MNF Group Limited | ABN 37 118 699 853

ASX Appendix 4E

And

Preliminary Final Report for the year ended 30 June 2017

Lodged with the ASX under listing rule 4.3A

MNF Group Limited ABN 37 118 699 853

Appendix 4E: Preliminary final report for the Year Ended 30 June 2017

Results for announcement to the market

Current reporting period:	1 July 2016 to 30 June 2017
Previous reporting period:	1 July 2015 to 30 June 2016

	% Change		2017 $000
Revenue from ordinary activities	+18.9%	to	191,752
Profit after tax from ordinary activities attributable to members	+34.2%	to	12,066
Net profit for the period attributable to members	+34.2%	to	12,066

Dividend information:	**Amount per security**	**Franked amount per security**
2017 interim dividend	3.75 cents	3.75 cents
2017 final dividend	4.50 cents	4.50 cents
Total dividend per share for the year	**8.25 cents**	**8.25 cents**

The record date for determining entitlements to the final dividend is 4 September 2017.
A Dividend Reinvestment Plan (DRP) is in place for this dividend.
The last date for the receipt of an election notice for participation in the DRP is 5 September 2017.
The payment date of the final dividend is 28 September 2017.

Net tangible assets (NTA) per security

	Year ended 30 June	
	2017	2016
Net tangible assets per security (cents)	28.4	12.1

Revenue: The year on year revenue increase of 18.9% was driven by strong organic growth across the three operating segments, with particularly strong revenue growth in the Global Wholesale segment (+$23.5m or 22% on PCP), the result includes 5 months' revenue from the CCI acquisition.

Net profit: The year on year growth of 34.2% is a result of the margin growth out pacing the growth in underlying costs across the business.

NTA: Strong improvements in the net working capital positon and growth in tangible assets has underpinned the year on year improvement in the NTA.

Further details are available in the attached Directors' report and Financial Statements.

The Appendix 4E and accompanying financial statements have been audited and are not subject to any disputes or qualifications.

Additional Appendix 4E disclosure requirements can be found in the 2017 Financial Statements lodged with this document.

MNF Group Limited

ABN 37 118 699 853

30 June 2017

Annual Financial Report

Contents of the financial report

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Directors' Report

For the year ended 30 June 2017

Your directors present this report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2017.

Board of Directors

The names and details of the company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience, special responsibilities and other directorships

Terry Cuthbertson, B.Bus., CA.
Non-executive Chairman

Mr Cuthbertson joined MNF Group Limited in March 2006 as the Group Chairman. He also serves on the Group's Audit and Remuneration Committees. He was previously a partner of KPMG and has extensive corporate finance expertise and knowledge.

Directorships of listed companies in the last three years:
Chairman, Austpac Resources N.L. from 2004 (Director from 2001); Chairman, Australian Whisky Holdings Ltd from 2004; Chairman, Mint Wireless Ltd from 2008 (Director from 2007); Chairman, South American Iron & Steel Corporation Ltd from 2009; Chairman, Malachite Resources Ltd from 2013 (Director from 2012); Director, Isentric Ltd from 2010.

Michael Boorne, Electronics Eng. Dip.
Non-executive Director

Mr Boorne joined MNF Group Limited in December 2006 as an independent Non-executive director. He also serves as the Chairman of the Audit and Remuneration committees. He is a successful entrepreneur with extensive experience in combining technical expertise with commercial and corporate experience. He has founded start-up businesses Sprit Modems and Mitron, and is a director and committee member of numerous private companies and charitable foundations. He was previously a non-executive director of Netcomm Ltd.

Andy Fung, B.E. MCom.
Non-executive Director

Mr Fung is a co-founder of MNF Group Limited. He was formerly Managing Director of the group, serving as an executive Director from 2006 until 2012. Mr Fung has served as a Non-executive Director since 2012. He also serves on the Group's Audit and Remuneration committees.

Mr Fung has had extensive industry experience in Australia and Asia, having previously held senior management positions with Telstra, Australian Trade Commission and Optus. He is a director of several private companies with interests in financial services, infrastructure, trade and investments between Australia and Asia.

Mr Rene Sugo, B.Eng. (Hon).
Chief Executive Officer and Executive Director

Mr Sugo is a co-founder of MNF Group Limited. He has served as Chief Executive Officer since 2012. Mr Sugo was formerly Technical Director of the group. He is a director of all MNF Group operating companies globally, and also serves on the Group's Audit and Remuneration committees.

Mr Sugo is a strong industry advocate, representing the interests of MNF Group and competition in general. He has been a director of the Australian Communications Alliance and the INMS (Industry Number Management Services) since 2015.

Mr Sugo sits on various industry committees locally and overseas including the ITW Global Leaders Forum (GLF). Mr Sugo also regularly contributes articles and opinions on issues affecting the industry, such as the NBN, regulatory policy and innovation.

Company Secretary

Ms. Catherine Ly B.Bus., CPA.

Ms Ly has been the Company Secretary of MNF Group Limited since 2006. She has been a certified practising accountant for over 20 years.

For the year ended 30 June 2017

Board and Committee Meetings

From 1 July 2016 to 30 June 2017, the Directors held 14 board meetings and 2 audit committee meetings. Each Director's attendance at those meetings is set out in the following table:

Directors	Board		Audit	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr. Terry Cuthbertson	14	12	2	2
Mr. Michael Boorne	14	14	2	2
Mr. Andy Fung	14	14	2	2
Mr. Rene Sugo	14	14	2	2

Principal activities and significant changes in nature of activities

The principal activity of the MNF Group is providing voice, data, and cloud based communication and communication enablement services to residential, business, government and wholesale customers in Australia and internationally.

In the financial year the MNF Group derived revenue from the sale of the above mentioned communications services. These fees consist of recurring charges for access to facilities and capabilities, as well as consumption charges for variable usage of those facilities. Revenue was also derived from the sale of hardware, equipment and consulting services to support the primary products of the business.

The company operates in three main segments:

- **Domestic Retail** – based on the original MyNetFone brand and other retail acquisitions, focussing on selling directly to residential, small business, enterprise and government customers;
- **Domestic Wholesale** – based on the original Symbio Networks brand, focussing on selling to Australian & New Zealand domestic carriers, carriage service providers (CSP), cloud providers and application providers; and
- **Global Wholesale** – based on the TNZI acquisition and pre-existing global customers, focussing on selling to global carriers, carriage service providers (CSP), cloud providers and application providers.

The overall nature of the business has not changed during the financial year.

Operating Result

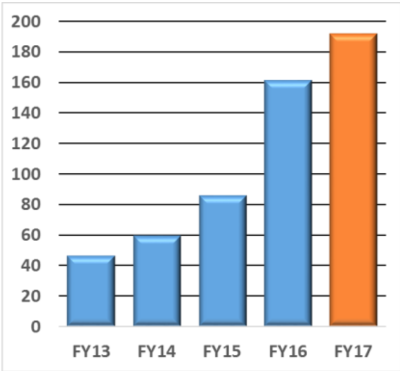
Excluding cost associated with acquisitions, earnings before interest expense, tax expense, depreciation and amortisation expense (EBITDA) increased by 34% to $23.9 million, with net profit after tax (NPAT) increasing by 34% to $12.1 million, compared to the prior year.

The result is slightly ahead of guidance, with EBITDA 1.0% above guidance and NPAT 4.3% above guidance. Revenue increased 19% to $191.8 million.

The total dividend for the full year has increased by 18% to 8.25 cents per share (fully franked), with the company declaring a final dividend of 4.50 cents per share for the second half of the 2017 financial year. The full year dividend payments represent 50% of the 2017 full year net profit after tax.

For the year ended 30 June 2017

MNF performance at a glance:



REVENUE

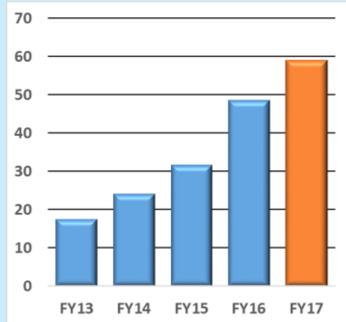
$192 million

FY17 Revenue increased 19% on the prior year (PY) to $192m. This result includes a full 12 months revenue from TNZI US (1 month in FY16) plus 5 months contribution from the CCI acquisition, combined with strong organic growth in all three business segments.

MARGIN

$59 million

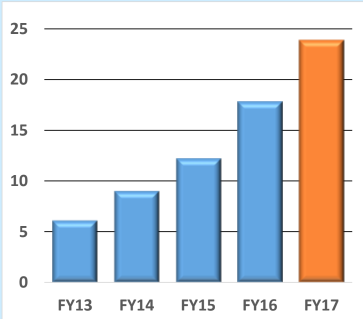
FY17 Margin increased $10.0m or 21% on the PY to $59m. The Domestic Retail segment margin increased $3.8m, helped by the inclusion of CCI in February ($2.8m) and organically ($1.0m). Organic growth in the Domestic Wholesale (24%) and Global Wholesale (16%) segments contributed strongly.



EBITDA

$23.9 million

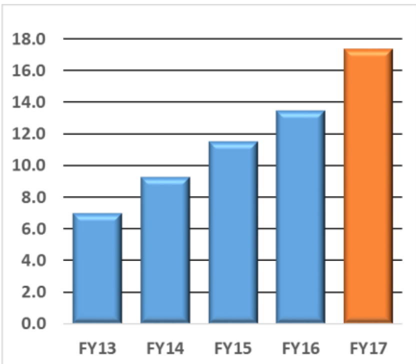
FY17 EBITDA increased 34% on the PY to $23.9. The result includes 5 months contribution from CCI and is slightly ahead of guidance.



EPS

17.32¢

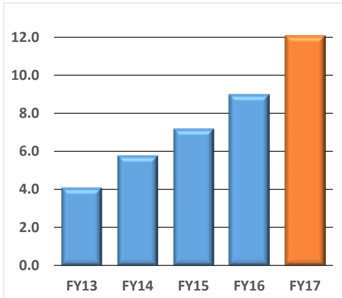
EPS at 17.32c represents an increase of 29% on the PY. The 5 year CAGR on EPS of 26% demonstrates the consistent long term shareholder returns delivered from the business.

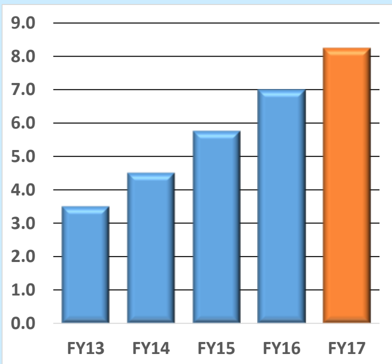


NPAT

$12.1 million

FY17 NPAT increased 34% on the PY to $12.1m, an excellent result which was 4% ahead of guidance. The 5 year CAGR on NPAT is 31%.





