	354

(b) **The movement in deferred tax asset for each temporary difference during the year is as follows:**

Consolidated	Opening Balance	Charged to the income statement 2007	Closing Balance 2007
	$ (,000)	$ (,000)	$ (,000)
Provision for doubtful debts	6	(3)	3
Provision for accrued annual leave	54	8	62
Provision for accrued long service leave	5	6	11
Accrued superannuation	21	(21)	-
Accrued fringe benefits tax	4	10	14
Expenses claimed on Finance leases	1	(1)	-
Interest expense on Commercial Bills	2	(2)	-
Carried forward taxation revenue losses	-	38	38
	93	35	128
Capital raising costs	261	82	343
	354	117	471

Parent	Opening Balance 2006	Charged to the income statement 2006	Closing Balance 2006	Charged to the income statement 2007	Closing Balance 2007
	$ (,000)	$ (,000)	$ (,000)	$ (,000)	$ (,000)
Provision for doubtful debts	1	5	6	(3)	3
Provision for accrued annual leave	26	28	54	8	62
Provision for accrued long service leave	2	3	5	6	11
Accrued superannuation	-	21	21	(21)	-
Accrued fringe benefits tax	-	4	4	10	14
Expenses claimed on Finance leases	-	1	1	(1)	-
Interest expense on Commercial Bills	-	2	2	(2)	-
	29	64	93	(3)	90
Capital raising costs	101	160	261	82	343
	130	224	354	79	433

Note 9 Deferred Tax Liabilities

	Consolidated	Parent entity	
	30 June 2007	**30 June 2007**	**30 June 2006**
	$ (,000)	**$ (,000)**	**$ (,000)**
(a) **Deferred tax liabilities comprise temporary differences attributable to:**			
Accrued Income	**70**	**70**	-
Capitalised employee benefits	**102**	**102**	-
Depreciation claimed in relation to capitalised employee benefits	**(4)**	**(4)**	-
Tax deductions related to finance leases	**2**	**2**	2
	170	**170**	2

(b) **The movement in deferred tax liabilities for each temporary difference during the year is as follows:**

Consolidated	**Opening Balance**	**Charged to the income statement 2007**	**Closing Balance 2007**
	$ (,000)	**$ (,000)**	**$ (,000)**
Accrued income	-	70	70
Capitalised employe benefits	-	98	98
Finance leases	2	-	2
	2	168	170

Parent	**Opening Balance 2006**	**Charged to the income statement 2006**	**Closing Balance 2006**	**Charged to the income statement 2007**	**Closing Balance 2007**
	$ (,000)	**$ (,000)**	**$ (,000)**	**$ (,000)**	**$ (,000)**
Accrued income	-	-	-	70	70
Capitalised employe benefits	-	-	-	98	98
Finance leases	-	2	2	-	2
	-	2	2	168	170

Note 10 Provision for income tax

	Consolidated	Parent entity	
	30 June 2007	**30 June 2007**	**30 June 2006**
	$ (,000)	**$ (,000)**	**$ (,000)**
Current tax liabilities comprise:			
Current period income tax expense	**1,988**	**2,026**	1,133
Tax losses not recognised	**38**	**-**	-
Adjustments for temporary differences	**(171)**	**(171)**	63
PAYG income tax instalments paid during current period	**(1,437)**	**(1,437)**	(893)
Underprovision in prior year	**(34)**	**(34)**	-
	384	**384**	303

