



**MNF Group Limited  
Annual Report 2018**

ABN 37 118 699 853

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We're redefining communications experiences through

# software led solutions

# Message from our CEO

Dear Shareholders,

It has been another year of achievement and change for the MNF Group. Our core business has performed exceptionally in the markets and segments that have become the main pillars of our business. It has also been a year where our future growth strategy of regional expansion has started to become a positive reality.

Our consolidated group revenue increased to \$221 million, up 15% from the previous year, resulting in gross margin increase of 18% to \$69 million. Given the diverse range of margin levels in the MNF Group portfolio we prefer to use gross margin as our top level indicator. Our EBITDA rose slightly to \$24.6 million in light of the one-off investment into the Pennytel brand of \$2.3 million. Our NPAT remained stable on prior year levels at \$11.9 million. The company ended the year with a strong balance sheet, no net debt, and the ability to redraw \$16.3 million from our revolving acquisition facility.

This year saw solid gains in the gross margin across all three operating segments, with Domestic Retail up 22%, Domestic Wholesale up 15% and Global Wholesale up 17%. This year saw a full annualised contribution from the CCI acquisition (February 2017), which is now fully integrated and performing well with CCI gross margin contribution up 10% in H2 on the prior corresponding period.

This year's solid performance has allowed the board to declare total annual dividends of 8.35 cents per share fully franked – a slight increase on prior years, and consistent with our policy of returning half of NPAT to investors.

## Achievements

During the year MNF Group achieved some major milestones in its cornerstone business, allowing it to invest in multiple new initiatives and growth strategies.

### ■ New Zealand Symbio Network Roll-Out

A key pillar in the MNF Group growth strategy is regional expansion into new markets for its Domestic Wholesale products suite. The first milestone in the execution of this strategy was the upgrade and roll out of a new Symbio Network in New Zealand. This new capability will increase margins for our Global Wholesale segment, as well as providing many years of organic growth for our Domestic Wholesale segment into the regional market which is most similar to Australia. MNF Group is now the only Australian or New Zealand carrier with a homogenous trans-Tasman voice network capability.

### ■ SuperInternet Acquisition in Singapore

Comparable to a mini-Symbio Network in Singapore, the SuperInternet group comes with a fully interconnected domestic voice network in Singapore, as well as connectivity to the national NBN network, as well as its own dark fibre assets in the Singapore CBD. The SuperInternet acquisition is predominately a capability acquisition where MNF Group is looking to accelerate its regional expansion into Asia. While the Group will now invest in upgrading and deploying its tried and trusted software eco-system into Singapore, this acquisition will save precious time in launching our Domestic Wholesale products into this new and exciting market.

### ■ Enabling Mobility

Mobility is a key component of any communications strategy today. While MNF Group has no aspirations of building its own spectrum and tower mobile network, it will leverage its key capabilities to make mobility a significant component of its product portfolio. This year saw MNF Group achieve considerable milestones in both the Domestic Retail segment and the Domestic Wholesale segment with regards to its mobile strategy. In the Retail segment MNF Group successfully re-launched the Pennytel brand to be the new face of MNF Group's consumer segment. In the Wholesale segment MNF Group is now a significant player with its software enablement capabilities – enabling one of the largest MVNO retail brands in the country, as well as providing its own post-paid mobile wholesale aggregation services. The multi-segment approach has allowed MNF Group to become one of the fastest growing post-paid mobile user bases in Australia.

## The Future

For several years now the Group has had three very solid and organically growing business segments – Domestic Retail, Domestic Wholesale and Global Wholesale. The Group has a four-dimensional organic growth strategy, being:

### Geography

Expansion into new regional markets – as shown with our success in New Zealand, and the recent acquisition in Singapore. MNF Group views each additional country as an expansion of its addressable market proportional to its population. With the addition of New Zealand and Singapore, the Group has added an additional 10 million potential end-users of our software capabilities, or increased our addressable market by 41% compared to our corner stone business in Australia. While it will take time to monetise these two new markets, the strategy is already proving successful with early take up and customer interest. MNF Group will continue to invest in its regional geographical expansion strategy with a target of adding 4 additional Asian countries to its portfolio by 2022.

### Market Share Growth

Increasing revenue and margin by selling more of the products we already have. While this strategy may seem obvious, MNF Group is still a small player in market share across all of its operating segments. As new technology disruption accelerates into the traditional voice telecommunications market this opens up more market share opportunity for MNF Group thanks to our leading next generation software eco-system and product portfolio. MNF Group continues to win significant new business from legacy carriers as can be seen by its strong number portability growth of 22% in the last financial year alone.

### Software

Increasing revenue and margin by adding new features and capabilities to our tried and trusted software eco-system. As has been a key pillar of our growth from inception, increasing functionality means we can create greater value for our customers, enable new customer acquisition, develop new markets, and further integrate into our existing customer base. MNF Group continues to invest in the key resource for software value creation – its people.

### Wholesale Partnerships

By embracing the concept of wholesalers and building long term relationships, MNF Group benefits from the success of its partners. In an industry where traditional telco operators are hunkering down and building barriers for new entrants, MNF Group has differentiated itself by being the “go-to” capabilities provider enabling challengers into the market. This strategy has proven successful with many of our wholesale partners operating household name brands and becoming market leaders in their own product space. MNF will continue to buck the industry trend and continue to disrupt the market.

Finally in addition to our organic growth drivers, the Group employs a fifth dimension for growth, that of growth by acquisition.

## Acquisitions

Searching for viable capability and customer base opportunities – as demonstrated over many years, MNF Group is a discerning acquirer and integrator of businesses. The Group has shown its ability to bring customer bases onto our software eco-system and network assets thereby increasing margin and improving product performance, or adding new capabilities which can expand our product portfolio. MNF Group will continue to seek out synergistic acquisition opportunities which can increase shareholder value.

On behalf of my fellow directors, I would like to thank all the staff and management team in achieving another solid result. Without the hard work and dedication from a highly specialised and skilled team we would not be where we are today.

I thank all shareholders for your continued and loyal support. The company is looking forward to a successful and rewarding year ahead.

Rene Sugo



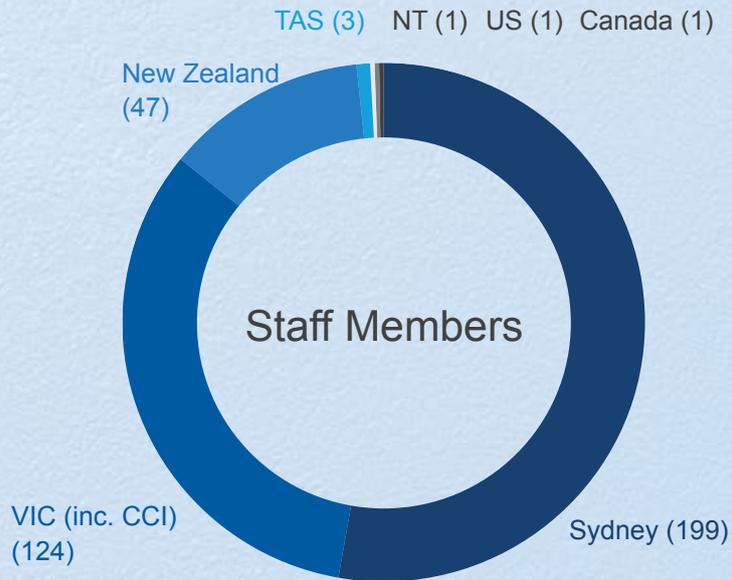
CEO and Executive Director

# People Experience (PX)

MNF Group is a values-based organisation, one that has successfully kept its strong culture intact while also integrating several acquisitions into the MNF family over the past 6 years.

*Be Brave, Honest & Fair, Deliver Excellence, Collaborate, and We Care* are at the heart of what our people strive for every day. We are a culturally diverse organisation and respect the varying perspectives that inspire our colleagues to see the workplace—and the world—differently.