DIVIDEND

8.25¢

A final declared dividend of 4.50c brings the full year dividend to 8.25c, an 18% increase on the PY. The full year dividend represents 50% of NPAT, this ratio is consistent with prior years.

For the year ended 30 June 2017

Review of operations

A review of the operations of the entity during the financial year and the results of those operations are as follows:

Record Margin and EBITDA

The gross profit for the year was up 21% to $58.6m (2016: $48.6m).

The Net profit after tax (NPAT) for the year was $12.1m (2016: $9.0m) with Earnings per share (EPS) climbing 29% to 17.32 cents per share (2016: 13.45 cents per share).

	Year ended 30 June 2017	Year ended 30 June 2016	% change
Revenue	$191.8m	$161.2m	+19%
Gross profit	$58.6m	$48.6m	+21%
EBITDA	$23.9m	$17.8m	+34%
NPAT	$12.1m	$9.0m	+34%
EPS	17.32 cents	13.45 cents	+29%

Cash and debt

The closing cash balance as at 30 June 2017 was $52.4m (2016: $52.9m).

At year end gross debt in the form of a $27.0m revolving acquisition facility was $11.2m (2016: 13.7m).
$2.5m of gross debt was paid down during the year.

The company had no **net debt** as at year end.

Acquisitions:

On 1 February 2017 MNF Group Limited acquired Conference Call International Pty Limited (CCI).

The purchase price of CCI was $18.0m. After allowing for working capital adjustments ($0.4m) and cash acquired with the business ($0.6m) the net amount paid for CCI was $17.0m. (Refer note 23 in the attached Financial Statements). This net price represents a multiple of less than 4.5 times FY17 pro-rated EBITDA contribution.

CCI operates through three established brands, with an extensive portfolio of over 5,000 business and enterprise customers, including many top 500 Australian enterprises and a scalable state of the art audio conferencing service platform. CCI has performed marginally ahead of expectations in the 5 months to June and as expected this acquisition has been EPS accretive in FY17.

Business outlook

The MNF Group is now operating three very solid independent segments – Domestic Retail, Domestic Wholesale and Global Wholesale. Inside each segment are multiple product lines with excellent diversity of customers and profit contribution. All segments operate in our core area of specialisation, being enabling new and disruptive voice communications through software development and network deployment. Each segment has a well-defined strategy for investment and growth. The business is confident of sustainable organic gross margin and profit growth across all three segments.

Additionally, the business has shown an ability to find value accretive acquisitions and integrate them quickly and effectively to improve the overall performance of the business. With a discerning and conservative approach, the Board of MNF Group will continue to actively search for further acquisition opportunities; whilst the business remains totally committed to driving organic growth and overall financial performance within the business.

For the year ended 30 June 2017

Domestic Retail Segment

This segment is based on the original MyNetFone brand and other retail acquisitions, focussing on selling directly to residential, small business, enterprise & government customers. The CCI acquisition is now recorded in this segment.

The domestic retail segment delivered a margin contribution to the group of $18.9m. That is a $3.8m (25%) increase on the prior year. The addition of CCI to this segment in February 2017 was the primary driver of this growth, contributing $2.8m of the $3.8m increase. Excluding CCI from this growth, the Domestic Retail Segment grew organically by around 7%. This organic growth comes following a year of no growth in this segment and is an encouraging sign for the future of this segment - the overall organic growth is a result of small business and enterprise & government growth outpacing the ongoing gradual decline in the residential space.

a. Residential

The Residential sub-segment consists of selling residential VoIP, DSL broadband and NBN broadband to consumers in Australia. The sub-segment operates under the brands of MyNetFone, PennyTel and theBuzz. Each brand has its own value proposition, web site, and product range; however, all brands are operated across the same network and same operations team, providing a high level of synergy. Despite the decline in the residential sub-segment it is still viewed as providing critical mass and volume and an opportunity for future growth.

The residential voice market is declining due to the market shift towards mobile communications and mobile-cap plans. The group however has been implementing a defensive strategy of cross selling DSL broadband services, and NBN broadband services into this customer base. This action has stemmed the decline in revenue and margin, and provided a useful retention tool.

The residential data subscriber base increased to 12,900 services in operation up 8% on the PY, and the VoIP base fell slightly overall to 88,600 services in operation. The increase in data services resulted from an increased take-up of NBN services, however MNF continues to be sub-scale in terms of NBN reach. The business has improved NBN reach by being certified across all access types, and putting in place backhaul agreements to be able to reach all 121 Points-of-Interconnect (POI). Total residential subscriptions across all brands was steady year-on-year at 106,000.

In terms of new customer acquisition the business is now gaining more new NBN customers than it is new DSL customers. This is consistent with the NBN deployment breaking through the 50% population coverage milestone. The NBN still presents big challenges to smaller broadband companies like MNF – being the ability to reach 121 POI nationally, the usage based cost of the Connectivity Virtual Circuit (CVC), and the explosion in data usage demands of consumers due to the adoption of over-the-top (OTT) video and content services, and strong competition from NBN bypass services (Mobile Broadband, Fibre-to-the-Basement and Fixed Wireless).

The company is still committed to servicing the residential customer base as it provides a large user base generating solid margins on the VoIP and data products. The base also provides an opportunity for further innovation and potential growth in an NBN era. The business is looking at innovative ways to grow scale on the NBN, including acquisitions of additional subscriber bases and new marketing techniques.

b. Small Business

The Small Business sub-segment consists of selling business grade MyNetFone Virtual PBX and SIP trunks, as well as business grade DSL, NBN and Ethernet broadband services within Australia. The sub-segment operates under the brands MyNetFone, Connexus and CallStream. Each brand has its own value proposition, web site, and product range; however, all brands are operated across the same network and same operations team, providing a high level of synergy. The small business market sub-segment is strategic to MNF with strong prospects for future growth.

The company has some leading products in the market and continues to innovate. The NBN roll out will provide additional growth impetus to this segment when the NBN reaches more centralised business areas, as it will force customers to move off legacy copper PSTN services and find new alternatives for telephony.

For the year ended 30 June 2017

The Virtual PBX and SIP trunk products in service grew by 5% to 3,400 services in operation, and overall business voice services grew slightly to 8,600 services in operation. Revenue and margin from business voice has grown in 2017. Business data services grew 5% to 2,100 services in operation, mainly due to growth in NBN take-up.

In terms of new customer acquisition the business continues to push the Virtual PBX as the leading service. The business has recently re-launched the business customer web site - https://business.mynetfone.com.au/ - as well as released higher value included plans which are very popular. The product is undergoing a cosmetic and feature refresh which should be completed by the end of the year. Based on our competitive analysis, the product is still very strong in terms of price and functionality when compared to all competitors selling a hosted PBX product. The business is constantly looking at new ways to market effectively whilst keeping costs under control.

c. Enterprise & Government

The Enterprise & Government sub-segment consists of selling enterprise grade MyNetFone SIP trunks and other value added services to enterprise and government organisations within Australia. The sub-segment operates under the MyNetFone brand. This sub-segment is strategic to the group with strong organic growth in the last 12 months, and an excellent pipeline of prospects looking forward to next year.

In February MyNetFone Australia was appointed to the Voice Services Panel for the Victorian Government as part of that Government's Telecommunication Purchasing and Management Strategy 2025 (TPAMS2025). This appointment is expected to lead to substantial opportunities for the group in the medium term.

The company has adopted a long-term strategy to pursue domestic government business as VoIP technology increases its foothold in all levels of government. The Enterprise & Government sector is generally more conservative than small business, and the migration to next generation telephony has been lagging that of small business. However recently the sector has been more focussed on cost reduction and efficiency, resulting in the increased rate of migration into centralised private cloud telephony services, and the need for data centre based high capacity centralised SIP trunks. This is the same model adopted by the Tasmanian Government in 2012 which was a pioneer in this space.

MyNetFone had initial success with the Tasmanian Government in 2012, where it was awarded a long term contract to provide telephony services to government. Late last year the Tasmanian Government has elected to exercise all extensions to the initial contract, securing MyNetFone as an exclusive supplier of voice carriage until 2022. MyNetFone is also actively engaged with the Tasmanian Government in providing additional value added services and product innovation to assist the Government in delivering services to its constituents.

Last year the company has also secured several large contracts with government enterprises in NSW. These contracts are for inbound and outbound voice carriage, as well as value added services and product innovation. These are multi-year contracts with initial terms of 3 years, and potential extensions of up to 7 years. The company has successfully completed the implementation of these services during the financial year.

Based on recent success with both Tasmanian and NSW government enterprises, the company is increasing its resourcing to support and drive growth in the Enterprise & Government sector. These additional resources are in the area of business development, account management, bid management and customer life cycle management.

The company currently holds the following government certifications: Victorian Government Telecommunication Purchasing and Management Strategy 2025 (TPAMS2025), Municipal Association of Victoria (MAV), Western Australian Local Government Association (WALGA), NSW Procurement ICT Services Scheme, Queensland Government IT&T Procurement Panel and Tasmanian Government. As a result of these efforts the company is winning successful business with many local governments, universities and several state government departments around Australia. The company continues to pursue additional Government certifications and tenders in other areas.

The company also maintains several key certifications with leading enterprise grade equipment vendors such as: Microsoft, Cisco, Avaya, Samsung, Panasonic and many others. The company is still the only carriage service provider in Australia certified by Microsoft for the Lync unified communications platform.

For the year ended 30 June 2017

d. Conference Call International (CCI)

The CCI sub-segment consists of the business assets, customers and operations of Conference Call International Pty Ltd acquired in February 2017. The CCI business involved selling audio conferencing and collaboration services to business customers in Australia and New Zealand. The business owns and operates three main brands – OzLink, Eureka Conferencing and Express Virtual Meetings. Each brand services a different set of user needs in this space.

During the first 5 months since acquisition the CCI business has performed well, slightly ahead of expectation in terms of contribution.

The company has integrated CCI into its Domestic Retail strategy. The CCI product suite is highly complementary for the Small Business, and the Enterprise & Government sub-segments. As such the company has started cross selling CCI products into existing customers in those sub-segments, as well as incorporating CCI services into tenders and bids. The company is looking to further invest into the CCI platforms to develop more value-added services which will continue to enhance the offers and provide future growth for this specialised sub-segment.

Domestic Wholesale Segment

This segment is based on the original Symbio Networks brand, and includes the iBoss software platform. The segment is focussed on selling to Australian & New Zealand domestic carriers, carriage service providers (CSP), cloud providers and application providers. This segment is strategic to the group and continues to experience strong organic growth.