Note 11 Property, plant & equipment

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$ (,000)	$ (,000)	$ (,000)
Leasehold improvements – at cost	**790**	**790**	327
Less: Accumulated amortisation	**(162)**	**(162)**	(72)
	628	**628**	255
Plant and equipment - at cost	**1,993**	**1,993**	1,015
Less: Accumulated depreciation	**(541)**	**(541)**	(319)
	1,452	**1,452**	696
Fibre optic cable – at cost	**29,067**	**29,067**	15,144
Less: Accumulated depreciation	**(1,215)**	**(1,215)**	(371)
	27,852	**27,852**	14,773
Network equipment – at cost	**1,748**	**1,748**	860
Less: Accumulated depreciation	**(606)**	**(606)**	(291)
	1,142	**1,142**	569
Computer software – at cost	**438**	**438**	301
Less: Accumulated depreciation	**(201)**	**(201)**	(89)
	237	**237**	212
Computer hardware – at cost	**594**	**594**	380
Less: Accumulated depreciation	**(233)**	**(233)**	(115)
	361	**361**	265
Leased motor vehicles – at cost	**78**	**78**	78
Less: Accumulated depreciation	**(13)**	**(13)**	(3)
	65	**65**	75
Other assets – at cost	**5**	**5**	5
Less: Accumulated depreciation	**-**	**-**	-
	5	**5**	5
Capital works in progress	**2,919**	**2,858**	3,687
Total Property, plant and equipment	**34,661**	**34,600**	20,537

Note 11 Property, Plant & Equipment (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current period are set out below:

Consolidated	Leasehold Improvements $ (,000)	Plant & Equipment $ (,000)	Fibre Optic Cable $ (,000)	Network Equipment $ (,000)	Computer Software $ (,000)	Computer Hardware $ (,000)	Leased Motor Vehicles $ (,000)	Other Assets $ (,000)	Capital Works in Progress $ (,000)	Total $ (,000)
Year ended 30 June 2007										
Opening balance, net of accumulated depreciation	255	696	14,773	569	212	265	75	5	3,687	20,537
Additions	170	582	78	903	137	216	-	-	13,818	15,904
Disposals	(3)	(13)	-	(6)	-	-	-	-	-	(22)
Transfers	298	442	13,846	-	-	-	-	-	(14,586)	-
Depreciation/Amortisation expense for current period	(92)	(255)	(845)	(324)	(112)	(120)	(10)	(0)	-	(1,758)
At 30 June 2007, net of accumulated depreciation	628	1,452	27,852	1,142	237	361	65	5	2,919	34,661

Parent entity	Leasehold Improvements $ (,000)	Plant & Equipment $ (,000)	Fibre Optic Cable $ (,000)	Network Equipment $ (,000)	Computer Software $ (,000)	Computer Hardware $ (,000)	Leased Motor Vehicles $ (,000)	Other Assets $ (,000)	Capital Works in Progress $ (,000)	Total $ (,000)
Year ended 30 June 2007										
At 1 July 2006, net of accumulated depreciation	255	696	14,773	569	212	265	75	5	3,687	20,537
Additions	170	582	78	903	137	216	-	-	13,757	15,843
Disposals	(3)	(13)	-	(6)	-	-	-	-	-	(22)
Transfers	298	442	13,846	-	-	-	-	-	(14,586)	-
Depreciation/Amortisation expense for current period	(92)	(255)	(845)	(324)	(112)	(120)	(10)	(0)	-	(1,758)
At 30 June 2007, net of accumulated depreciation	628	1,452	27,852	1,142	237	361	65	5	2,858	34,600

Note 12 Trade creditors and other payables

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$ (,000)	$ (,000)	$ (,000)
Current			
Trade payables	**4,113**	**4,113**	3,836
Total current trade creditors and other payables	**4,113**	**4,113**	3,836

Trade creditors are unsecured non-interesting bearing liabilities, typically settled within the Company's standard 30 day terms.

Note 13 Borrowings

		Note	Consolidated	Parent entity	
			30 June 2007	30 June 2007	30 June 2006
		Note	$ (,000)	$ (,000)	$ (,000)
(a)	**Current**				
	Unsecured Liabilities				
	Obligations under finance leases	24a	**14**	**14**	13
(b)	**Non-current**	24a			
	Secured Liabilities				
	Commercial Bill - Face value		**7,000**	**7,000**	3,500
	Unsecured Liabilities				
	Obligations under finance leases		**47**	**47**	60
			7,047	**7,047**	3,560

(c) The commercial bill is secured by a fixed and floating charge over the assets of the Company. Refer to Note 24 for details on maturity and effective interest rates.