Enabling Customers to Innovate & Communicate is our cornerstone Purpose Statement which binds our people together across our brands globally

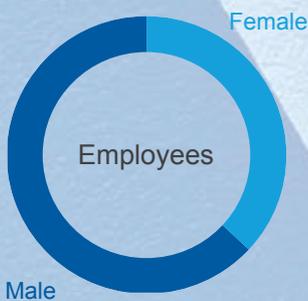


Average Score  
**4.34/5**

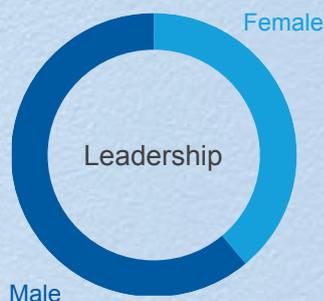
Gallup's Global Data Base Percentile  
**72**

In our August 2018 internal Diversity & Inclusiveness Survey, we scored in the 72nd percentile of Gallup's Global database (for our average score of 4.34 out of 5) to the following statement:

*'Everyone at this company is treated fairly regardless of ethnic background, race, gender, age, disability, or other differences not related to job performance.'*



Our workforce composition in Australia, (based on our 2018 Workplace Gender Equality Agency (WGEA) Report) is 37% female and 63% male



In senior leadership roles in Australia, we have 39% female representation

Our **PX Team** runs a predominantly centralised support model.

Centres of Excellence are in place for Business Partnering, Learning & Development, and Talent Acquisition. The team focuses on the mantra of 'empowering leaders to lead', assisting managers with driving the development, engagement and performance of their people.

Our PX Journey focuses on 5 major lifecycle milestones.

# 1

## Welcome

The transition from candidate to joining the MNF family is designed to give people a sense of our 'Awesomeness' from the beginning, and fuel the excitement about starting their employee journey with us. This starts at attraction and recruitment, with interview questions aligned to our values & behaviours. Getting the right 'people fit' for the MNF family is imperative to our continued success.

# 2

## Perform

We believe that it is essential for our people to have clear, attainable outcomes because no matter how talented our people may be, they can't do their jobs without a clear picture of what success looks like. This is closely aligned to our Deliver Excellence Value. Our people have clear expectations and goals in place, with competencies aligned to positions.

# 3

## Develop

To assist our people in Delivering Excellence, we have a formal Leadership Development program in place, and self-paced e-learning across a broad range of competencies and topics. MNF Group in Australia hosts its very own 'Toastmasters' to assist our people to build confidence and public speaking skills. We utilise an Annual Gallup Engagement survey to ensure our people's views are heard and that we continually strive to improve.

# 4

## Support

We Care is another of our Values which correlates with the support we provide our people to ensure they are supported in both their Health & Wellbeing. An Employee Assistance Program (EAP), regular webinars on mental health, charity fundraisers, an annual paid Volunteering Day, and employee blood donations with Red25 are just some of the ways that our people can engage in bolstering their own wellbeing or giving back to the Community. In addition, our people are provided with space to create, relax and innovate.

# 5

## Appreciate

Our people are our biggest asset. To reward our staff for their hardwork and Delivering Excellence, we have regular local level events and recognition initiatives. We run an annual Global Reward & Recognition program, based around our values.

# Company Structure



**Rene Sugo**  
CEO and Executive Director



**John Boesen**  
CTO  
Technology Business Unit



**Tim Dunning**  
President - Global Commercial  
Global Commercial Business Unit



**Jon Cleaver**  
CCO  
Domestic Commercial Business Unit



**Ritsa Hime**  
COO  
Operations Business Unit

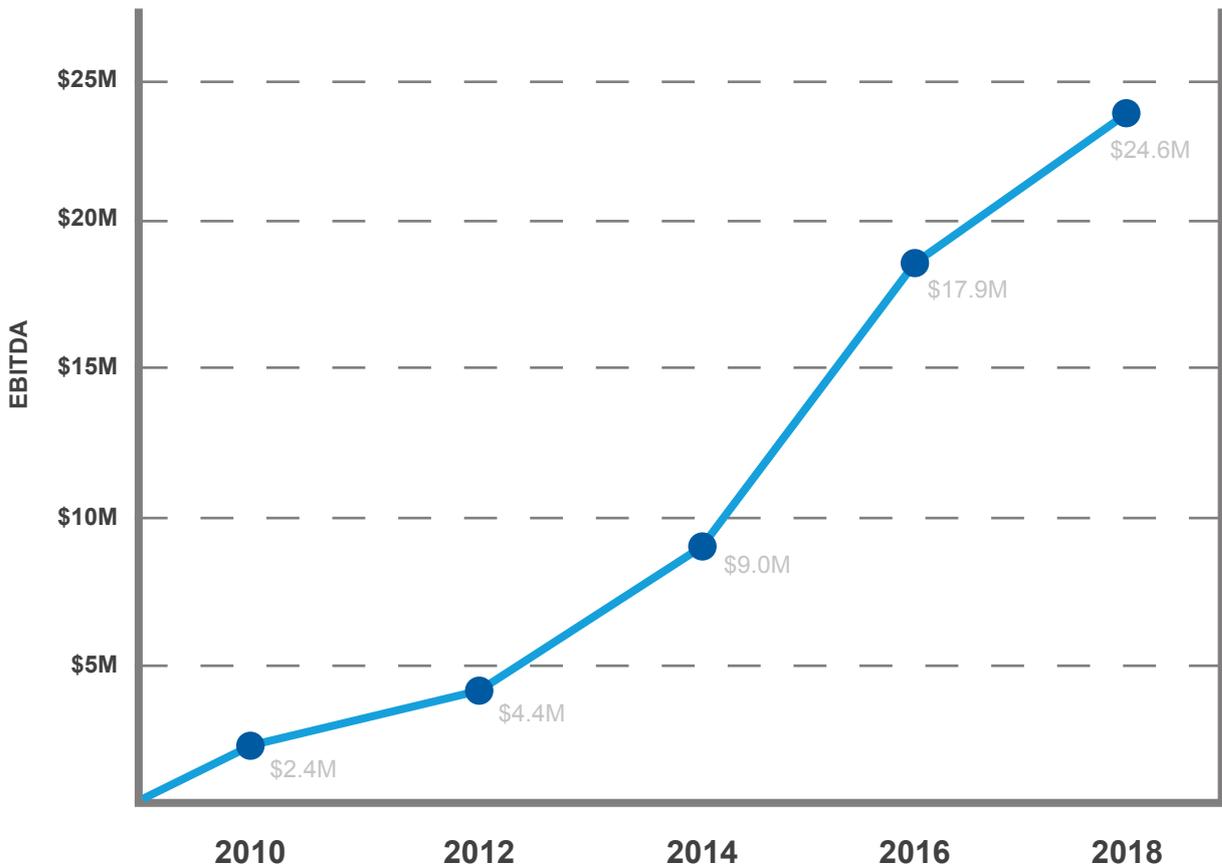


**Matthew Gepp**  
CFO  
Finance Business Unit



**Helen Fraser**  
General Counsel  
Legal & Compliance Business Unit

# Organic and acquisitive growth



## 2009

Maiden profit  
ADSL2+ service launch

## 2010

Exclusive Panasonic deal for SME phone system  
771% EBITDA growth

## 2011

Acquisition of Symbio Networks

## 2012

Tasmanian Government \$20M Project win  
Acquisition of CallStream, Connexus, GoTalk Wholesale

## 2013

CeBIT Outstanding Project Award for Tasmanian Government Voice Carriage Project

## 2014

Acquisition of Pennytel & iBoss  
Strong organic growth

## 2015

Acquisition of TNZI global voice network and OpenCA Softswitch

## 2016

TNZI integration  
US completion  
Underlining EBITDA growth 15%  
34% total EBITDA growth

## 2017

Acquisition of CCI  
Underlying organic EBITDA growth 25%

## 2018

18% margin growth  
NZ Domestic Network goes live  
SuperInternet acquisition

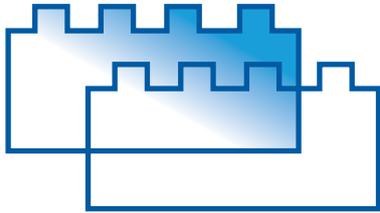


“Building a high-growth and sustainable business with real value creation through software innovation and network capability in the communications sector – in Australia, Asia-Pacific, and the world.”