The key products sold into this market are:

1. Wholesale voice – termination of high volume wholesale voice minutes;
2. Wholesale managed services – providing unbranded capabilities and services such as Local Number Portability, voice end-points, phone numbers, and numerous other in-house developed cloud based value added services;
3. Wholesale aggregation services on the iBoss software platform – providing customer branded services such as: DSL broadband, NBN broadband, Legacy ISDN/PSTN voice resale, mobile telephony resale and also providing access to the complete suite of Symbio wholesale managed services;
4. Software-as-a-Service (SaaS)– leveraging the company's extensive software intellectual property assets and monetising them by means of selling cloud based capabilities on a monthly recurring basis. The main product is the iBoss enablement platform.

These products leverage the extensive fully interconnected national voice network that is also used to carry the group's retail and globally originated traffic, in addition to an extensive amount of proprietary intellectual property that has been developed by the company over the last 15 years.

The domestic wholesale business is currently hosting over 287 unique service provider customers, an increase of 21% on the previous year. Each customer generally purchases one or more products from the above suite of products. In addition to the increase in service provider customers, the customers themselves are generally growing organically, providing a compounding growth effect – hence the strong margin growth for this segment.

Services provided in this segment continue to experience strong growth, with Local Number Portability (LNP) growing 29% to 645,000 inbound ported numbers, and the total volume of hosted Direct-In-Dial (DID) numbers growing 15% to 3.1 million numbers. Wholesale aggregation subscriptions (iBoss) increased to 5,500, up 83% on the prior year.

For the year ended 30 June 2017

Global Wholesale Segment

This segment is based on the TNZI brand and customers, together with Symbio customers that are global operators and managed by the team out of Wellington. The segment is focussed on selling to global carriers, carriage service providers (CSP), cloud providers and application providers. This segment is strategic to the group and has the biggest potential for long term organic growth through leveraging its global market reach to sell the company's high margin products. Initial focus for global growth is the Asia-Pacific region where the opportunity and the company is strongest.

The main product sold by TNZI has historically been global voice termination. The TNZI brand operates high quality voice termination to all countries around the globe through direct and indirect partnerships. TNZI is globally recognised as a "Tier 1" quality brand, having been an innovator and pioneer of global minutes trading for over 25 years. The TNZI organisation is a member of many exclusive global infrastructure organisations and committees, including the ITW Global Leaders Forum (GLF), Pacific Islands Telecommunications Association (PITA), the i3 Forum standards organisation and the Pacific Telecommunications Council (PTC).

This has been the second full year of ownership of the TNZI business, making the year-on-year comparatives more meaningful. The integration of the TNZI business is largely completed. Staff integration, staff resource expansion, Wellington office relocation, IT systems separation, customer novations, and US licensing & transaction are now all complete.

The global network expansion and upgrade program is also well underway. The expansion of the UK (London) Point of Presence (PoP) and the US (Los Angeles) PoP upgrades have were completed last financial year. After some logistics delays the Hong Kong PoP is now fully operational and carrying live customer traffic. Additionally, the NZ (Auckland) and Singapore PoPs are due to be upgraded and expanded in FY18.

In addition to the traditional TNZI product suite, the Symbio products are being productised and made available to the TNZI global customer base. This is expected to provide additional high margin recurring revenue streams to the TNZI business, similar to what Symbio is achieving in the Australian and New Zealand domestic markets.

The international wholesale network is currently hosting over 220 service provider customers, most of which are major global Tier 1 service providers. Due to the cost and complexity of managing a global customer base, the focus for TNZI is large service providers with significant positive margin contribution, so smaller non-performing customers are regularly disconnected to save network and operational resources. The Group is investing in additional global marketing of the TNZI brand, and is deploying additional Business Development resources in the UK, USA and New Zealand in order to capture an increase in market share for both traditional and next generation products.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the company during the financial year.

After balance date events

Dividends proposed:
The dividend as recommended by the Board will be paid subsequent to the balance date.

For the year ended 30 June 2017

Future developments

The Board is committed to growing the company organically as well as by way of targeted acquisitions.

The company has a strict policy around the evaluation of acquisition targets and will continue to look to build through leveraging synergies, adding products and services through the acquisition of intellectual property and avoiding companies that are pure re-sellers of other networks.

Environmental issues:

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends paid or recommended

Fully franked dividends paid or declared for payment during the financial year are as follows:

	$000	Franking
Dividends paid during the year:		
2016 Final dividend of 3.50 cents per share paid on 29 September 2016	2,372	100%
2017 Interim dividend of 3.75 cents per share paid on 30 March 2017	2,727	100%
Dividends recommended (subsequent to year end):		
2017 Final dividend of 4.50 cents per share recommended on 15 August 2017	3,275	100%

The 2017 final dividend is to be paid on 28 September 2017 to shareholders registered as at 4 September 2017.

Options

Shares under option or issued on exercise of options

The Directors did not acquire any shares through the exercise of options during the year.

On 25 October 2016 at the Annual General Meeting, shareholders voted in favour of granting 450,000 options to Directors. The details of those options are detailed in the table below:

Director	Date of expiry	Exercise price	Number of options
Terry Cuthbertson	30 June 2021	$7.15	100,000
Michael Boorne	30 June 2021	$7.15	100,000
Andy Fung	30 June 2021	$7.15	100,000
Rene Sugo	30 June 2021	$7.15	150,000
			450,000

At the date of this report, the unissued ordinary shares of MNF Group Limited under options which were granted during the 2017 financial year is as follows:

Grant date	Date of expiry	Exercise price	Number under option
15 September 2016	30 June 2018	Nil	90,000
15 September 2016	30 June 2019	Nil	90,000
15 September 2016	30 June 2020	Nil	90,000
27 October 2016	30 June 2021	$7.15	620,000

For the year ended 30 June 2017

Remuneration Report *Audited*

Remuneration report overview

The Directors of MNF Group Limited present the Remuneration Report for the company and its controlled entities for the year ended 30 June 2017. This report forms part of the Directors' Report in accordance with section 300A of the Corporations Act 2001 (the Act) and has been audited as required by section 308 (3C) of the Act. The Report details the remuneration arrangements for MNF Group's key management personnel (KMP):

- Non-executive Directors (NEDs)
- Executives

For the purposes of this report, the term "executive" includes the Chief Executive Officer (CEO), executive directors and other senior executives of the company or the Group. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent.

The table below outlines the KMP of the Group and their movements during FY17:

Name	Position	Term as KMP
Non-executive directors		
Terry Cuthbertson	Non-executive chairman	Full financial year
Michael Boorne	Non-executive director	Full financial year
Andy Fung	Non-executive director	Full financial year
Executive director		
Rene Sugo	Chief Executive Officer	Full financial year
Other KMPs		
Matthew Gepp	Chief Financial Officer	Full financial year
Catherine Ly	Company Secretary and Treasurer	Full financial year

There were no changes to KMP between the reporting date and date the financial report was authorised for issue.

Overview of executive remuneration

Remuneration Committee

Due to the size of the company the functions of the Remuneration Committee are undertaken by a full Board. Mr Boorne chairs the Remuneration Committee.

The Board approves the remuneration arrangements of the CEO and other executives and all awards made under short and long term incentive plans.

The Board also sets the aggregate remuneration of non-executive directors, which is then subject to shareholder approval.

Use of remuneration consultants

The company does not currently engage remuneration consultants. The Board may consider the use of remuneration consultants in the future as the company continues to grow.

Remuneration report approval at the 2016 AGM

The 2016 remuneration report received positive shareholder support at the 2016 AGM with a vote of 98.45% in favour (2015: 97.97%).

For the year ended 30 June 2017

Remuneration Report (continued)

Executive remuneration arrangements

Remuneration principles and strategy

Remunerations levels for key management personnel of the Group are designed to attract and retain appropriately qualified and experienced directors and executives. MNF Group aims to reward executives based on their position and responsibility whilst maintaining comparability with other companies in the sector of similar revenue, market capitalisation and earnings levels. The executive remuneration includes a mix of the following components:

- Fixed remuneration
- Short-term performance incentives (STI)
- Long term incentives (LTI)

Fixed remuneration

Fixed remuneration consists of base salary, employer superannuation contributions and non-monetary benefits. Non-monetary benefits are typically benefits such as access to a car-parking spot and annual leave entitlements.

Details of short term incentive (STI) plans

The objective of the STI plan is to link MNF Group's financial and operational targets with the remuneration received by senior managers. As part of their respective employment agreements the CEO, CFO and other senior managers are eligible for a cash bonus subject to the attainment of these clearly defined objectives.

100% of the STI target for FY17 was based on meeting agreed net profit after tax targets as set by the board.

STI amounts paid in FY17 are in relation to the FY16 company performance and targets.

Non-executive directors are not eligible for an STI.

Details of long term incentives (LTI) plans

The Board may issue options to executive and other employees under the company Employee Option Plan in order to align remuneration with the creation of shareholder value over the long term. As such, LTI awards are only made to executives and other key employees who have an impact on the Group's performance.

Shareholders returns

The following table sets out MNF Group's earnings and movements in shareholder wealth over the past five years:

	2017	2016	2015	2014	2013
Revenue ('000)	$191,752	$161,217	$85,675	$59,306	$46,209
NPAT ('000)	$12,066	$8,990	$7,184	$5,778	$4,141
Basic EPS (cents)	17.32	13.45	11.49	9.26	6.98
Dividends paid ('000)	$5,099	$4,512	$3,128	$2,498	$1,770
Dividends per share (cents)	8.25	7.00	5.75	4.50	3.50
Share price (as at 30 June)	$4.37	$4.00	$3.82	$2.42	$1.20
Change in share price	$0.37	$0.18	$1.40	$1.22	$0.64
Market Capitalisation	$318M	$270M	$240M	$151M	$74M

For the year ended 30 June 2017

Remuneration Report (continued)

Remuneration details of Key Management Personnel for the year ended 30 June 2017

Details of the nature and amount of benefits and payments for each director and KMP of the company for the 2016 and 2017 financial years are as follows:

		Short term benefits			Post-employment benefits	Share based payments	Total
		Cash salary & fees	STI/Bonus	Non-Monetary Benefits[(i)]	Superannuation	Options	
		$	$	$	$	$	$
Directors:							
Mr T Cuthbertson	2017	118,200	-	-	11,229	715	130,144
	2016	109,000	-	-	10,355	-	119,355
Mr M Boorne	2017	91,750	-	-	8,550	715	101,015
	2016	83,000	-	-	7,885	-	90,885
Mr A Fung	2017	77,000	-	-	7,315	715	85,030
	2016	71,000	-	-	6,745	-	77,745
Executive Director:							
Mr R Sugo	2017	464,617	79,500	2,494	27,736	1,073	575,420
	2016	410,779	43,900	2,565	43,195	-	500,439
Other KMP:							
Mr M Gepp	2017	296,667	80,000	2,494	30,308	8,658	418,127
	2016	246,667	57,500	2,565	28,896	-	335,628
Ms C Ly	2017	159,250	-	-	15,128	2,218	176,596
	2016	154,250	-	-	14,654	-	168,904
Total	**2017**	**1,207,484**	**159,500**	**4,988**	**100,266**	**14,094**	**1,486,332**
	2016	1,074,696	101,400	5,130	111,730	-	1,292,956

(i) The category "Non-Monetary benefits" represent other benefits such as car parking.