Note 14 Prepaid Revenue

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
(a)	**Current**			
	Prepaid revenue	**751**	**751**	861
	Total current prepaid revenue	**751**	**751**	861
(b)	**Non-current**			
	Prepaid revenue	**1,974**	**1,974**	1,593
	Total non-current prepaid revenue	**1,974**	**1,974**	1,593

Prepaid revenues are recognised on the provision of the service over the lease or service agreement term.

Note 15 Accrued Expenses

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$ (,000)	$ (,000)	$ (,000)
Current			
Accrued expenses and other sundry payables	**1,526**	**1,526**	2,318
Total accrued expenses and other sundry payables	**1,526**	**1,526**	2,318

Note 16 Provision for Employee Benefits

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
	Aggregate liability for employee benefits, including on-costs			
(a)	**Current**			
	Employee benefits provision	**201**	**201**	178
(b)	**Non current**			
	Employee benefits provision	**32**	**32**	16
	Total employee benefits	**233**	**233**	194
	Employee numbers	**Number**	**Number**	Number
	Number of employees as at reporting date	**55**	**55**	41

Note 17 Issued capital

		30 June 2007 Number	30 June 2007 $ (,000)	30 June 2006 Number	30 June 2006 $ (,000)
(a)	**Share Capital**				
	Fully paid ordinary shares	44,363,297	32,917	39,143,297	17,311

(b) **Movements in ordinary share capital:**

Date	Category of securities	Number quoted	Issue price per security $	Total $ (,000)
01-Jul-05	Balance	30,750,000		3,691
10-Feb-06	One-for-seven Rights Issue	4,393,297	1.50	6,590
06-Jun-06	Share placement	4,000,000	1.90	7,600
	Less transaction costs on shares issued during the period			(570)
30-Jun-06	Closing balance	39,143,297		17,311
13-Sep-06	Share issue - Employee share options exercised	5,000	1.80	9
31-Oct-06	Share issue - Share options exercised by Orbit Capital Pty Ltd	200,000	0.40	80
15-Mar-06	Share issue - Employee share options exercised	5,000	1.80	9
23-Mar-07	Share issue - Employee share options exercised	5,000	1.80	9
02-May-07	Share issue - Employee share options exercised	5,000	1.80	9
17-May-07	Share placement	5,000,000	3.20	16,000
	Cost of share options transferred from options reserve			52
	Less transaction costs on shares issued during the period			(562)
30-Jun-07	Closing Balance	44,363,297		32,917

(c) **Ordinary shares**

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

(d) **Options**

For information relating to share options issued under the ESOP including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end, refer to Note 27.

Note 18 Dividends

		Parent entity	
		30 June 2007	30 June 2006
		$ (,000)	$ (,000)
(a)	**Ordinary shares**		
	Fully franked final dividend for the year ended 30 June 2006 - 2 cents per share	**787**	-
	Total dividends paid	**787**	-

(b) **Dividends not recognised at year end**

	30 June 2007	30 June 2006
In addition to the above dividends, since year end the Directors have declared a final franked dividend of 5 cents per fully paid share (2006 - 2.0 cents) payable on 12 October 2007 to shareholders registered as at 5:00pm on 28 September 2007. The aggregate amount of the proposed dividend expected to be paid on 12 October 2007 out of retained profits at 30 June 2007, but not recognised as a liability, is	2,218	-

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

The impact on the dividend franking account of dividends declared after the balance date, but not recognised as a liability is to reduce available franking credits by $950,642 (2006 - $335,514).

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$ (,000)	$ (,000)	$ (,000)
Franking credits available to subsequent financial years based on a tax rate of 30% (2006: 30%)	3,463	3,463	1,536

The above amount represents the balance on the franking account at the end of the financial year adjusted for:
(a) franking credits that will arise from the payment of the current tax liability
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date
(d) franking credits that may be prevented from being distributed in subsequent financial years.