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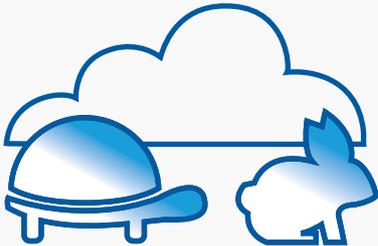
Rene Sugo, CEO and Executive Director

# How we're building the future of communications



## Our platform enables embedded capabilities

Mobile	SMS and IM
Virtual numbers	Global termination
SIP trunks	Telco back-end



## ...that we sell to telcos *and* disruptors...

MNVO's	App developers
Emerging telcos	Software companies
Global carriers	Enterprise



## ...and use to power our own innovation

Industry technology	Apps and portals
Voice services	Vertical brands
Conferencing	



## Multi-brand strategy leveraging our proprietary software and network

While operating across Australia, New Zealand, UK and USA, MNF Group's structure is defined by function rather than geography, with several Business Units headed by highly skilled and experienced Chief Executives.

Each unit focuses on a particular functional area and works across multiple brands, products and office locations. This structure allows the Group to develop and leverage subject matter expertise of various teams to support a multi-brand strategy while ensuring operational efficiency.



## Domestic Retail

Our range of retail brands provide phone, internet, mobile and conferencing services in Australia.

### Markets

- Consumer VoIP and NBN
- Consumer Mobile
- Small business
- Enterprise and Government

### Major Brands



### Growth Drivers

- Technology change
- Cloud communications
- Digital transformation



## Domestic Wholesale

Symbio Networks enables new-generation providers to deliver mobile, IP telecom and UC services.

### Markets

- Telcos, MVNOs and MSPs
- Software and app developers

### Major Brands



### Growth Drivers

- Cloud communications
- MVNO enablement
- AU/NZ market growth



## Global Wholesale

TNZI enables communication providers to outsource all or part of their international calling business.

### Markets

- International telecoms, with a focus on APAC
- Software and app developers

### Major Brands



### Growth Drivers

- Market change
- Regulatory change
- APAC market growth

# Smart Network



## International reach

MNF Group's Tier 1 carrier network includes Points of Presence in Los Angeles, New York, Hong Kong, Singapore, London, Frankfurt, Sydney and Auckland and over 200 partner interconnects.

Having developed market-leading managed voice services for its Australian network, the Group is now progressively rolling out these smart network capabilities to the rest of its global network. These innovative capabilities combined with first-mover advantage puts the MNF Group in prime position to be the carrier of choice for providers looking to reach the fast-growing Asia Pacific region.



**Domestic expertise**

In Australia, the Group owns and operates the country’s largest IP voice network and has established a robust network presence in New Zealand.

The MNF network includes high speed fibre connectivity between major cities, and modern VoIP nodes in regional call collection areas across Australia and New Zealand. This robust infrastructure is the ‘go to’ for new-generation OTT providers and global carriers looking to establish or expand their presence in Australia and New Zealand.



“We are enabling a culture of disruption to deliver unique customer experiences”

---

John Boesen, CTO

# Technology

John Boesen is an experienced technologist, a passionate leader and an innovative thinker. He has over 20 years experience in driving innovation and leading engineering teams. Prior to joining MNF Group, John was part of the executive team at Willian Hill where he held the positions of Chief Technology Officer and Chief Information Officer. John has also been Chief Operating Officer of Etherstack plc and held numerous project, product and technology focused roles where he challenged teams to think differently.

John now leads MNF Group's Technology team as Chief Technology Officer with a strong customer centric view and an affiliative approach to building high performance teams and collaborative cultures.

## Technology and the Customer

“We are a software company with a world class telco foundation. It is a unique mix that sets us apart from the rest. I am excited at what lies ahead as we continually re-invent ourselves to deliver great product innovations to our customers.”

John Boesen, Chief Technology Officer

## The Vision for Technology

MNF Group's Technology vision is seeded in industry disruption and integrating cutting edge technologies to deliver sustainable value. It's about solving problems and delivering unique customer experiences in ways others haven't. It's about creating space to innovate and embracing diverse thinking to enrich the outcome. It's not about fearing failure, but correcting mistakes quickly to make sure we are constantly evolving and being better than yesterday.

With technology teams spread across multiple geographies, it is essential to have a collaborative and supportive engineering culture that can work seamlessly across the organisation. The way our teams deliver is guided by iterative methods that encourage continuous integration, continuous deployment and continuous improvement.

Providing access to our core voice and data network capabilities through APIs will continue to fuel organic innovation and growth. Augmenting our core network capabilities with cutting edge cloud services and software defined networks will enable MNF Group to deliver a rich set of voice and data services that will be configurable and accessible from anywhere. It is an exciting future we have already begun building.



“Growing our business partnerships through a focus on the agile delivery of customer-centric international solutions.”

---

Tim Dunning, President  
- Global Commercial

# Global Commercial

Strong customer acquisition, additional footprint and underlying organic growth underpin an excellent result for the Global Commercial Business Unit in FY18 and position us strongly into the future.

Award-winning products support some of the largest traffic originators in the world, leveraging our fully-redundant low-latency global network to provide service where our customers live, work and play. As well as an extensive pick-list of products and services, we offer a variety of whole-of-business solutions to consolidate calling and manage internal and external costs. We wish to share in the success of our customers by providing a suite of communication capabilities that will enable them to grow.

Our strength lies in our commitment to our customers as partners, our extensive network capabilities and the knowledge and expertise of our staff. Further investment in network assets during the FY19 financial year will augment both our capacity to serve existing customer growth and provide additional feature-sets leveraging our wholly-owned soft-switch software platform. With the international landscape changing so rapidly, this integral capability supports our innovative and agile approach to ensuring the needs of our customers can be accommodated.

Amongst a range of initiatives being pursued, we are particularly proud of our new Origin-Based Routing (OBR) capability to be deployed in Q1. This in-house software development allows us to navigate the increasingly complex landscape of differential origination and termination rates for Europe-bound traffic. OBR capability allows us to de-risk this environment for our customers by providing a routing solution that ensures voice-traffic is managed to achieve the optimum cost and therefore the optimum rate to the customer.



**OTT**  
(Over the Top)



**UCaaS**  
(Unified Comms as a Service)



**Conferencing**

## Domestic Products, Different Values, Different Needs

NGS provides domestic access to a variety of customers to connect their products and services to the end users.



**CPaaS**  
(Communications Platform  
as a Service)



**CCaaS**  
(Contact Centre  
as a Service)



“Executing our multi-brand & segment strategy to deliver long term, sustainable growth by keeping the customer central to all decisions”

---

**Jon Cleaver, CCO - Domestic Commercial**

# Domestic Commercial

## Wholesale

The Domestic Wholesale business once again delivered exceptional results through our two core brands, Symbio Networks and iBoss.

Symbio voice capabilities continue to grow, porting an unprecedented amount of numbers into our smart network. Our software has been utilised to enable our customers to expand innovation and disrupt the market. Symbio has solidified itself as the go-to voice network with customers ranging from carriers, traditional RSP's to emerging digital marketplaces. With the exciting addition of New Zealand and Singapore markets, this organic growth will be continuing for years to come.

iBoss has further accelerated its growth from the previous year with the addition of direct MVNO services and managed SIP Trunking. The iBoss software suite continues to enable the fastest growing MVNO in the country and perpetually expanding its solutions as the global mobile market continues to evolve. With the emergence of large brands moving into communications, iBoss is in the perfect position to serve the next generation of providers.

## Small Business

The NBN rollout and end of ISDN services perpetrates a general technology revolution in small business application, placing MyNetFone in the ideal space to accelerate its growth in this segment. Our hosted PBX product, now combined with mobility, further advances as the corner stone solution for small business. MyNetFone will continue to innovate and address this ever expanding market, supporting the lifeblood of the Australian economy in the small business segment, as for the first time they now have a real choice.

## Enterprise and Government

The enterprise and government segment has experienced rapid change throughout the year. MNF Group had foreseen this growth and spent the last 2 years investing in the development of a product suite to support this segment. This product suite enables enterprise and government to seamlessly transition to the cloud and provide instant productivity gains with new solutions and reduced cost. This acceleration lead to the emergence of the MNF Enterprise brand (previously a subset of MyNetFone) and quickly followed with the release of our Cloud Connect range.

This brand delivers sustainable growth with its new-generation IP voice solutions and value-added services that support the vast majority of business moving to cloud infrastructure. MNF Enterprise is selected as a preferred supplier to both the New South Wales and Tasmanian Government for telephony and IP-based services.