Key terms of employment agreements

The company has entered into an Executive Employment Agreement with Rene Sugo. The remuneration and terms of employment for other Key Executives are also set out in written agreements. Each of these employment agreements are unlimited in term but may be terminated by written notice by either party and by the company making payment in lieu of notice.

Each of these agreements sets out the arrangements for total fixed remuneration, performance-related cash bonus opportunities, superannuation, termination rights and obligations and eligibility to participate in the employee equity-based incentive scheme. Executive salaries are reviewed annually. The executive employment agreements do not require the company to increase base salary, incentive bonuses or to continue the participants' participation in equity-based incentive programs.

For the year ended 30 June 2017

Remuneration Report (continued)

The company may terminate the employment of the Key Executives without notice and without payment in lieu of notice in some circumstances. This includes if the executive:

1. commits an act of serious misconduct;
2. commits a material breach of the executive employment agreement;
3. denigrates or engages in any behaviour that may materially damage the reputation of, or otherwise bring the Company into disrepute; or is convicted of any criminal offence which would in the reasonable opinion of the Board of Directors adversely affect the carrying out of the executive's duties.

The company may terminate the employment of the Key Executive at any time by giving the executive notice of termination or payment in lieu of such notice. The amount of notice required from the company in these circumstances is set out in the following table:

Name of key executive	Company notice period	Employee notice period	Termination provision
Rene Sugo	6 months	1 month	6 months base salary
Matthew Gepp	3 months	3 months	3 months base salary
Catherine Ly	6 months	1 month	6 months base salary

Directors' interests in shares and options of the company or related bodies corporate

At the date of this Report, the particulars of shares and options held by the directors of the company in the company or in related bodies corporate which are required to be declared in the register of directors' share holdings are as follows:

Name of Director	Share holding	Options
Mr Terry Cuthbertson	920,906	100,000
Mr Michael Boorne	728,014	100,000
Mr Andy Fung	14,025,989	100,000
Mr Rene Sugo	13,178,084	150,000
Total	**28,852,993**	**450,000**

This concludes the Remuneration Report, which has been audited.

For the year ended 30 June 2017

Directors' benefits

No director has received or has become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest.

Indemnifying officers or auditor

The Group has in place a contract insuring the directors, the company secretary and all executive officers of the Group and any related body corporate, against a liability incurred by a director, company secretary or executive officers to the extent permitted by the Corporations Act 2001.

The Group has indemnified the directors, the company secretary and all executive officers of the Group for costs incurred, in their capacity as officers of the Group, for which they may be held personally liable, except where there is a lack of good faith.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid, during or since the end of the financial year, to the auditors of the Group or any related entities against a liability incurred by the auditors.

Proceedings on behalf of the company

No person has applied for leave of a Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Non-audit services

During the current and prior year MNSA Pty Ltd Chartered Accountants, the Group's auditor did not provide any non-audit services.

The total amount received by MNSA Pty Ltd Chartered Accountants for non-audit services was $Nil (2016: $Nil).

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 has been received and can be found on page 54 of the financial report.

Rounding off

MNF Group Limited is a company of the kind referred to in ASIC Legislative Instrument (Rounding in Financial/Directors' Reports) 2016/191 and in accordance with that Instrument, amounts in the Directors' Report and the Financial Report are rounded to the nearest thousand dollars, except where otherwise indicated.

For the year ended 30 June 2017

This Directors' Report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Terry Cuthbertson
Chairman

Rene Sugo
Director

Sydney, 15 August 2017

mnf group

Financial Statements 2017

For the year ended 30 June	Notes	Consolidated group 2017 $000	Consolidated group 2016 $000
Continuing operations			
Revenue	4a	**191,752**	**161,217**
Cost of Sales		(133,139)	(112,576)
Gross profit		**58,613**	**48,641**
Finance revenue	4a	1,350	249
Employee benefits expense	4b	(26,028)	(21,223)
Depreciation and amortisation	4c	(5,083)	(4,709)
Other expenses	4d	(10,054)	(9,872)
Costs related to acquisition		(498)	(200)
Financing costs	4e	(1,790)	(1,061)
Profit before income tax		**16,510**	**11,825**
Income tax expense	5	(4,444)	(2,835)
Profit from continuing operations		**12,066**	**8,990**
Net profit for the year		**12,066**	**8,990**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(584)	(484)
Changes in fair value of cash flow hedges		142	(582)
		(442)	**(1,066)**
Total comprehensive income for the year		**11,624**	**7,924**
Earnings per share from continuing operations			
- Basic earnings per share (cents)	24	17.32	13.45
- Diluted earnings per share (cents)	24	17.10	13.38

The accompanying notes form part of these consolidated financial statements

As at	Notes	Consolidated group 30 June 2017 $000	Consolidated group 30 June 2016 $000
Assets			
Current assets			
Cash and cash equivalents	6a	52,358	52,889
Trade and other receivables	7	30,121	29,067
Income tax receivable		-	195
Inventories		669	305
Total current assets		**83,148**	**82,456**
Non-current assets			
Property, plant and equipment	8	18,663	12,011
Deferred tax asset	5c	958	735
Goodwill and other intangibles	21	47,697	30,802
Total non-current assets		**67,318**	**43,548**
Total assets		**150,466**	**126,004**
Liabilities			
Current liabilities			
Trade and other payables	9	63,181	66,550
Loans and borrowings	10	2,500	2,500
Deferred revenue	12	1,611	1,668
Income tax payable		1,581	-
Financial Instruments	11	592	2,812
Provisions	13	1,483	1,300
Total current liabilities		**70,948**	**74,830**
Non-current liabilities			
Loans and borrowings	10	8,690	11,190
Financial instruments	11	140	282
Provisions	13	921	734
Deferred tax liability	5d	1,420	-
Total non-current liabilities		**11,171**	**12,206**
Total liabilities		**82,119**	**87,036**
Net assets		**68,347**	**38,968**
Equity			
Issued capital	14a	49,000	26,440
Reserves		270	419
Retained earnings		19,077	12,109
Total equity		**68,347**	**38,968**

The accompanying notes form part of these consolidated financial statements

For the year ended 30 June	Notes	Consolidated group 2017 $000	Consolidated group 2016 $000
Cash flows from operating activities			
Receipts from customers		202,372	173,115
Payments to suppliers and employees		(182,486)	(157,611)
Receipt on supplier novation		-	41,464
Settlement of financial liability		(3,947)	-
Interest received		1,358	144
Interest paid		(904)	(873)
Income tax paid		(3,016)	(4,415)
Net cash from operating activities	6b	**13,377**	**51,824**
Cash flows from investing activities			
Purchase of property, plant and equipment		(9,646)	(5,958)
Decrease in other financial assets		-	323
(Payment)/receipt for business acquisitions		(16,986)	182
Software development costs		(461)	(150)
Net cash (used in) investing activities		**(27,093)**	**(5,603)**
Cash flows from financing activities			
Proceeds from share placement and options exercised		22,560	16,508
Dividends paid		(5,099)	(4,511)
Repayment of borrowings		(2,500)	(11,600)
Repayment of finance lease liability		-	(16)
Net cash from financing activities		**14,961**	**381**
Net increase in cash and cash equivalents		1,245	46,602
Impact of foreign currency on cash and cash equivalents		(1,776)	-
Cash and cash equivalents at 1 July		52,889	6,287
Cash and cash equivalents at 30 June	6a	**52,358**	**52,889**

The accompanying notes form part of these consolidated financial statements

Attributable to owners of the company

For the year ended 30 June 2017

	Ordinary share capital	Share-based payment reserve	Trans-lation reserve	Hedging reserve	Retained earnings	Total
	$000	$000	$000	$000	$000	$000
Balance at 30 June 2015	**9,932**	**1,353**	**155**	**(23)**	**7,631**	**19,048**
Profit for the period	-	-	-	-	8,990	8,990
Other comprehensive income	-	-	(484)	(582)	-	(1,066)
Dividends paid	-	-	-	-	(4,512)	(4,512)
Share options exercised	1,607	-	-	-	-	1,607
Share placement	14,449	-	-	-	-	14,449
Shares issued - DRP	452	-	-	-	-	452
Balance at 30 June 2016	**26,440**	**1,353**	**(329)**	**(605)**	**12,109**	**38,968**
Profit for the period	-	-	-	-	12,066	12,066
Other comprehensive income	-	-	(584)	142	-	(442)
Dividends paid	-	-	-	-	(5,098)	(5,098)
Share options exercised	958	-	-	-	-	958
Share placement	17,949	-	-	-	-	17,949
Shares issued - DRP	703	-	-	-	-	703
Shares issued - SPP	2,950	-	-	-	-	2,950
Share based payment transactions	-	293	-	-	-	293
Balance at 30 June 2017	**49,000**	**1,646**	**(913)**	**(463)**	**19,077**	**68,347**

The accompanying notes form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

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1. Corporate information

These consolidated financial statements and notes represent those of MNF Group Limited and controlled entities (the "company" or the "group") for the year ended 30 June 2017.

MNF Group Limited is a for profit entity limited by shares and incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) and is the ultimate parent entity in the Group.

The separate financial statements of the parent entity, MNF Group Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on **15 August 2017** by the directors of the company.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Significant accounting policies

a. Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in the financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

b. New and amended accounting policies adopted by the Group and New Accounting Standards for application in future periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2017).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.
The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is not expected to generate material differences to the current or future years results.

AASB 16: *Leases* (applicable to annual reporting periods commencing on or after 1 January 2019). When effective, this Standard will:

- replace AASB 117 *Leases* and some lease-related Interpretations;
- require all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; and
- require new and difference disclosures about leases.

This Standard will require retrospective restatement, as well as new and difference disclosures. Although the directors anticipate the adoption of AASB 16 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

c. Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by MNF Group Limited at the end of the reporting period. A controlled entity is any entity over which MNF Group Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 20 to the financial statements.

d. Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.
Consideration transferred for the acquisition comprises the fair value of the assets transferred, liability incurred and the equity interests issued by the acquirer. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate. Acquisition related costs are expensed as incurred.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of fair value of consideration transferred, over the acquisition-date fair values of identifiable net assets.

e. Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assure a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Key estimates that have a significant risk of causing adjustments to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an independent valuer using a Black-Scholes model. The accounting estimates and assumptions relating to equity-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may have impact on profit or loss and equity.

(ii) Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each financial year. The Group adjusts the remaining effective useful life of its assets to better reflect their actual usage and future economic benefit.