Note 19 Remuneration of Auditors

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$	$	$
Remuneration of Hacketts Chartered Accountants for assurance services:			
Audit Services			
Audit and review of financial reports and other audit work under the Corporations Act 2001	**67,850**	**67,850**	32,648
Non-audit assurance services			
Preparation of an investigating accountants report by Hacketts Corporate Advisory Pty Ltd, a related practise of the auditor, for inclusion in a prospectus issued by the Company	**-**	**-**	28,600
Audit of regulatory returns	**2,000**	**2,000**	-
Total remuneration for assurance services	**69,850**	**69,850**	61,248
Remunerations of Hacketts Chartered Accountants for other services:			
Taxation services	**1,832**	**1,832**	-

Note 20 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	Parent entity	
	30 June 2007	30 June 2007	30 June 2006
	$ (,000)	$ (,000)	$ (,000)
Net profit after income tax	**4,831**	**4,921**	2,838
Share-based payments	**(8)**	**(8)**	91
Assets received at no consideration	**1**	**1**	-
Gain on settlement of liability for no consideration	**-**	**-**	(370)
Depreciation and amortisation	**1,758**	**1,758**	820
Change in operating assets and liabilities:			
Decrease (increase) in trade debtors & other assets	**(2,807)**	**(2,807)**	(3,541)
Increase (decrease) in trade creditors and other payables	**(47)**	**(47)**	7,720
Increase (decrease) in other provisions	**57**	**57**	131
Increase (decrease) in income tax payable	**77**	**77**	(31)
(Increase) decrease in deferred tax asset	**(34)**	**4**	(82)
Net cash inflow from operating activities	**3,828**	**3,956**	7,576

Note 21 Contingent assets and liabilities

Claims

During the period, the Company received invoices from a supplier for services to the value of $475,066 (exclusive of GST) alleged to have been received by the Company in prior financial periods. The Company also received credits in relation to this amount to the value of $165,260 (exclusive of GST) during the period. It was the Company's opinion, after reviewing available evidence and documented history, that the remaining invoices were not able to be supported and there was insufficient certainty to include these amounts in the accounts. On 3 August 2007 the Company entered into a settlement arrangement with the supplier. The settlement will have no material impact on the accounts for the year ended 30 June 2007.

Guarantees

ANZ Banking Group Limited registered a fixed and floating charge over the assets of the company as part of the $2,000,000 credit facility announced by the Company to ASX on 24 May 2005. During the period this facility was increased to a maximum of $20,000,000.

The Company operates an Indemnity & Guarantee facility with ANZ Banking Group Limited in respect of its liabilities under any non-cancellable operating leases it has entered into as disclosed in Note 22(b). The balance of this facility at 30 June 2007 is $258,455.

Directors are not aware of any other contingent liabilities that are likely to have material effect on the results of the entity as disclosed in the financial statements.

Note 22 Commitments for expenditure

		Consolidated	Parent entity	
		30 June 2007	30 June 2007	30 June 2006
		$ (,000)	$ (,000)	$ (,000)
(a)	**Capital commitments:**			
	Commitments for the construction of fibre optic network and data centre in accordance with customer contracts in Brisbane, Sydney and Melbourne contracted for at 30 June 2007 but not recognised as a liability, payable:			
	Within one year	**3,829**	**3,829**	3,719
(b)	**Lease commitments**			
	Commitments in relation to leases contracted for at the reporting date, payable:			
	(i) Operating leases			
	Within one year	**548**	**548**	397
	Later than one year but less than five years	**2,295**	**2,295**	966
	Later than five years	**1,975**	**1,975**	273
		4,818	**4,818**	1,636
	(ii) Finance leases			
	Within one year	**18**	**18**	18
	Later than one year but less than five years	**57**	**57**	68
	Later than five years	**-**	**-**	-
		75	**75**	86
	Less: future finance charges	**(6)**	**(6)**	(13)
		69	**69**	73

Note 23 Financing arrangements

The Group has access to the following credit facilities:

		Consolidated			Parent entity	
	Accessible	Drawn down	Unused	Accessible	Drawn down	Unused
	$ (,000)	$ (,000)	$ (,000)	$ (,000)	$ (,000)	$ (,000)
30 June 2007						
Multi-option facility (Commercial Bill)	20,000	7,000	13,000	20,000	7,000	13,000
Multi-option facility (lease/hire purchase)	100	60	40	100	60	40
Indemnity guarantee facility	440	258	182	440	258	182
	20,540	7,318	13,222	20,540	7,318	13,222
30 June 2006						
Multi-option facility (Commercial Bill)	10,000	3,500	6,500	10,000	3,500	6,500
Multi-option facility (lease/hire purchase)	100	73	27	100	73	27
Indemnity guarantee facility	440	155	285	440	155	285
	10,540	3,728	6,812	10,540	3,728	6,812

Note 24 Financial Instruments

Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to subsidiaries and leases.