## Consumer

As NBN and Mobility continues to dominate evolution in the consumer landscape, MNF Group successfully re-launched the Pennytel brand as a new face of MNF Group's consumer segment. Initially targeting mobile, the focus was on superior customer service and intuitive design to add value and differentiation in the dynamic segment. MNF Group will look to expand services in this space, leveraging off its software developments in other segments, again highlighting the advantage of our multi-brand/segment approach.

A portrait of Ritsa Hime, COO, a woman with long brown hair and glasses, wearing a dark blue long-sleeved top. She is standing in front of a blurred background with blue and white geometric patterns. Her hands are clasped in front of her.

“Delivering innovative service and experience that will excite our customers today and beyond”

---

Ritsa Hime, COO

# Operations

The Operations Business Unit supports the entire customer journey from sign-on including service delivery, service assurance and technical support, billing and invoicing, incident management, customer complaints and escalations. The Operations Business Unit structure supports the company's multi-brand strategy across all customer segments and works closely with all Business Units to ensure our processes are effective and meet the expectations of our customers.

We are now well into our third year of delivering on our five-year strategic customer experience roadmap and have notable achievements. Our customers have told us that over 92% of their calls have been answered and resolved on their first call.

Furthermore, our customers have rated our support staff with NPS +35 which is a 5-point increase from the prior year. This direct customer feedback is an outstanding achievement for our customer-facing staff.

We recognise that customer experience is not a singular measure of success. A customer's wholistic experience is achieved in combination of many other factors including employee engagement, product satisfaction and user experience.

Over last 12 months, we completed a transformation initiative to improve our support to customers including the expansion of our teams and developing specialised technical teams. This transformation has delivered significant increases in staff engagement results and the launch of a new Quality Assessment framework program to empower our staff and facilitate training specific to their individual needs.



A professional portrait of Matthew Gepp, CFO, smiling. He is wearing a dark grey suit, a white shirt, and a dark tie. The background is a blurred office setting with blue accents and a large 'MNF' logo.

“Creating an environment that supports MNF Group’s four dimensional growth strategy, delivering results and key business indicators that support each of the business units”

---

**Matthew Gepp, CFO**

# Finance

The Finance Business Unit is responsible for creating an environment that supports MNF's four dimensional growth strategy, delivering results and key business indicators that support each of the business units. By working closely with all business segments and reviewing organic growth strategies we work to ensure short and long term goals are met throughout the business.



↑ 15%



↑ 17%



↑ 22%

The MNF Group saw another strong year for FY18 with solid organic growth across all operating segments. Total margin was up \$10.4m year-on-year to \$69.0m, this result includes positive growth from Domestic Retail (up 22%), Domestic Wholesale (up 15%) and Global Wholesale (up 17%). These impressive results are driven by an ever growing product suite and a domestic and global sales team focussed on supporting and growing our existing customer base.

As well as keeping investors, the Board and the business informed of results, the Finance BU drives key strategic acquisitions and advises on projects that lay the framework for sustainable growth, as well as integrating those acquisitions into our business. The acquisition in June of SuperInternet in Singapore was an example of MNF delivering on its strategy of geographic expansion, the Finance BU serves a pivotal function during due diligence in these transactions and ensures the future trajectory of the business is consistent with our stated goals.

The People Experience (PX) team (formally Human Resources) operates within the Finance BU. PX is focussed on implementing best practice systems and processes globally that will ensure the long term viability and sustainability of our growing business and the people who drive that growth. The PX team have invested time in several projects aimed at acquiring and retaining talented team members, including University open days, ITC events and mentoring technology competitions.

The achievements of MNF Group are backed by our hard working and highly specialised team and we look forward to another successful year ahead.

A portrait of Helen Fraser, General Counsel, a woman with short grey hair wearing a black lace top. The background is a blurred blue and white pattern.

“We enable the Group to deliver on its strategy by providing practical legal advice and solutions.”

---

**Helen Fraser, General counsel**

# Legal and Compliance

The Legal Services team supports the Board and the group as a whole with strategic and operational legal advice.

Core advice areas include:



**Acquisitions**



**Contracts**



**Corporate governance**



**Compliance**



**Regulatory matters**



**Consumer law**

Corporate governance and compliance remain important areas of work to ensure MNF Group has the systems, processes and policies needed for its long term future. Throughout FY18 this has included the Pennytel MVNO and MNF Enterprise Services range of products and services. In our day to day advices we work closely with stakeholders, striving to make it easier for our customers to do business with us while balancing the Group's legal interests.

Our work is closely aligned with the growth strategies of the Group. In FY18, a key focus area has been the acquisition of the SuperInternet companies and related expansion of the group into Singapore. We provide practical advice and solutions to support MNF Group's product and business launches and operations.





**mnf group**

**MNF Group Limited**

**ABN 37 118 699 853**

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30 June 2018**

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**mnf group**

## **Directors' report**

BOARDROOM

**mnf group**



## Board of Directors

### For the year ended 30 June 2018

Your directors present this report, together with the financial statements of MNF Group Limited (the Company) and its controlled entities (the Group), for the financial year ended 30 June 2018.

### 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.

For the year ended 30 June 2018



**Terry Cuthbertson**

**Chairman, Non-Executive Director**

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Qualifications	Bachelor of Business, Chartered Accountant
Experience and expertise	Appointed as a Non-Executive Director in March 2006 and has been the Group Chairman since March 2006.  Mr Cuthbertson was previously a partner of KPMG and has extensive corporate finance expertise and knowledge.
Directorships of listed entities (last 3 years)	Chairman of Austpac Resources N.L. from 2004 (Director from 2001); Chairman of Australian Whisky Holdings Ltd from 2003; Chairman of South American Iron & Steel Corporation Ltd from 2009; Chairman of Malachite Resources Ltd from 2013 (Director from 2012); Director of Mint Payments Ltd from 2007 (Chairman from 2008 to 2018); Director of Isentric Ltd from 2010
Special responsibilities	Member of the Audit and Remuneration Committees
Interest in shares	920,906
Interest in options	100,000

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**Michael Boorne**

**Non-Executive Director**

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Qualifications	Diploma in Electronics Engineering
Experience and expertise	Appointed as Non-Executive Director in December 2006.  Mr Boorne 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.
Directorships of listed entities (last 3 years)	None
Special responsibilities	Chairman of the Audit and Remuneration Committees
Interest in shares	709,543
Interest in options	100,000

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For the year ended 30 June 2018



**Andy Fung** **Non-Executive Director**

Qualifications	Bachelor of Engineering, Master of Commerce
Experience and expertise	Appointed as Non-Executive Director in March 2012.  Mr Fung is a co-founder of MNF Group Limited and Symbio Networks Pty Ltd. He was formerly Managing Director of the Group from 2006 until 2012. Mr Fung has had extensive telecommunications industry experience in Australia and Asia, having previously held senior management positions with Telstra, Australian Trade Commission, Optus and Lucent Technologies of US. He is also Executive Director of a private company with interests in trade and investments.
Directorships of listed entities (last 3 years)	None
Special responsibilities	Member of the Audit and Remuneration Committees
Interest in shares	14,151,954
Interest in options	100,000



**Rene Sugo** **Chief Executive Officer and Executive Director**

Qualifications	Bachelor of Engineering (Hons)
Experience and expertise	Appointed as CEO and Executive Director in March 2012.  Mr Sugo is a co-founder of MNF Group Limited. He is a strong industry advocate, representing both the interests of MNF Group and the telecommunications industry. 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), and regularly contributes articles and opinions on issues affecting the industry, such as the NBN, regulatory policy and innovation.  Mr Sugo started his career at the CSIRO - Australia's premier Research and Development organisation. Prior to making the move into the Communications industry, Mr Sugo worked at Lucent Technologies Bell Labs in Australia, the USA and Asia.
Directorships of listed entities (last 3 years)	None
Special responsibilities	Member of the Audit and Remuneration Committees
Interest in shares	11,896,867
Interest in options	150,000



**Catherine Ly** **Company Secretary**

Qualifications	Bachelor of Business and Certified Practising Accountant
Experience and expertise	Ms Ly joined the MNF Group in April 2006 as CFO and Company Secretary, and has focused on the role of Company Secretary and Treasurer since August 2013 following the expansion of the Group.