(iii) Utilisation of tax losses

The company and its wholly-owned Australian subsidiaries elected to join as members of a tax consolidated group under Australian taxation law as of 1 July 2011. Each entity in the tax consolidated group contributed tax losses to the Group. The Group has no tax losses to currently utilize.

(iv) Research & Development (R&D) tax concession

When calculating the income tax provision for the year, there is an operating assumption that the Research & Development tax concession for 2017 will be materially the same as for 2016. The directors believe the estimate is reasonable and conservative. This may be subject to change following the approval of the R&D tax concession application from AusIndustry in due course.

f. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. The following specific recognition criteria must also be met before revenue is recognised:

(i) Rendering of services

Revenue from telecommunication services is recognised when the services are provided to the customer. Deferred revenue represents the unused proportion of cash received in advance for call credits determined on a specific account basis at balance date.

(ii) Interest income / Finance revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

g. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

h. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity 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.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

i. Trade and other receivables

Trade receivables and other receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any amounts determined to be un-collectable or amounts subject to dispute.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when it is determined there is no chance of recovering the debt.

An allowance for credit notes is made when invoiced amounts are subject to dispute and there is objective evidence that the dispute will be successful.

j. Foreign currency transactions and balances

(i) Functional and presentation currency

The functional currency of each group entity is measured using the currency of the primary consolidated environment in which the entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year end exchange rates prevailing at the reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

On consolidation, assets and liabilities have been translated into Australian dollars at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. The exchange differences are taken to other comprehensive income (OCI) in the consolidated financial report.

k. Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses if any.

Current and deferred income tax expense (credit) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax consolidation:
MNF Group Limited and its wholly-owned Australian subsidiaries are part of a tax consolidation group under Australian taxation law. MNF Group Limited is the head entity in the tax consolidation group. Tax expense, deferred tax liabilities and deferred tax assets arise from temporary differences of the members of the tax-consolidation group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

MNF Group Limited, as the head entity in the tax consolidated group, recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of all entities in the Australia group.

l. Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

m. Inventories
Inventories are measured and recorded at cost and are valued at the lower of cost and net realisable value.

n. Property, 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.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation
The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset’s useful life to the consolidated group commencing from the time the asset is held ready for use.
The depreciation rates used for each class of depreciable assets are:

	Group
Furniture & Fittings	6 to 10 years
Office Equipment	3 to 5 years
Leasehold improvements	3 to 9 years
Network Infrastructure and IT Systems	2 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When re-valued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

o. Financial instruments

Non-derivative financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.
Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(ii) Investments in subsidiaries held by the parent
Investments in subsidiaries held by the parent entity are recognised and subsequently measured at cost in the separate financial statements of the company, less any impairment.

(iii) Derivative financial instruments and hedge accounting
The group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then the hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in reserves is reclassified to profit or loss.

Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income (OCI) and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.
The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

Fair Value hedges

When a derivative is designated as a fair value hedging instrument, the hedged item is re-measured to take into account the gain or loss attributable to the hedged risk, with the gains or losses arising recognised in profit or loss. This offsets the gain or loss arising on the hedging instrument which is measured at fair value through profit or loss. Changes in fair value of the derivative instrument are recognised in profit or loss.

p. Intangible assets and goodwill (impairment testing)

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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.

Recognition and measurement:

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill Assets are not subject to amortisation and are tested for impairment on an annual basis, or whenever an indication of impairment exists.
Brands	Brands identified on acquisitions are measured and recorded at valuation less accumulated impairment losses. Brands are not subject to amortisation and are tested for impairment on an annual basis, or whenever an indication of impairment exists.
Research and development	Expenditure on research is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.
Other intangible assets	Other intangible assets, including customer contracts, patents and trademarks and software acquired by the Group that have finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their residual values using the straight-line method over their estimated useful life, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimate useful life of intangibles is as follows:

• Patents and trademarks	5 to 20 years
• Software and Software development costs	5 to 10 years
• Customer relationships	3 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

q. Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

r. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

s. Employee leave benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash outflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

t. Contributed capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

u. Earnings per share

Basic earnings per share is determined as net profit/(loss) attributable to members of the group, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share include options outstanding that will have the potential to convert to ordinary shares and dilute the basic earnings per share.

v. De-recognition of financial assets and financial liabilities

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

w. Share-based payment transactions

The Group provides benefits to its employees and Directors (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees and Directors is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees and Directors become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the consolidated statement of profit or loss and other comprehensive income is the product of:

(i) the grant date fair value of the award;
(ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
(iii) the expired portion of the vesting period.

The charge to the consolidated statement of profit or loss and other comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

3. Segment note

Operating Segments

The Group operates in three core segments.

Australian Domestic Retail

- The core My Net Fone brand, services residential, SMB (small to medium business), Enterprise and Government customers in Australia.
- Conference Call International Pty Limited (CCI), is included in this segment.
- Other brands in this segment include, Connexus, callstream, PennyTel and theBuzz.
- Key products in this segment include:
  - VoIP, Data, Virtual PBX and SIP trunking
  - Conferencing, toll free numbers and number porting

Australia/New Zealand Domestic Wholesale

- The core Symbio and iBoss brands services wholesale customers based in Australia and New Zealand.
- Key products in this segment include
  - Call termination, pre-select, SIP trunking, inbound numbers, virtual numbers and porting
  - Wholesale aggregation, data enablement and MVNO

Global Wholesale

- The TNZI Brand services the global wholesale market
- TollShield and OCA (Open CA) also operate under the Global Wholesale segment
- Key products include:
  - Voice carriage and International toll free services (ITFS)
  - Toll Fraud prevention
  - Class 4 Softswitch and billing

The Group has identified its operating segments based on internal management reporting that is used by the executive management team (chief operating decision makers) in assessing the performance and allocating resources.

The accounting policies used by the Group in reporting segment information internally, is the same as those contained in note 2 to the financial statements.

	Australian Domestic Retail	Australia/New Zealand Domestic Wholesale	Global Wholesale	Total
	$000	$000	$000	$000
2017				
External revenue	32,213	27,133	132,406	191,752
Inter-segment revenue	-	4,737	1,754	6,491
Segment revenue	**32,213**	**31,870**	**134,160**	**198,243**
Segment margin	**18,882**	**15,431**	**24,300**	**58,613**
2016				
External revenue	28,917	23,445	108,855	161,217
Inter-segment revenue	-	6,582	1,420	8,002
Segment revenue	**28,917**	**30,027**	**110,275**	**169,219**
Segment margin	**15,078**	**12,479**	**21,084**	**48,641**

For the year ended 30 June		2017	2016
		$000	$000

4. Revenue and expenses

		2017 $000	2016 $000
a.	**Revenue**		
	Rendering of services	191,752	161,217
	Finance revenue consists of:		
	Interest on bank deposits	1,350	249
b.	**Employee benefits expense**		
	Wages and salaries	22,533	18,527
	Superannuation	1,845	1,295
	Share based payments expense	293	-
	Other employee benefits expense	1,357	1,401
		26,028	**21,223**
c.	**Depreciation and amortisation**		
	Depreciation of fixed assets	3,305	3,244
	Amortisation of intangible assets	1,778	1,465
		5,083	**4,709**
d.	**Other expenses**		
	Marketing	1,641	1,401
	Property	1,460	1,068
	Technology & support	2,416	2,248
	Distribution	363	307
	Accounting and audit	563	358
	Legal and consulting	169	544
	Bank and transaction costs	422	379
	Other administrative expenses	3,020	3,567
		10,054	**9,872**
e.	**Financing costs**		
	Finance charges related to hedge instrument	956	107
	Finance charges payable on bank loan	834	954
		1,790	**1,061**

For the year ended 30 June	2017 $000	2016 $000

5. Income tax

a. Income tax expense

The major components of income tax expense are as follows:

	2017 $000	2016 $000
Current tax	4,716	2,951
Adjustment in respect of prior year tax	(139)	34
Origination and reversal of temporary differences	(133)	(150)
Total	**4,444**	**2,835**

b. Reconciliation between tax expense and the accounting profit

	2017 $000	2016 $000
Profit before income tax	**16,510**	**11,825**
At the Group's statutory rate of 30% (2016: 30%)	**4,953**	**3,548**
Tax incentives	(247)	(250)
Effect of tax rates in foreign jurisdictions	(68)	(64)
Non-temporary differences	(28)	(433)
Adjustment in respect of prior year	(166)	34
Total	**4,444**	**2,835**
Effective income tax rate	27%	24%

c. Deferred tax asset

	2017 $000	2016 $000
Recognised in the accounts:		
Relating to temporary differences	958	735
	958	**735**

The total value of temporary differences not brought to account in the current year is $Nil (2016: $118k)

d. Deferred tax liability

	2017 $000	2016 $000
Recognised in the accounts:		
Relating to temporary differences	1,420	-
	1,420	**-**

A deferred tax liability of $1.35m arose on acquisition of Conference Call International Pty Limited (note 23)

e. The Company and its wholly-owned Australian entities are members of a tax consolidated group Transactions within the Group have been eliminated in full on consolidation. The Australian tax consolidated Group is treated as a single entity for income tax purposes.

For the year ended 30 June	2017 $000	2016 $000

6. Statement of cash flows reconciliation

a. Cash and cash equivalents

Cash and cash equivalents balance comprises:		
Cash at bank	**52,358**	**52,889**

b. Reconciliation of net profit after tax to net cash flows from operating activities

Profit for the year	**12,066**	**8,990**
Adjustments for:		
Depreciation and amortisation	5,083	4,709
Share based payments expense	293	-
Tax expense	4,444	2,835
Changes in assets and liabilities, net of the effects of acquisitions:		
Change in trade and other receivables	(207)	625
Change in inventories	(365)	(118)
Change in trade and other payables	(2,914)	39,166
Change in other financial assets	(2,164)	-
Change in deferred revenue	(57)	(174)
Change in provisions and employee benefits	214	206
Cash generated from operating activities	**16,393**	**56,239**
Tax paid	(3,016)	(4,415)
Net cash flows from operating activities	**13,377**	**51,824**

7. Trade and other receivables

Trade receivables	28,602	28,307
Doubtful debts provision	(1,008)	(1,001)
Provision for credit notes	-	(300)
Other receivables	2,527	2,061
	30,121	**29,067**

The majority of receivables are in the form of contracted agreements with customers. In general, the terms and conditions of these contracts require settlement between 14 to 30 days from the date of invoice.

Estimating allowance for doubtful debts

We apply professional judgement to estimate the allowance for doubtful debts for our trade receivables. Our assessment is based on historical trends and management's assessment of general economic conditions. We consider credit risk, insolvency risk and incapacity to pay a legally recoverable debt.