The main risks the group is exposed to through its financial instruments are interest rate risk and credit risk.

(a) **Interest rate risk**

Interest rate risk is managed with a mixture of fixed and floating rate debt. The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Financial Instruments

	In one year or less	Greater than 1 year but less than 5 years	Effective Interest Rate
	$ (,000)	$ (,000)	%
30 June 2007 - Floating rate			
Financial assets			
Cash and cash equivalents	**14,930**	**-**	6.73%
Financial liabilities			
Secured Multi-option credit facility	**-**	**(7,000)**	8.65%
Finance leases	**(14)**	**(47)**	8.12%
	14,916	**(7,047)**	
30 June 2006 - Floating rate			
Financial assets			
Cash and cash equivalents	**9,000**	**-**	4.27%
Financial liabilities			
Secured Multi-option credit facility	**-**	**(3,500)**	5.11%
Finance leases	**(13)**	**(60)**	8.12%
	8,987	**(3,560)**	

(b) **Non-interest bearing financial instruments**

Financial Instruments	In one year or less	Greater than 1 year but less than 5 years
	$ (,000)	$ (,000)
30 June 2007 - Non-interest bearing		
Financial assets		
Trade & other receivables	**6,153**	**188**
Deposits	**245**	**-**
Other Assets	**-**	**231**
Financial liabilities		
Trade payables	**(4,113)**	**-**
Accrued expenses & other sundry payables	**(1,526)**	**-**
	759	**419**
30 June 2006 - Non-interest bearing		
Financial assets		
Trade & other receivables	**3,866**	**-**
Deposits	**-**	**-**
Financial liabilities		
Trade payables	**(3,836)**	**-**
Accrued expenses & other sundry payables	**(2,318)**	**-**
	(2,288)	**-**

(c) **Credit Risk Exposure**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

(d) **Net fair values**

The net fair values of:

- unlisted investments where there is no organised financial market has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- cash, cash equivalents and non-interest bearing monetary financial assets and liabilities approximate their carrying value.

Note 25 Key management personnel

Key management personnel

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key management personnel	Position
Roger Clarke	Chairman - Non-Executive director
Greg Baynton	Director - Non-Executive director
Lloyd Ernst	Director - Non-Executive director
Bevan Slattery	Managing Director/CEO - Executive director
Stephen Baxter	Chief Technical Officer - Executive director
Malcolm Thompson	Company Secretary/Chief Financial Officer
Matthew Hollis	General Manager - Sales [resignation effective 29 June 2007]
Warwick Pye	General Manager - Sales [commenced 12 June 2007, assumed role 1 July 2007]

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

(e) **Option Holdings**

Number of options held by Key management personnel

2007	**Balance of options at 1/07/06**	**Granted as compensation**	**Options exercised**	**Net change (other)**	**Balance at 30/06/07**	**Total vested 30/06/07**	**Total exercisable 30/06/07**	**Total unexercisable 30/06/07**
Directors								
Roger Clarke	-	-	-	-	-	-	-	-
Greg Baynton	200,000	-	(200,000)	-	-	-	-	-
Lloyd Ernst	-	-	-	-	-	-	-	-
Bevan Slattery	-	-	-	-	-	-	-	-
Stephen Baxter	-	-	-	-	-	-	-	-
	200,000	-	(200,000)	-	-	-	-	-
Executives								
Malcolm Thompson	10,000	-	-	-	10,000	-		-
Matthew Hollis	10,000	-	-	-	10,000	-		-
Warwick Pye	-	-	-	-	-	-		-
	20,000	-	-	-	20,000	-	-	-

(f) **Shareholdings**

Number of shares held by key management personnel:

	Balance 1/07/06	**Granted as compensation**	**Options exercised**	**Net change (other)**	**Balance 30/06/07**
Directors					
Roger Clarke	230,000	-	-	-	230,000
Greg Baynton	928,853	-	200,000	(200,000)	928,853
Lloyd Ernst	319,567	-	-	-	319,567
Bevan Slattery	8,900,000	-	-	(900,000)	8,000,000
Stephen Baxter	8,900,000	-	-	(900,000)	8,000,000
	19,278,420	-	200,000	(2,000,000)	17,478,420
Executives					
Malcolm Thompson	-	-	-	-	-
Matthew Hollis	20,141	-	-	(6,250)	13,891
Warwick Pye	-	-	-	-	-
	20,141	-	-	(6,250)	13,891

Note 26 Related party transactions

During the reporting period, the Company also recorded the following transactions with directors and key management personnel and their related parties:

- Mr Roger Clarke, a director of the Company, is also a director of ABN AMRO Morgans Ltd. During the financial year, the total value of services provided to ABN AMRO Morgans Ltd and recognised as income in the accounts was $198,277 (exclusive of GST). The terms and conditions of the provision of these services are at arm's length and at commercial rates.
- Mr Lloyd Ernst, a director of the Company, is also a director of Lloyde.Net Pty Ltd. During the financial year, the total value of services provided to Lloyde. Net Pty Ltd and recognised as income in the accounts was $30,000 (exclusive of GST). While the provision of the service was at arms length and at commercial rates, amounts receivable were offset against remuneration for directors fees payable to Mr Ernst.
- Mr Greg Baynton, a director of the Company, is also a director of Orbit Capital Pty Ltd. The total amount recognised in the accounts as directors remuneration expense and payable to Orbit Capital Pty Ltd (exclusive of GST) is disclosed in part (b) of the Remuneration Report contained in the Directors Report.
- On 31 October 2006, 200,000 share options were exercised by Orbit Capital Pty Ltd, a related entity of Greg Baynton. The Company issued 200,000 ordinary shares on this date.
- On 8 February 2007, the Company paid $2,002 in relation to the renewal of patents in Canada and Europe for IP Enterprises Pty Ltd, a related entity of Bevan Slattery and Stephen Baxter. As at balance date, paperwork had been lodged to transfer the rights to the patents into the name of the Company.
- Loans were made, repayable at call to PIPE International Pty Ltd, a wholly-owned subsidiary of the parent. Please refer to Note 5(b) for details.

Note 27 Share-based payments

(a) **The following share-based payment arrangements existed at 30 June 2007:**

- On 10 May 2005, 200,000 share options were granted to Orbit Capital Pty Ltd as part of a private equity raising engagement. The options allow Orbit Capital to take up shares in the company at an exercise price of $0.40 each. The options hold no voting or dividend rights and are not transferable. The options were exercised on 31 October 2006, details are provided in part (b) below.
- The PIPE Networks Executive Share Option Plan (ESOP) was approved on 16 May 2005 and gives eligible staff the opportunity to participate in the plan. The Plan Committee (the Board of directors or a committee to which the Board has delegated this power) determines which employees are eligible. The ESOP allows the Plan Committee to make an offer subject to the rules of ESOP to eligible employees from time to time. The ESOP empowers the Plan Committee to determine the conditions of the offer in accordance with the rules of the ESOP.
- On 17 February 2006, 150,000 share options were granted to all employees of PIPE Networks Limited as at 18 January 2006 under the Company's ESOP to take up ordinary shares at an exercise price of $1.80 each. The options are exercisable after 17 May 2006 (the one year anniversary of the Company's ASX listing) and must be exercised on or before 16 May 2008. The options hold no voting or dividend rights and are not transferable. At reporting date, 20,000 options had been exercised and 15,000 options had lapsed. Details are provided in part (b) below.
- On 24 March 2006, 10,000 share options were granted under the Company's ESOP to an employee to take up ordinary shares at an exercise price of $1.80 each. These options are exercisable in blocks of 25% on or after each of the following dates: 30 June 2006, 30 September 2006, 31 December 2006 and 31 March 2007. The options must be exercised on or before the 29 of June 2008. The options hold no voting or dividend rights and are not transferable. At reporting date, no options had been exercised.