For the year ended 30 June 2018

## Board and Committee Meetings

From 1 July 2017 to 30 June 2018, the Directors held 16 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	16	15	2	2
Mr. Michael Boorne	16	16	2	2
Mr. Andy Fung	16	16	2	2
Mr. Rene Sugo	16	16	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

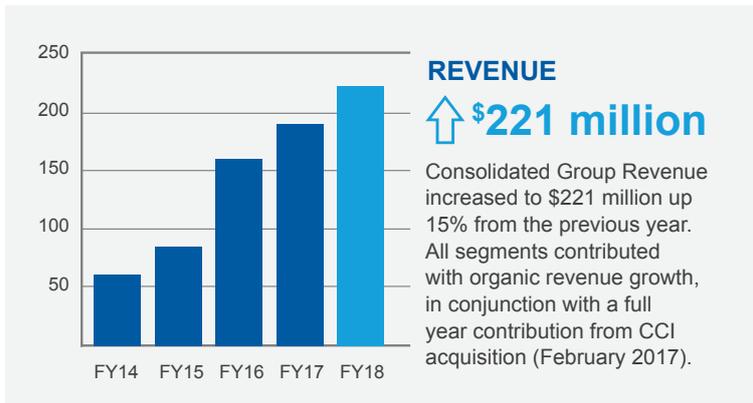
Excluding cost associated with acquisitions, earnings before interest expense, tax expense, depreciation and amortisation expense (EBITDA) increased by 3% to \$24.6 million, with net profit after tax (NPAT) decreasing by 1.7% to \$11.9 million, compared to the prior year.

The Group issued updated guidance in February 2018. The EBITDA result is at 98.4% of the \$25.0 million guidance and NPAT is at 95% of the \$12.5 million guidance, NPAT includes \$0.3m of un-forecasted acquisition costs.

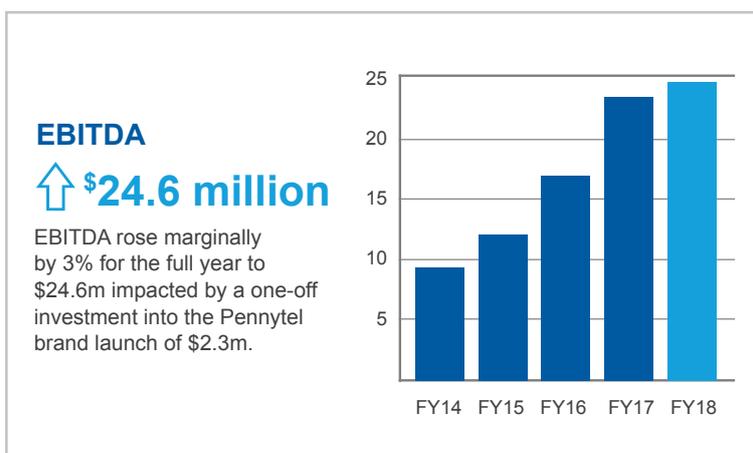
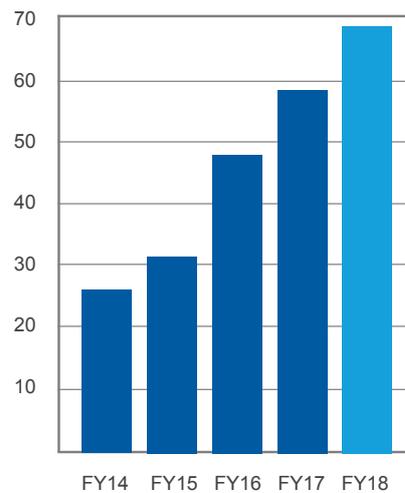
The total dividend for the full year has increased to 8.35 cents per share (fully franked), with the company declaring a final dividend of 4.05 cents per share for the second half of the 2018 financial year. The full year dividend payments represent 51% of the 2018 full year EPS.

For the year ended 30 June 2018

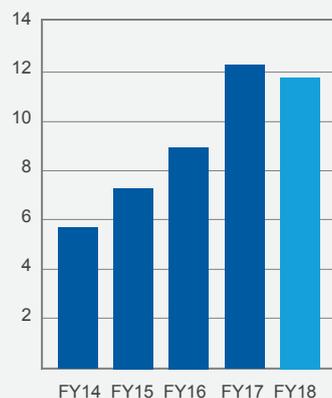
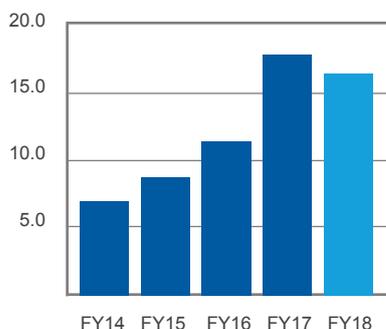
## MNF performance at a glance



Gross margin increased by 18% on the PCP to \$69m. With all segments contributing to that YoY growth. Given the diverse range of margin levels in the portfolio MNF prefers to use gross margin as the top level indicator of performance.



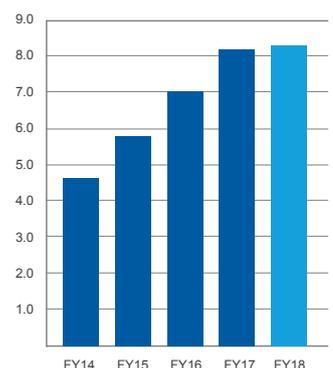
EPS decreased by 1.07c. While NPAT was flat YoY, the full dilutionary impact of the February 2017 share placement & SPP weighed on the EPS calculation.



While PBT saw a marginal YoY increase, NPAT saw a small decrease impacted by the Group's marginal tax rate from 27% (FY17) to 29% (FY18), and effects of investment in the Pennytel brand launch.



A final declared dividend of 4.05c brings the full year dividend to 8.35c, a 1% increase on the PCP. The full year dividend represents 51% of EPS, this ratio is consistent with prior years.



For the year ended 30 June 2018

## 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

Margin increased \$10.4m (18%) on the prior year to a record \$69.0m (2017: \$58.6m). EBITDA of \$24.6m was up 3% on the prior year.

Net profit after tax (NPAT) for the year was marginally down at \$11.9m (2017: \$12.1m) with Earnings per share (EPS) decreasing to 16.25 cents per share (2017: 17.32 cents per share).

	Year ended 30 June 2018	Year ended 30 June 2017	% change
Revenue	\$220.7m	\$191.8m	+15%
Gross profit	\$69.0m	\$58.6m	+18%
EBITDA	\$24.6m	\$23.9m	+3%
NPAT	\$11.9m	\$12.1m	-2%
EPS	16.25 cents	17.32 cents	-6%

### Reconciliation of NPAT to reported EBITDA

	2018 \$'000	2017 \$'000	2016 \$'000
NPAT	11,859	12,066	8,990
<i>Add back</i>			
Depreciation & Amortisation	6,310	5,083	4,709
Interest expense	1,270	1,790	1,061
Income tax expense	4,894	4,444	2,835
Acquisition costs	262	498	200
<b>Reported EBITDA</b>	<b>24,595</b>	<b>23,881</b>	<b>17,795</b>
Non-cash share option costs	396	293	-
Interest revenue	(576)	(1,350)	(249)
<b>Standard EBITDA</b>	<b>24,415</b>	<b>22,824</b>	<b>17,546</b>

Historically MNF has reported EBITDA without excluding Non-cash share option costs and interest revenue, which have been for the most part immaterial. The above table demonstrates the reported EBITDA and the EBITDA after removing interest revenue and option costs.

## Cash and debt

The closing cash balance as at 30 June 2018 was \$18.9m (2017: \$52.4m).

The decrease in the cash balance was the result of the unwinding of the large novated creditor that came onto the balance sheet in 2016. This decrease was anticipated by management and brings the cash balance closer to a normalised cash balance for the business.

At year end gross debt in the form of a \$27.0m revolving acquisition facility was \$10.7m (2017: \$11.2m). \$2.5m of gross debt was paid down during the year, and the company drew down \$2.0m for the SuperInternet acquisition that completed on 6 July 2018.

The company had no net debt as at year end.

For the year ended 30 June 2018

## Business outlook

The MNF Group operates with 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.

## 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, and conferencing customers.

The domestic retail segment delivered a margin contribution to the group of \$23.0m. That is a \$4.1m (22%) increase on the prior year. The addition of CCI to this segment in February 2017 was the primary driver of this growth. Excluding CCI from this growth, the Domestic Retail Segment grew organically by around 1.3%. The underlying organic growth was impacted by the accelerating decline of the residential sub-segment which declined 13% this year. This offset the growth of small business and enterprise & government.