8. Property, plant and equipment

a. Reconciliation of carrying amount

Consolidated	Office furniture & equipment $000	Leasehold improve-ments $000	Network infrastruct-ure & equipment $000	Work in progress $000	Total $000
Cost:					
At 1 July 2015	**1,650**	**287**	**20,457**	**-**	**22,394**
Acquisitions	-	-	974	-	974
Additions	1,171	502	4,633	86	6,392
Disposals	(389)	-	(3,327)	-	(3,716)
Transfers from work in progress	-	-	-	-	-
Reclassify asset category	-	-	-	-	-
Effect of movement in exchange rates	(9)	-	(617)	-	(626)
At 30 June 2016	**2,423**	**789**	**22,120**	**86**	**25,418**
At 1 July 2016	**2,423**	**789**	**22,120**	**86**	**25,418**
Acquisitions	-	-	1,344	-	1,344
Additions	1,024	453	4,925	3,399	9,801
Disposals	-	-	(3,008)	-	(3,008)
Transfers from work in progress	86	-	-	(86)	-
Reclassify asset category	(329)	329	-	-	-
Effect of movement in exchange rates	(8)	(12)	(505)	-	(525)
At 30 June 2017	**3,196**	**1,559**	**24,876**	**3,399**	**33,030**
Accumulated depreciation:					
At 1 July 2015	**(1,183)**	**(89)**	**(13,325)**	**-**	**(14,597)**
Acquisitions	-	-	-	-	-
Depreciation expense	(316)	(465)	(2,463)	-	(3,244)
Disposals	389	-	3,327	-	3,716
Reclassify asset category	-	-	-	-	-
Effect of movement in exchange rates	8	-	710	-	718
At 30 June 2016	**(1,102)**	**(554)**	**(11,751)**	**-**	**(13,407)**
At 1 July 2016	**(1,102)**	**(554)**	**(11,751)**	**-**	**(13,407)**
Acquisitions	-	-	(1,043)	-	(1,043)
Depreciation expense	(447)	(295)	(2,563)	-	(3,305)
Disposals	-	-	3,008	-	3,008
Reclassify asset category	22	(22)	-	-	-
Effect of movement in exchange rates	3	2	375	-	380
At 30 June 2017	**(1,524)**	**(869)**	**(11,974)**	**-**	**(14,367)**
Net Book Value:					
At 30 June 2016	1,321	235	10,369	86	12,011
At 30 June 2017	**1,672**	**690**	**12,902**	**3,399**	**18,663**

b. Disposals

Asset disposals relate to equipment that is fully written down to net book value $Nil and is no longer in use. There was no impact to the profit or loss account in relation to these disposals.

For the year ended 30 June	2017	2016
	$000	$000

9. Trade and other payables

	2017 $000	2016 $000
Trade payables	46,038	52,608
Other creditors and accruals	17,088	13,895
Security deposits held	55	47
	63,181	**66,550**

10. Loans and borrowings

	2017 $000	2016 $000
Current liabilities:		
Secured bank loan	2,500	2,500
Non-current liabilities:		
Secured bank loan	8,690	11,190
	11,190	**13,690**

The Group's bank facility (the "Facility") consists of a $27,000,000 revolving acquisition facility and a $2,100,000 (2016: $850,000) revolving multi-option credit facility. The Facility has a maturity date of 20 April 2020.

$1,510,000 of the revolving multi-option credit facility has been utilised to back bank guarantees relating to property leases and supplier security.

The Facility is secured by a fixed and floating charge over the assets of the Group and is interest bearing.

During the year there were no defaults or breaches on the Facility.

For the year ended 30 June	2017 $000	2016 $000

11. Financial instruments

	2017 $000	2016 $000
Current liabilities:		
Forward foreign exchange contract - fair value hedge	592	2,812
Non-current liabilities:		
Interest rate swap contract - cash flow hedge	140	282
	732	**3,094**

Interest rate swap contract - cash flow hedge

The Group's bank facility is a variable interest rate facility. It is the Group's policy to protect a portion of the bank facility from exposure to fluctuations in interest rates. Accordingly on 23 April 2016 the Group entered into an interest rate swap agreement to protect the loan facility from exposure to increasing interest rates. A hedge relationship was designated on this date. Under this interest rate swap, the Group is obliged to receive interest at a variable rate and pay interest at a fixed rate of 2.64% per annum. The swap covers 95.5% (2016: 87%) of the floating rate exposure under the Facility.

The contract requires settlement of the net interest receivable or payable each 90 days which coincides with the dates on which interest is payable on the underlying facility making it highly effective.

The gain or loss from remeasuring the hedging instrument at fair value is recognised in other comprehensive income and deferred in equity in the hedge reserve. It is reclassified into profit or loss when the hedged interest expense is recognised.

Forward foreign exchange contract - fair value hedge

There are significant creditor balances derived in foreign currencies, including Euro, Japanese Yen, Pound Sterling, and U.S. Dollar. These exposures on creditor balances are largely offset by debtor balances in corresponding currencies. Where this is not the case it is the Group's policy to protect these liabilities from exposure to fluctuations in foreign exchange rates. Accordingly, the Group has entered into a forward foreign exchange contract to protect the exposed creditor balances from increasing foreign exchange rates. A hedge relationship has been designated. During the year ended 30 June 2017 the Group recognised a $592k (2016: 2,368k) foreign exchange loss on the fair value hedge and a $577k (2016: $2,102k) gain on the hedged items. There has been no material ineffectiveness on the fair value hedge relationship during the year.

	2017 $000	2016 $000
Foreign exchange hedge effectiveness		
Foreign exchange movement		
Foreign currency term deposits	1,012	1,969
Foreign currency liabilities	(435)	133
Gain in foreign currency valuations	**577**	**2,102**
Fair value of hedging contract	(592)	(2,368)
Loss in valuation of hedge	**(592)**	**(2,368)**
Hedge effectiveness	**97%**	**89%**

For the year ended 30 June	2017	2016
	$000	$000

12. Deferred revenue

Pre-paid accounts	**1,611**	**1,668**

Deferred revenue mostly relates to cash received in advance from customers with respect to pre-paid VoIP accounts. The balance represents the unused call credits as at balance date.

13. Provisions

	Annual leave	Long service leave	Total
	$000	$000	$000
As at 1 July 2016	**1,300**	**734**	**2,034**
Arising during the year	1,682	102	1,784
Acquired during the year	71	118	189
Utilised during the year	(1,570)	(33)	(1,603)
As at 30 June 2017	**1,483**	**921**	**2,404**
Current	1,483	-	**1,483**
Non-current	-	921	**921**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 2.

For the year ended 30 June	2017	2016
	$000	$000

14. Issued capital

a. Ordinary shares

	2017	2016
Issued capital	**49,000**	**26,440**

Movements in ordinary shares on issue:	2017		2016	
	Number of shares	$000	Number of shares	$000
At 1 July	**67,454,337**	**26,440**	**62,710,215**	**9,932**
Exercise of share options (i)	-	-	10,000	15
Exercise of share options (ii)	325,000	960	535,000	1,592
Exercise of share options (iii)	30,000	-	-	-
Issued for cash (iv)	-	-	4,054,054	14,449
Issued for cash (v)	4,133,333	17,949	-	-
Issued from DRP participation (vi)	168,753	703	145,068	452
Issued from SPP participation (vii)	666,841	2,948	-	-
At 30 June	**72,778,264**	**49,000**	**67,454,337**	**26,440**

(i) Options exercised with an exercise price of $1.70
(ii) Options exercised with an exercise price of $3.00
(iii) Options were exercised with an exercise price of $Nil
(iv) Shares issued at a price of $3.70
(v) Shares issued at a price of $4.50
(vi) Shares issued as a result of participation in the MNF Group dividend reinvestment plan (at an issue price of $4.00 and $4.51, 2016: $3.17 and $3.11).
(vii) Shares issued as a result of participation in the MNF Group Share Purchase Plan at a price of $4.50

Share capital movements above are presented net of transaction costs.

Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

b. Share options

Movements in share options on issue:	2017		2016	
	Number	WAEP $	Number	WAEP $
Outstanding at 1 July	**355,000**	**3.00**	**910,000**	**2.97**
Granted during the year	620,000	7.15	-	-
Granted during the year	300,000	-	-	-
Exercised during the year	(30,000)	-	(10,000)	1.70
Exercised during the year	(325,000)	3.00	(535,000)	3.00
Expired during the year	(30,000)	3.00	(10,000)	1.70
Outstanding at the 30 June	**890,000**	**4.98**	**355,000**	**3.00**
Exercisable	890,000	4.98	355,000	3.00

The outstanding options balance as at 30 June 2017, issued under the share based payment option scheme to directors and executives is represented by 620,000 options with an exercise price of $7.15 each and an expiry date of 30 June 2021. Three tranches of options at 90,000 each were issued to employees with an exercise price of $Nil and expiry dates of 30 June 2018, 30 June 2019 and 30 June 2020 respectively.

15. Share based payments

Outstanding options as at year end:	2017 Number	2016 Number
Employee option plan	440,000	355,000
Options granted to directors	450,000	-
Total	**890,000**	**355,000**

a. Employee option plan (EOP)

The Board may issue options under the EOP to any employee of the Group, including executive directors and non-executive directors. Options will be issued free of charge, unless the Board determines otherwise. Each option is to subscribe for one share and when issued, the shares will rank equally with other shares. Unless the terms on which an option was offered specify otherwise, an option may be exercised at any time after one year from the date it is granted, provided the employee is still employed by the company.

An option may also be exercised in special circumstances, that is, at any time within 6 months after the employee's death, total and permanent disablement, or retrenchment. An option lapses upon the termination of the employee's employment by the company and, unless the terms of the offer of the option specify otherwise, lapses three years after the date upon which it was granted.

The maximum number of options on issue under the EOP must not at any time exceed 5% of the total number of shares on issue at that time.

b. Share options granted to directors

450,000 options were granted to directors during the year. The following table illustrates the number and weighted average exercise prices (WAEP) of and movements of share options held by directors during the year:

	2017		2016	
	Number	WAEP $	Number	WAEP $
Outstanding as at 1 July	-	-	450,000	3.00
Granted during the year	450,000	7.15	-	-
Exercised during the year	-	-	450,000	3.00
Outstanding as at 30 June	**450,000**	**7.15**	**-**	**-**

16. Commitments and contingencies

Operating lease commitments

Operating leases relate to premises with lease terms remaining between one and eight years. The consolidated entity does not have an option to purchase the leased assets at the expiry of the lease terms. The operating leases generally contain escalation clauses, which are fixed increases between three and four percent per annum.

Future minimum lease payments under non-cancellable operating leases not recorded in the financial statements as at 30 June 2017 are as follows:

	2017	2016
	$000	$000
Within one year	1,169	1,105
After one year, not more than five years	10,056	4,195
More than five years	6,944	230
	18,169	**5,530**

Commitments

At 30 June 2017, the Group had commitments of $2.3m (2016: $Nil) relating to the fit-out of leasehold properties in Sydney and Melbourne.