(b) **Number and weighted average exercise prices of share options:**

	2007		2006	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding at the beginning of the year	350,000	1.03	200,000	0.40
Granted	-	-	160,000	1.80
Forfeited	(5,000)	1.80	(10,000)	1.80
Exercised	(220,000)	0.53	-	-
Expired	-	-	-	-
Outstanding at year end	125,000	1.80	350,000	1.00
Exercisable at year end	125,000	1.80	342,500	1.03

The options outstanding at 30 June 2007 had a weighted average exercise price of $1.80 and a weighted average remaining contractual life of 0.89 years. Exercise prices are $1.80 for all outstanding options in respect of options outstanding at 30 June 2007.

Note 28 Lease revenue receivable

As per Note 1(c)(i), the Company recognises Dark Fibre and Telehousing revenue on a straight line basis over the lease term.

The future minimum lease payments under non-cancellable operating leases with customers for Dark fibre and Tele-housing services are as follows:

	30 June 2007	30 June 2006
	$ (,000)	$ (,000)
Within one year	**23,512**	15,650
Later then one year but less then five years	**46,570**	27,167
Later then five years	**11,167**	6,384
	81,249	49,201

The above amounts represent those operating leases where the Company, as the lessor, has provided the service and receives a fee periodically as consideration for the provision of that service. The amounts presented above only reflect the initial contracted term and do not include any potential exercise of optional further terms.

Note 29 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.

Name of entity	Country of incorporation	Class of Shares	Equity holding [1] 2007	2006
Parent				
PIPE Networks Limited	Australia	Ordinary	**-**	-
Controlled entities				
PIPE Transmission Pty Ltd [2]	Australia	Ordinary	**100**	-
PIPE International (Australia) Pty Ltd	Australia	Ordinary	**100**	

[1] Investment in subsidiaries are carried at cost, refer Note 1(p) for details.
[2] This Controlled entity has not traded during the financial year.

Note 30 Earnings per Security (EPS)

Details of the basic and diluted EPS are as follows:

	Consolidated	
	30 June 2007	30 June 2006
	Cents	Cents
Basic earnings per security	**12.07**	8.22
Diluted earnings per security	**12.05**	8.18
	$ (,000)	$ (,000)
Earnings used in calculations of both basic and diluted EPS	**4,831**	2,838
	Shares	Shares
Weighted average number of ordinary shares used in calculation of Basic earnings per security	**40,033,661**	34,553,678
Adjustment for calculation of diluted earnings per share:		
Options	**49,667**	157,101
Weighted average number of ordinary shares used in calculation of Diluted earnings per security	**40,083,328**	34,710,779

Note 31 Events occurring after balance date

On 9 July 2007, the Company settled the long term debt facility of $7,000,000 reported in the financial report.

On 3 August 2007, the Company entered into a settlement arrangement with a supplier over an ongoing dispute (as mentioned in Note 21). The settlement will have no material impact on the accounts for year ended 30 June 2007.

On 8 August 2007, the Directors declared a final franked dividend of 5 cents per fully paid share (2006 - 2.0 cents) payable on 12 October 2007 to shareholders registered as at 5:00pm on 28 September 2007.

No other matters or circumstances have arisen since 30 June 2007 that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 13 to 34, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view;

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Bevan Slattery
CEO/Managing Director
Date: 8 August 2007

Independent Auditor's Report To The Members Of Pipe Networks Limited

Report on the Financial Report

We have audited the accompanying financial report of PIPE Networks Limited (the Company) and PIPE Networks Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in the Directors' Report and not in the Financial Report.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

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 and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

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 PIPE Networks Limited and PIPE Networks Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International financial Reporting Standards as disclosed in Note 1; and

(c) the remuneration disclosures that are contained under the heading 'Remuneration Report' in the Directors' Report comply with Accounting Standard AASB 124.

HACKETTS CHARTERED ACCOUNTANTS

Liam Murphy
Partner
Brisbane

Date: 8 August 2007