### a. Residential

The Residential sub-segment consists of selling residential products – VoIP, DSL, NBN and Mobile within Australia. The segment operates under multiple brands – MyNetFone, Pennytel and theBuzz.

This year the company decided to invest in the re-launch of Pennytel (February 2017) to be a main stream brand with Mobile as the core offering. In launching this new brand, the company is leveraging its software eco-system, experience enabling other very large house-hold name brands, extensive niche residential marketing experience, our Telstra Wholesale MVNO agreement and a strategic marketing partnership.

The company's focus going forward will be to continue to develop the Pennytel brand, and allow the older legacy brands to gradually decline as the products reach technical obsolescence. Going forward the company will look to launching a new NBN and Voice offering also under the Pennytel brand and consolidate all residential operations under one brand.

The once-off investment into the Pennytel launch amounted to \$2.3m in FY18. Looking forward into FY19 the Residential sub-segment is expected to cost the company approximately \$0.5m at EBITDA level as the customer acquisition run rate increases.

### 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 2018

The Virtual PBX and SIP trunk products, which are the core product in this segment, grew by 13% to 3,842 services in operation. Revenue and margin from business voice has grown in 2017.

#### c. Enterprise & Government

The Enterprise & Government sub-segment consists of selling enterprise grade telecommunications solutions such as SIP Trunks, Microsoft Skype for Business, BroadSoft and other solutions within Australia and New Zealand. The sub-segment operates under the newly created MNF Enterprise brand.

The Enterprise & Government gross margin grew 13% this year to \$2.6m. The growth was largely due to contributions from the new Microsoft Skype for Business solutions. Additional product capabilities for Broadsoft are due to come online in FY19.

The MNF Group maintains preferred supplier status under the Tasmanian Government TMD and PNAC purchasing agreements. Additionally MNF Group has obtained purchasing panel arrangements with New Zealand Government, NSW Government, Victorian Government, the Municipal Association of Victoria, and the West Australian Association of Local Government.

#### 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.

The CCI business is performing well with overall gross margin up 10% in FY18H2 compared to the previous corresponding period. The business and network integration is now complete together with capacity expansion for future growth. Additionally new product offerings in the area of video conferencing and collaboration are under development for release in FY19.

#### 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;  
Wholesale managed services – providing unbranded capabilities and services such as Local Number
2. 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.

## For the year ended 30 June 2018

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 300 unique service provider customers, an increase of 5% 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 22% to 788,000 inbound ported numbers, and the total volume of hosted Direct-In-Dial (DID) numbers growing to 3.2 million numbers. Wholesale aggregation subscriptions (iBoss) increased to 15,156, up 179% on the prior year.

### Global Wholesale Segment

This segment is based on the TNZI and Symbio Networks brand to 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).

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

### 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.

#### *Acquisition of SuperInternet*

On 6 July 2018, the Company completed the acquisition of 100% of the issued shares in SuperInternet (s) Pte Ltd for SGD2.0m (AUD2.0m), SuperInternet is a fully licensed independent facilities-based operator (FBO) in Singapore. The acquisition has increased the Group's footprint into Asia with voice and data capabilities.

For the year ended 30 June 2018

#### 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:

Dividends paid during the year:	\$000	Franking
2017 Final dividend of 4.50 cents per share paid on 28 September 2017	3,279	100%
2018 Interim dividend of 4.30 cents per share paid on 05 April 2018	3,138	100%
<b>Dividends recommended (subsequent to year end):</b>		
2018 Final dividend of 4.05 cents per share recommended on 28 August 2018	2,961	100%

The 2018 final dividend is to be paid on 4 October 2018 to shareholders registered as at 10 September 2018.

#### 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
			<b>450,000</b>

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 of options
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
			<b>800,000</b>

For the year ended 30 June 2018

## Audited Remuneration Report

This report details the remuneration structures and outcomes for key management personnel (KMP) of the Group for the year ended 30 June 2018. This report forms part of the directors' report and has been prepared and audited in accordance with section 300A of the *Corporations Act 2001*.

For the purposes of this report, KMP is 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, and includes directors (whether executive or otherwise) of the Company, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and other senior executives of the Group.

The table below outlines the KMPs of the Group and their movements during the 2018 financial year:

Name	Position	Term as KMP
<b>Non-executive directors</b>		
Mr Terry Cuthbertson	Non-executive Chairman	Full financial year
Mr Michael Boorne	Non-executive Director	Full financial year
Mr Andy Fung	Non-executive Director	Full financial year
<b>Executive director</b>		
Mr Rene Sugo	Chief Executive Officer	Full financial year
<b>Other KMPs</b>		
Mr Matthew Gepp	Chief Financial Officer	Full financial year
Ms Catherine Ly	Company Secretary and Treasurer	Full financial year

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

### Remuneration Committee

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

The Board is responsible for the remuneration arrangements of the CEO and other senior executives and all awards made under short and long-term incentive plans. The Group does not currently engage remuneration consultants, however may consider the use of remuneration consultants in the future as the Group continues to grow.

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

The 2017 audited remuneration report received positive shareholder support at the 2017 annual general meeting (AGM) with a vote of 91.45% in favour (2016: 98.45%).

The current aggregate maximum amount of non-executive directors' fees of \$500,000 per annum (inclusive of superannuation guarantee charge contribution) was approved by shareholders at the 2014 AGM.

For the year ended 30 June 2018

## Executive remuneration arrangements

### Remuneration principles and strategy

Remuneration levels for KMPs of the Group are designed to attract and retain appropriately qualified and experienced directors and executives. The 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 structure remains unchanged from prior year, and includes a combination of the following components:

Fixed Remuneration	Variable Remuneration	
	Short-term Incentive (STI)	Long-term Incentive (LTI)
Cash		Equity
<ul style="list-style-type: none"> <li>- Base salary plus superannuation</li> <li>- Set based on market benchmarks and individual performance, qualifications and experience</li> </ul>	<ul style="list-style-type: none"> <li>- Eligibility for payment is dependent on the Group exceeding budgeted NPAT</li> <li>- Paid within the quarter following financial year-end</li> </ul>	<ul style="list-style-type: none"> <li>- Share options to vest after each successive tranche, conditional upon continuation of employment</li> <li>- Aimed to retain key staff</li> <li>- Share options are linked to share price performance at \$7.15 strike price. It incentivise KMPs to create shareholder wealth, based on individual skills, qualifications and experience, to expire on 30 June 2021</li> </ul>

### 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 car-parking and leave entitlements. It is market competitive and set to attract, motivate and retain highly skilled personnel.

### Details of the short-term incentive plan

The objective of the STI plan is to link the Group's financial and operational targets with the remuneration received by senior managers charged with meeting those targets. 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. The STI plan applies to the period from 1 July 2017 to 30 June 2018.

100% of the STI target for financial year 2018 was linked to the Group achieving its annual financial targets. The determination and agreement of these targets are set at the start of each financial year and align with the Group's longer-term strategic goals.

The current financial year's STI plan depends on the Group achieving its budgeted net profit after tax (NPAT) target after provisioning for the STI, as set by the Board. The Board believes that the objective being set is challenging for the executives and senior managers. It will be paid out annually in the quarter following financial year-end should the target be met, subject to Board approval, as they have ultimate discretion.

Performance of the Group against the 2018 STI NPAT target/hurdle is summarised as follows:

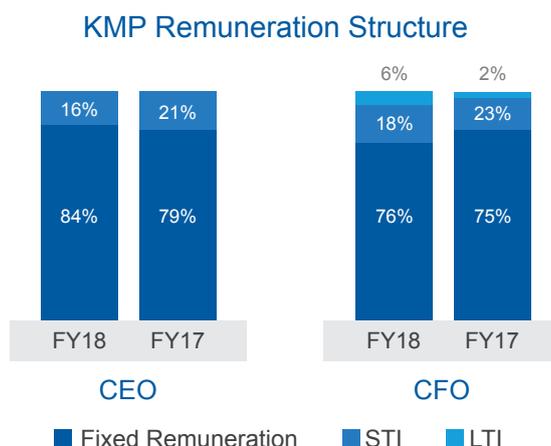
Performance	2018 Target <sup>A</sup>	2018 NPAT	% Variance
NPAT (inclusive of STI provisioning)	\$12.5m	\$11.9m	(5%)

A The budget was revised in the Group's Business Update forecast guidance as communicated on 13 February 2018 in the Half-Year Investor Presentation.