Guarantees

As at 30 June 2017 MNF Group Limited has issued a guarantee to Telstra Corporation Limited. This guarantee covers all primary obligations including any debts of its wholly owned subsidiaries. It does not impose any greater liability of MNF Group than is already in place for the subsidiaries collectively.

17. Events after reporting date

Dividends
The dividend as recommended by the Board will be paid subsequent to the balance date.

18. Auditors remuneration

The Auditor of the Group is MNSA Pty Ltd Chartered Accountants.

	2017	2016
	$000	$000
Auditors of the company:		
Amounts received or due and receivable by MNSA Pty Ltd Chartered Accountants for:		
Audit and review of the annual report of the entity	272	255
Non-audit services	-	-
Other Auditors:		
Audit and review of financial statements	91	57
	363	**312**

19. Director and executive disclosures

a. Details of Key Management Personnel (KMP)

Mr Terry Cuthbertson	Chairman and non-executive director	Mr Rene Sugo	Director & Chief Executive Officer
Mr Michael Boorne	Non-executive director	Mr Matthew Gepp	Chief Financial Officer
Mr Andy Fung	Non-executive director	Ms Catherine Ly	Company Secretary

b. Compensation of Key Management Personnel

The Group has applied the exemption under Corporations Amendments Regulation 2006 No 4 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports as required by Accounting Standard AASB 124 Related Party Disclosures. These disclosures are provided in the Directors' Report designated as audited.

c. Shareholdings of Key Management Personnel

	Year	Balance at the beginning of period	Traded during the year	Options exercised	Balance at end of period
Directors:					
Mr Terry Cuthbertson	2017	920,000	906	-	920,906
	2016	1,000,000	(180,000)	100,000	920,000
Mr Michael Boorne	2017	705,067	22,947	-	728,014
	2016	682,500	(77,433)	100,000	705,067
Mr Andy Fung	2017	13,969,216	56,773	-	14,025,989
	2016	14,448,955	(579,739)	100,000	13,969,216
Mr Rene Sugo	2017	13,160,576	17,508	-	13,178,084
	2016	13,488,955	(478,379)	150,000	13,160,576
Executives:					
Mr Matthew Gepp	2017	-	-	52,000	52,000
	2016	50,000	(50,000)	-	-
Ms Catherine Ly	2017	282,665	5,761	500	288,926
	2016	260,000	2,665	20,000	282,665

The above shareholdings are held directly and indirectly through controlled entities.

d. Share options of Key Management Personnel

	Year	Balance at the beginning of period	Granted	Options exercised	Balance at end of period
Directors:					
Mr Terry Cuthbertson	2017	-	100,000	-	100,000
	2016	100,000	-	(100,000)	-
Mr Michael Boorne	2017	-	100,000	-	100,000
	2016	100,000	-	(100,000)	-
Mr Andy Fung	2017	-	100,000	-	100,000
	2016	100,000	-	(100,000)	-
Mr Rene Sugo	2017	-	150,000	-	150,000
	2016	150,000	-	(150,000)	-
Executives:					
Mr Matthew Gepp	2017	50,000	70,000	(52,000)	68,000
	2016	50,000	-	-	50,000
Ms Catherine Ly	2017	-	25,000	(500)	24,500
	2016	20,000	-	(20,000)	-

20. Controlled entities

The consolidated financial statements include the financial statements of MNF Group Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	Ownership interest	
		2017	2016
My Net Fone Australia Pty Limited	Australia	100%	100%
Symbio Networks Pty Limited	Australia	100%	100%
Symbio Wholesale Pty Limited	Australia	100%	100%
Internex Australia Pty Limited	Australia	100%	100%
Pennytel Australia Pty Limited	Australia	100%	100%
Mobile Enablement Australia Pty Limited (i)	Australia	100%	100%
Symbio Wholesale (Singapore) Pte Limited	Singapore	100%	100%
TNZI International Pty Limited (ii)	Australia	100%	100%
TNZI USA LLC	USA	100%	100%
TNZI New Zealand Limited	New Zealand	100%	100%
TNZI Australia Pty Limited	Australia	100%	100%
TNZI UK Limited	United Kingdom	100%	100%
TNZI Singapore Pte Limited	Singapore	100%	100%
Symbio Wholesale NZ Pty Limited	New Zealand	100%	100%
Conference Call International Pty Limited (iii)	Australia	100%	-
Express Virtual Meetings Pty Limited (iii)	Australia	100%	-
Eureka Teleconferencing Pty Limited (iii)	Australia	100%	-
Conference Call Asia Pty Limited (iii)	Australia	100%	-
Ozlink Conferencing Pty Limited (iii)	Australia	100%	-

(i) On 13 September 2016, Numbering Services Australia Pty Limited changed its name to Mobile Enablement Australia Pty Limited.

(ii) On 21 July 2016, Symbio Wholesale International Pty Limited changed its name to TNZI International Pty Limited

(iii) On 9 February 2017, MNF Group completed the acquisition of Conference Call International Pty Limited (CCI) and its subsidiaries.

21. Goodwill and other intangibles

Consolidated	Goodwill	Brands	Customer contracts	Software develop-ment costs	Software, and other assets #	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance at 1 July 2015	**14,617**	**1,811**	**1,377**	**817**	**11,195**	**29,817**
Adjustment to fair value from provisional accounts (TNZI)	2,710	12	56	-	31	2,809
Additions	-	-	-	150	-	150
Balance at 1 July 2016	**17,327**	**1,823**	**1,433**	**967**	**11,226**	**32,776**
Additions	-	-	-	462	-	462
Acquisition of CCI (note 23)	13,462	3,000	1,500	-	250	18,212
Balance at 30 June 2017	**30,789**	**4,823**	**2,933**	**1,429**	**11,476**	**51,450**
Accumulated Amortisation						
Balance at 1 July 2015	**-**	**-**	**(69)**	**-**	**(440)**	**(509)**
Amortisation	-	-	(290)	-	(1,175)	(1,465)
Balance at 1 July 2016	**-**	**-**	**(359)**	**-**	**(1,615)**	**(1,974)**
Amortisation	-	-	(412)	(192)	(1,175)	(1,779)
Balance at 30 June 2017	**-**	**-**	**(771)**	**(192)**	**(2,790)**	**(3,753)**
Net Book Value						
At 30 June 2016	17,327	1,823	1,074	967	9,611	30,802
At 30 June 2017	**30,789**	**4,823**	**2,162**	**1,237**	**8,686**	**47,697**

Acquired externally or purchased as part of a business combination

22. Impairment testing

For the purpose of undertaking impairment testing, MNF Group Limited identifies cash generating units (CGUs). CGUs are determined according to the smallest group of assets that generates cash flows that are separately identifiable.

The carrying amount of goodwill broken out into CGUs is detailed below:

Goodwill	**30 June 2017 $000**	**30 June 2016 $000**
CGUs		
Wholesale	6,086	6,086
Retail	19,327	5,865
International	5,376	5,376
	30,789	**17,327**

Goodwill assets are not subject to amortisation and are tested for impairment on an annual basis, or whenever an indication of impairment exists.

The recoverable amount of the cash generating units has been determined based on value-in-use calculations using cash flow projections based on five year financial forecasts and assumptions that represent management's best estimate of the range of business and economic conditions at the time. Calculations are reviewed and approved by the Board of Directors.

Value-in-use represents the present value of the future net cash flow arising from the assets continued use and subsequent disposal. Any reduction in the carrying value is recognised as an expense in the consolidated statement of profit or loss and other comprehensive income in the reporting period in which the impairment loss occurs.

In determining value in use, management applies its best judgement in establishing forecasts of future operating performance, as well as a selection of growth rates, terminal rates and discount rates. These judgements are applied based on management's understanding of historical information and expectation of future performance.

Management considers that, as the wholesale, retail and data CGUs operate in the Telecommunications Industry in Australia servicing the same markets, the risks specific to each unit are comparable and therefore a discount rate of 9.8% (2016: 9.6%) is applicable to all domestic CGUs. The long-term growth rate used to extrapolate the cash flows beyond five years (the Terminal Value) for each CGU is 2.5% (2016: 2.5%). The International CGU has been assessed using a discount rate of 14.0% (2016: 14.0%) and a Terminal Value of 2.0% (2016: 2.0%)

Based on the results of the tests undertaken no impairment losses were recognised in relation to goodwill.

23. Business combinations

Conference Call International Pty Limited (CCI)

On 1 February 2017 MNF Group Limited announced the purchase of Conference Call International Pty Limited (CCI) for $18.0m. The acquisition completed on 9 February 2017.

CCI is the largest independent conferencing and collaboration provider in Australia.

Goodwill arising from the acquisition has been recognised as follows:

	2017 Consolidated provisional $000
Purchase consideration paid	18,000
Less working capital adjustment	(437)
Less cash acquired	(577)
Net cash paid for CCI	**16,986**
Less fair value of identifiable net assets	3,524
Goodwill	**13,462**
Identifiable net asset acquired:	
Trade receivables	637
Doubtful debts provision	(23)
Other debtors	92
Deferred tax asset	76
Fixed assets	1,344
Accumulated depreciation	(1,043)
Customer contracts	1,500
Brand names	3,000
Software	250
Trade and other payables	(517)
Deferred tax liability	(1,350)
Income tax payable	(227)
Provisions	(215)
Provisional fair value of identifiable net assets	**3,524**

The fair value of CCI's intangible assets (brand name, customer bases and software assets) is in the process of being independently valued, the provisional accounting above includes numbers based on management estimates and will be revised should the formal valuation of these assets be materially different.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

24. Earnings per share

Earnings and weighted average number of ordinary shares used in calculating basic and diluted earnings per share are:

	2017	2016
	$000	$000
Net profit attributable to ordinary equity holders of the Company	12,066	8,990
Weighted average number of shares:	**Number '000**	**Number '000**
Weighted average number of ordinary shares for basic earnings per share	69,683	66,851
Add effect of dilution:		
- Share options	890	355
Weighted average number of ordinary shares for diluted earnings per share	70,573	67,206

25. Dividends paid and proposed

	Cents per share	$000	Date of payment
Recognised amounts:			
2016 fully franked final dividend declared and paid	3.50	2,372	29 September 2016
2017 fully franked interim dividend declared and paid	3.75	2,727	30 March 2017
Unrecognised amounts:			
2017 fully franked final dividend declared (i)	4.50	3,275	28 September 2017

(i) The final dividend was declared on 15 August 2017. The amount has not been recognised as a liability in the 2017 financial year and will be brought to account in the 2018 financial year.

The proposed payment date of the 2017 final dividend is 28 September 2017.

The amount of franking credits available for future reporting periods is $5,092,271 (2016: $4,207,757).

The tax rate at which paid dividends have been franked is 30% (2016: 30%).
Dividends proposed will be franked at the rate of 30%.