As the financial performance has not exceeded budget for the 2018 financial year, the STI will not be payable and is not accrued in the 2018 financial report.

For the year ended 30 June 2018

The below illustrates the structured employee entitlements of eligible KMPs as a percentage of their fixed remuneration:



Non-executive directors are not eligible for an STI.

### Details of long-term incentive plans

LTI plans are offered under the Company's Employee Option Plan 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.

Currently, the Group has two LTI plans in place. The first plan is a share-based option plan aimed at retaining highly skilled directors and KMPs to appropriately remunerate in line with similar organisations in the market:

Plan attributes	Detail																	
Participants	Mr M Gepp, Ms C Ly																	
Allocation	The allocation of the options granted is separated into four tranches, each vesting to the KMPs as detailed below: <table border="1" style="margin-left: 20px; width: 100%;"> <thead> <tr> <th rowspan="2" style="background-color: #0056b3; color: white;">Vest date</th> <th colspan="2" style="background-color: #0056b3; color: white;">Number of options</th> </tr> <tr> <th style="background-color: #0070c0; color: white;">Mr M Gepp</th> <th style="background-color: #0070c0; color: white;">Ms C Ly</th> </tr> </thead> <tbody> <tr> <td>1 Sep 2016</td> <td style="text-align: center;">2,000</td> <td style="text-align: center;">500</td> </tr> <tr> <td>1 Sep 2017</td> <td style="text-align: center;">6,000</td> <td style="text-align: center;">1,500</td> </tr> <tr> <td>1 Sep 2018</td> <td style="text-align: center;">6,000</td> <td style="text-align: center;">1,500</td> </tr> <tr> <td>1 Sep 2019</td> <td style="text-align: center;">6,000</td> <td style="text-align: center;">1,500</td> </tr> </tbody> </table>	Vest date	Number of options		Mr M Gepp	Ms C Ly	1 Sep 2016	2,000	500	1 Sep 2017	6,000	1,500	1 Sep 2018	6,000	1,500	1 Sep 2019	6,000	1,500
Vest date	Number of options																	
	Mr M Gepp	Ms C Ly																
1 Sep 2016	2,000	500																
1 Sep 2017	6,000	1,500																
1 Sep 2018	6,000	1,500																
1 Sep 2019	6,000	1,500																
Value	The options granted have an exercise price of \$Nil.																	
Vesting	Vesting of each successive tranche is conditional upon the recipient continuing employment with the Group up until date of vesting.																	
Alignment/objective	Incentive package in accordance with remuneration policy focussing on long-term retention of key staff within the Group. The objective is to retain highly skilled employees for the long-term, whose contributions are key to the success of the Group.																	
Forfeiture	Subject to the Board's discretion should the employee resign, be terminated by the Group for any reason, or be terminated from the plan for any reason, the options granted prior to vesting date will be forfeited.																	

For the year ended 30 June 2018

The second plan is also a share-based option plan aimed at directors, executives and KMPs of the Group, to align their long-term remuneration with the performance of the long-term share price:

Plan attributes	Detail												
Participants	The Group's directors and KMPs												
Allocation	<p>The allocation of the options granted to each director and senior manager is as below:</p> <table border="0"> <tr> <td>Mr T Cuthbertson</td> <td>100,000</td> </tr> <tr> <td>Mr M Boorne</td> <td>100,000</td> </tr> <tr> <td>Mr A Fung</td> <td>100,000</td> </tr> <tr> <td>Mr R Sugo</td> <td>150,000</td> </tr> <tr> <td>Mr M Gepp</td> <td>50,000</td> </tr> <tr> <td>Ms C Ly</td> <td>20,000</td> </tr> </table> <p>These options were granted on 27 October 2016. The options granted to directors were approved by shareholders at the 2016 AGM.</p>	Mr T Cuthbertson	100,000	Mr M Boorne	100,000	Mr A Fung	100,000	Mr R Sugo	150,000	Mr M Gepp	50,000	Ms C Ly	20,000
Mr T Cuthbertson	100,000												
Mr M Boorne	100,000												
Mr A Fung	100,000												
Mr R Sugo	150,000												
Mr M Gepp	50,000												
Ms C Ly	20,000												
Conditions	Options have an exercise price of \$7.15, and expire on 30 June 2021.												
Alignment/objective	The Board believes that LTI hurdles based on achieving or exceeding a share price of \$7.15 targeted in the Group's TSR performance is a challenging objective. This incentive directly aligns the financial interests of directors, KMPs and executives with shareholders by linking their reward to the Group's share price performance.												
Forfeiture	Should the participant resign, be terminated by the Group for any reason, or be terminated from the plan for any reason, the options granted prior to vesting date will be forfeited.												

## Shareholders returns

KMP remuneration is rewarded with consideration of the Group's earnings and performance. The following table sets out MNF Group's key financial results and shareholder wealth generation over the past five years:

Performance metric	2018	2017	2016	2015	2014
Revenue ('000)	\$220,728	\$191,752	\$161,217	\$85,675	\$59,306
NPAT ('000)	\$11,859	\$12,066	\$8,990	\$7,184	\$5,778
Basic EPS (cents)	16.25	17.32	13.45	11.49	9.26
Dividends paid ('000)	\$6,417	\$5,099	\$4,512	\$3,128	\$2,498
Dividends declared per share (cents)	8.35	8.25	7.00	5.75	4.50
Share price (as at 30 June)	\$5.25	\$4.37	\$4.00	\$3.82	\$2.42
Change in share price	\$0.88	\$0.37	\$0.18	\$1.40	\$1.22
Market Capitalisation	\$384m	\$318m	\$270m	\$240m	\$151m

For the year ended 30 June 2018

## Remuneration details of directors and KMPs for the year ended 30 June 2018

Details of the nature and amount of benefits and payments for each director and KMP of the company for the 2017 and 2018 financial years are as follows, represented on an accrual basis:

Non-executive Directors		Short term benefits				Post employment benefits	Shared based payments	Total
		Cash salary & fees <sup>(i)</sup> \$	STI/ Bonus paid <sup>(ii)</sup> \$	STI/ Bonus accrued <sup>(iii)</sup> \$	Non-monetary benefits <sup>(iv)</sup> \$	Superannuation \$	Options <sup>(v)</sup> \$	
Mr T Cuthbertson	2018	120,000	-	-	-	11,400	-	<b>131,400</b>
	2017	118,200	-	-	-	11,229	715	130,144
Mr M Boorne	2018	100,000	-	-	-	9,500	-	<b>109,500</b>
	2017	91,750	-	-	-	8,550	715	101,015
Mr A Fung	2018	80,000	-	-	-	7,600	-	<b>87,600</b>
	2017	77,000	-	-	-	7,315	715	85,030
<b>Executive Director</b>								
Mr R Sugo	2018	517,025	135,013	-	6,930	25,000	-	<b>683,968</b>
	2017	464,617	79,500	-	2,494	27,736	1,073	575,420
<b>Other KMPs</b>								
Mr M Gepp	2018	337,719	97,805	-	4,470	25,000	29,067	<b>494,061</b>
	2017	296,667	80,000	-	2,494	30,308	8,658	418,127
Ms C Ly	2018	164,167	-	-	-	15,675	7,267	<b>187,109</b>
	2017	159,250	-	-	-	15,128	2,218	176,596
<b>Total</b>	<b>2018</b>	<b>1,318,911</b>	<b>232,818</b>	<b>-</b>	<b>11,400</b>	<b>94,175</b>	<b>36,334</b>	<b>1,693,638</b>
	2017	1,207,484	159,500	-	4,988	100,266	14,094	1,486,332

(i) Cash salaries paid are reviewed annually.

(ii) STI amounts paid in the current financial year relate to the achievement of 2017 targets and were accrued for in the 2017 results.

(iii) STI amounts accrued in the current financial year are in relation to the 2018 financial year and would be paid in the subsequent financial year when applicable.

(iv) The category "Non-monetary benefits" represent other benefits such as car parking.

(v) Black-Scholes model is used to value options issued.

For the year ended 30 June 2018

## Key terms of employment agreements

The Company has entered into an executive employment agreement with the CEO. 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. Payment of any STI is at the Board's discretion.