26. Parent entity

Key financial information relating to the parent entity is summarised below:

	2017 $000	2016 $000
Statement of profit or loss and other comprehensive income		
Profit/(loss) attributable to the owners of the company	(128)	23,120
Other comprehensive income	(142)	259
Total comprehensive income/(loss) attributable to the owners of the company	**(270)**	**23,379**
Statement of financial position		
Total current assets	3,330	6,582
Total non-current assets	61,697	44,485
Total current liabilities	(5,488)	(374)
Total non-current liabilities	(8,432)	(13,951)
Net assets	**51,107**	**36,742**
Issued Capital	53,815	31,255
Reserves	1,506	1,071
Retained earnings	(4,214)	4,416
Total equity	**51,107**	**36,742**

27. Financial risk management objectives and policies

The Group's principal financial instruments as at year end comprise cash at bank, trade and other receivables, trade payables, forward foreign exchange contract and a loan facility.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk:

The Group is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the United States Dollar (USD) and the New Zealand Dollar (NZD). Much of the USD exposure is subject to a natural hedge, as the buy and sell side of most foreign currency transactions are in USD. Any unhedged foreign exchange positions associated with our transactional exposures will directly affect profit or loss as a result of foreign currency movements. The Group's objective is to manage its foreign exchange risk against its functional currency and to hedge firm commitments and highly probable and material forecast transactions over varying time horizons using forward exchange contracts. All contracts have been entered into with major creditworthy financial institutions.

Sensitivity to foreign currency movements:

A movement of 10% in the Australian dollar at 30 June 2017 would impact the profit or loss by less than $250k (30 June 2016: $400k). This analysis assumes a movement in the Australian dollar across all currencies and only includes the effect of foreign exchange movements on monetary financial instruments.

Interest rate risk:

The Group's interest rate exposure relates to short term cash and long-term loans, both are subject to the floating interest rate. The Group's objective is to minimise the cost of net borrowings and to minimise the impact of interest rate movements on the Group's interest expense and net earnings. The Group policy is to maintain at least 50% of its long term loan at fixed rates using interest rate swaps whereby the Group agree to exchange at defined periods the net difference between fixed and floating interest rates based on an agreed notional principal amount. This interest rate swap is designated into a hedge relationship and satisfies the requirements for hedge accounting.

Liquidity risk:

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of current accounts, short term deposits, long-term borrowings, preference shares, finance leases and a revolving multi-option credit facility. The Group has access to a sufficient variety of sources of funding to adequately mitigate liquidity risks.

Credit risk:

The company has no significant exposure to credit risk. For credit sales the Group only trades with recognised creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Ageing analysis and ongoing credit evaluation are performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debts is raised. In addition, receivable balances are monitored on an ongoing basis so that our exposure to bad debts is not significant.

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

	2017		2016	
	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Financial assets				
Cash	16,905	16,905	11,259	11,259
Weighted average effective interest rate 0.1% (2016: 0.1%)				
Cash at call	35,453	35,453	41,630	41,630
Weighted average effective interest rate 2.6% (2016: 3.2%)				
Trade and other receivables	30,121	30,121	29,067	29,067
Financial liabilities				
On statement of financial position				
Trade payables	63,181	63,181	66,550	66,550
Loans and borrowings	11,190	11,190	13,690	13,690
Weighted average effective interest rate 4.80% (2016: 4.87%)				
Forward foreign exchange contract – fair value hedge	592	592	2,812	2,812
Interest rate swap contract – cash flow hedge	140	140	282	282

28. Company details

The registered office and principal place of business of MNF Group Limited is:

Level 3, 580 George Street, Sydney, NSW, 2000, Australia

Director's Declaration

In accordance with a resolution of the directors of MNF Group Limited, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 19 to 52, are in accordance with the Corporations Act 2001 and:

    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 2 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

    b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the consolidated group;

2. 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; and

3. the directors have been given the declarations required by s295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

On behalf of the Board

Terry Cuthbertson	**Rene Sugo**
Chairman	Director

Sydney, 15 August 2017

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MNF GROUP LIMITED **ABN 37 118 699 853 and Controlled Entities**

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MNF GROUP LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. any applicable code of professional conduct in relation to the audit.

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Mark Schiliro
Director

Dated in Sydney this 15th day of August 2017

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MNF GROUP LIMITED ABN 37 118 699 853 and Controlled Entities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MNF GROUP LIMITED and Controlled Entities

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of MNF Group Limited (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year then ended on that date; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	*How Our Audit Addressed the Key Audit Matter*
Carrying Value of Goodwill MNF Group Limited has goodwill of $30,789,000 contained within three Cash Generating Units. For the Cash Generating Units, the determination of recoverable amount, being the value-in-use, requires judgement on the part of management in both identifying and then valuing the relevant Cash Generating Units. Recoverable amounts are based on future financial forecasts and Management's view of a range of variables such as business and economic conditions including operating performance and the most appropriate growth and discount rates. Refer to Note 2 of the Financial Statements, Critical accounting estimates and judgements.	We evaluated the appropriateness of Management's identification of the Group's Cash Generating Units and tested the effectiveness of the impairment assessment process, including indicators of impairment, noting no significant exceptions. Our procedures included challenging Management on the suitability of the impairment model, and the reasonableness of the assumptions, with particular attention to the business segments, by performing the following: • assessing MNF Group's key market-related assumptions in Management's valuation models with industry comparators and with assumptions made in the prior years including revenue and margin trends, capital expenditure on assets, market share, foreign exchange rates and discount rates, against external data where available. • testing the mathematical accuracy of the cash flow models and agreeing relevant data to Board approved long range plans; and • assessing the reliability of Management's forecast through a review of actual performance against previous forecasts. We validated the appropriateness of the related disclosures in Note 21 and Note 22 to the Financial Statements, including the sensitivities provided with respect to acquisitions. Based on our procedures, we noted no issues of concern, and consider Management's key assumptions to be within a reasonable range.

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Revenue recognition

Revenue represents a material balance consisting of a high volume of individually low value transactions and we have identified the following types of transactions and assertions related to revenue recognition which give rise to key risks:

- the accuracy and completeness of revenue recorded as a result of reliance on the output of billing systems.

In responding to these matters, our audit approach included testing of systems and controls, in particular procedures covering:

- segments, products, billing systems, cash collection and other relevant support systems around the recognition of material revenue streams;
- the reconciliation of billing systems to the general ledger, including validation of material journals processed between the billing system and general ledger;
- the accuracy and completeness of recording customer bills;
- reconciliation of cash receipts from customers with the receivables ledger.

Based on our work, we noted no significant issues on the accuracy of revenue recorded in the year.

Capitalisation of Software Development and asset lives

There are a number of areas where management judgement impacts the carrying value of intangible assets and their respective amortisation profiles. These include:

- the decision to capitalise or expense costs;
- the review of the annual asset life including the impact of changes in the Group's strategy.

We evaluated the appropriateness of capitalisation policies, performed tests on costs capitalised and assessed the timeliness of the transfer of assets in the course of development. There were no exceptions noted from our testing.

Our testing on the application of the asset life review identified no issues.

In performing these procedures, we considered the judgements made by management including:

- the nature of underlying costs capitalised as part of the cost of the software billing and delivery platforms;
- the appropriateness of asset lives applied in the calculation of amortisation; and
- assessing the need for accelerated amortisation.

No significant issues were noted from our testing.

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Acquisition of Conference Call International Pty Limited
Refer Note 23. Business Combinations

During the year the Group acquired Conference Call International Pty Limited for a purchase consideration of $18m.

Judgment was required in determining:

- the fair value of assets and liabilities
- the allocation of purchase consideration to goodwill
- identifying intangible assets.

Due to the size of the acquisition and the judgmental process, this is a key audit matter.

Our audit procedures included:

- reading the purchase agreement for an understanding of the terms and conditions
- consideration of the assumptions in management's assessment of revenues and operating costs
- consideration of management's provisional determination of the fair value of acquired assets and liabilities
- consideration of management's allocation of the purchase consideration to goodwill and identifiable intangible assets such as customer contracts and brand names.

Based on our procedures, we noted no issues of concern on the adequacy of the Group's disclosures in respect of the business combinations.

There were no restrictions on our reporting of Key Audit Matters.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Directors for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable matters, relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 16 of the directors' report for the year ended 30 June 2017.

In our opinion the Remuneration Report of MNF Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

MNSA PTY LTD

MNSA PTY LTD

Mark Schiliro
Director

Dated in Sydney this 15th day of August 2017

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ASX Additional Information

Additional information required by ASX Ltd and not shown elsewhere in this report is as follows.

The information is current as at 01 August 2017.

(a) Distribution of equity securities

(i) Ordinary share capital

72,778,264 fully paid ordinary shares are held by 3,186 individual shareholders.
All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

890,000 unlisted options are held by 58 individual option holders.
Options do not carry a right to vote.

The numbers of shareholders, by size of holding, in each class are:

	Fully paid ordinary shares
1 – 1,000	1,000
1,001 – 5,000	1,217
5,001 – 10,000	423
10,001 – 100,000	510
100,001 and over	36
	3,186

The number of security investors holding less than a marketable parcel of ordinary shares is 108.

(b) Substantial shareholders

	Fully paid	
Ordinary shareholders	**Number**	**Percentage**
Mr Andy Fung and related parties	14,025,989	19.28
Mr Rene Sugo and related parties	13,178,084	18.11
NAOS Asset Management Limited	4,348,529	5.98
Milford Funds Ltd	3,686,525	5.07

(c) Twenty largest holders of quoted equity securities

	Fully paid	
	Number	**Percentage**
Mr Andy Kan Kam Fung & Ms My Van Monique Ly	13,817,635	18.99
Avondale Innovations Pty Ltd	12,138,955	16.68
National Nominees Limited	6,717,328	9.23
AET SFS Pty Ltd	3,333,456	4.58
Citicorp Nominees Pty Ltd	3,077,496	4.23
BNP Paribas Nominees Pty Ltd	2,910,494	4.00
L & C Pty Ltd	1,834,117	2.52
HSBC Custody Nominees (Australia) Limited	1,678,524	2.31
RACS SMSF Pty Ltd	1,039,129	1.43
Kore Management Services Pty Ltd	920,906	1.27
Sandhurst Trustees Ltd	906,311	1.25
Boorne Gregg Investments Pty	875,906	1.20
Boorne Superannuation Fund Pty Ltd	805,906	1.11
JP Morgan Nominees Australia Limited	765,600	1.05
G & E Properties Pty Ltd	529,247	0.73
Lee Superfund Management Pty Ltd	430,000	0.59
Mr Michael John Boorne	364,608	0.50
Earglow Pty Ltd	350,000	0.48
Ms Catherine Ly	288,926	0.40
Mr Christopher John Ayres	280,000	0.38
	53,064,544	**72.91**

(d) On-Market Buy Back

There is currently no on-market buy back.