The Company may terminate the employment of the key executives without notice and without payment in lieu of notice in some circumstances. These include if the executive:

- Commits an act of serious misconduct;
- Commits a material breach of the executive employment agreement;  
Denigrates or engages in any behaviour that may materially damage the reputation of, or otherwise bring the Group 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:

KMP	Company notice period	Employee notice period	Termination provision	Details
Mr R Sugo	6 months	1 month	6 months' base salary	Fixed salary package of \$542,025, consisting of base salary and superannuation, reviewed annually by the Board
Mr M Gepp	3 months	3 months	3 months' base salary	Fixed salary package of \$369,563, consisting of base salary and superannuation, reviewed annually by the Board in September
Ms C Ly	6 months	1 month	6 months' base salary	Fixed salary package of \$180,675, consisting of base salary and superannuation, reviewed annually by the Board in September

For the year ended 30 June 2018

## Directors' interests in shares and options of the Company

At the date of this report, the particulars of shares and options held by the directors and other KMPs 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:

	2018		2017		Shareholding movement %
	Shareholding	Options	Shareholding	Options	
<b>Non-executive Directors</b>					
Mr T Cuthbertson	920,906	100,000	920,906	100,000	0%
Mr M Boorne	709,543	100,000	728,014	100,000	(3%)
Mr A Fung	14,151,954	100,000	14,025,989	100,000	1%
<b>Executive Director</b>					
Mr R Sugo	11,896,867	150,000	13,178,084	150,000	(10%)
<b>Other KMPs</b>					
Mr M Gepp	43,000	62,000	52,000	68,000	(17%)
Ms C Ly	295,676	23,000	288,926	24,500	2%
<b>Total</b>	<b>28,017,946</b>	<b>535,000</b>	<b>29,193,919</b>	<b>542,500</b>	

This concludes the audited remuneration report.

For the year ended 30 June 2018

## 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 (2017: \$Nil).

## Auditor's independence declaration

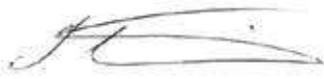
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* has been received and can be found on page 83 of the financial report.

## 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 consolidated financial statements are rounded to the nearest thousand dollars, except where otherwise indicated.

**For the year ended 30 June 2018**

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



**Terry Cuthbertson**  
Chairman



**Rene Sugo**  
CEO and Executive Director

Sydney, 28 August 2018



**mnf group**

# **Consolidated financial statements 2018**

BOARDROOM

**mnf group**

**Consolidated statement of profit or loss and other comprehensive income**

		Consolidated group	
For the year ended 30 June		2018	2017
		\$'000	\$'000
<b>Continuing operations</b>			
	Notes		
Revenue	4a	220,728	191,752
Cost of sales		(151,683)	(133,139)
<b>Gross profit</b>		<b>69,045</b>	<b>58,613</b>
Other income	4a	1,128	1,350
Employee benefits expense	4b	(31,713)	(26,028)
Depreciation and amortisation	4c	(6,310)	(5,083)
Other expenses	4d	(13,865)	(10,054)
Costs related to acquisition		(262)	(498)
Financing costs	4e	(1,270)	(1,790)
<b>Profit before income tax</b>		<b>16,753</b>	<b>16,510</b>
Income tax expense	5a, 5b	(4,894)	(4,444)
<b>Profit from continuing operations</b>		<b>11,859</b>	<b>12,066</b>
<b>Net profit for the year</b>		<b>11,859</b>	<b>12,066</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Exchange differences on translation of foreign operations		475	(584)
Changes in fair value of cash flow hedges		352	142
		827	(442)
<b>Total comprehensive income for the year</b>		<b>12,686</b>	<b>11,624</b>
<b>Earnings per share from continuing operations</b>			
- Basic earnings per share (cents)	23	16.25	17.32
- Diluted earnings per share (cents)	23	16.08	17.10

The accompanying notes form part of these consolidated financial statements.

## Consolidated statement of financial position

Consolidated group

As at 30 June	2018		2017	
		\$'000		\$'000
<b>Assets</b>				
Current assets				
	Notes			
Cash and cash equivalents	6a	18,870		52,358
Trade and other receivables	7	33,450		30,121
Inventories		650		669
<b>Total current assets</b>		<b>52,970</b>		<b>83,148</b>
Non-current assets				
Property, plant and equipment	8a	23,144		18,663
Deferred tax asset	5c	1,040		958
Goodwill and other intangibles	21	48,754		47,697
<b>Total non-current assets</b>		<b>72,938</b>		<b>67,318</b>
<b>Total assets</b>		<b>125,908</b>		<b>150,466</b>
<b>Liabilities</b>				
Current liabilities				
Trade and other payables	9	30,120		63,181
Loans and borrowings	10	2,500		2,500
Deferred revenue	12	1,763		1,611
Income tax payable		1,996		1,581
Financial Instruments	11	-		592
Provisions	13	1,801		1,483
<b>Total current liabilities</b>		<b>38,180</b>		<b>70,948</b>
Non-current liabilities				
Loans and borrowings	10	8,190		8,690
Financial instruments	11	80		140
Provisions	13	1,876		921
Deferred tax liability	5d	1,349		1,420
<b>Total non-current liabilities</b>		<b>11,495</b>		<b>11,171</b>
<b>Total liabilities</b>		<b>49,675</b>		<b>82,119</b>
<b>Net assets</b>		<b>76,233</b>		<b>68,347</b>
<b>Equity</b>				
Issued capital	14a	50,221		49,000
Reserves		1,493		270
Retained earnings		24,519		19,077
<b>Total equity</b>		<b>76,233</b>		<b>68,347</b>

The accompanying notes form part of these consolidated financial statements.

**Consolidated statement of cash flows**

Consolidated group

For the year ended 30 June	Consolidated group		
	2018	2017	
	\$'000	\$'000	
<b>Cash flows from operating activities</b>			
	Notes		
Receipts from customers		231,224	202,372
Payments to suppliers and employees		(242,907)	(182,486)
Settlement of financial asset		603	-
Settlement of financial liability		(694)	(3,947)
Interest received		836	1,358
Interest paid		(759)	(904)
Income tax paid		(4,599)	(3,016)
<b>Net cash (used for)/from operating activities</b>	<b>6b</b>	<b>(16,296)</b>	<b>13,377</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(8,101)	(9,646)
Payment for business acquisitions		-	(16,986)
Payment in advance for business acquisitions		(646)	-
Software development costs		(2,350)	(461)
Purchase of other intangible assets		(704)	-
<b>Net cash used for investing activities</b>		<b>(11,801)</b>	<b>(27,093)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share placement and options exercised		1,221	22,560
Dividends paid		(6,417)	(5,099)
Proceeds from borrowings		2,000	-
Repayment of borrowings		(2,500)	(2,500)
<b>Net cash (used for)/from financing activities</b>		<b>(5,696)</b>	<b>14,961</b>
Net (decrease)/increase in cash and cash equivalents		(33,793)	1,245
Impact of FX on cash and cash equivalents		305	(1,776)
Cash and cash equivalents at 1 July		52,358	52,889
<b>Cash and cash equivalents at 30 June</b>	<b>6a</b>	<b>18,870</b>	<b>52,358</b>

The accompanying notes form part of these consolidated financial statements.

**Consolidated statement of changes in equity**

Attributable to owners of the Group

	Ordinary share capital	Share- based payment reserve	Translation reserve	Hedging reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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 payments	-	293	-	-	-	293
<b>Balance at 30 June 2017</b>	<b>49,000</b>	<b>1,646</b>	<b>(913)</b>	<b>(463)</b>	<b>19,077</b>	<b>68,347</b>
Profit for the period	-	-	-	-	11,859	11,859
Other comprehensive income	-	-	475	352	-	827
Dividends paid	-	-	-	-	(6,417)	(6,417)
Shares issued - DRP	1,221	-	-	-	-	1,221
Share-based payments	-	396	-	-	-	396
<b>Balance at 30 June 2018</b>	<b>50,221</b>	<b>2,042</b>	<b>(438)</b>	<b>(111)</b>	<b>24,519</b>	<b>76,233</b>

The accompanying notes form part of these consolidated financial statements.

## 1. Corporate information

These consolidated financial statements and notes represent those of MNF Group Limited (the Company) and its controlled entities (collectively, the Group) for the year ended 30 June 2018. The financial statements were authorised for issue on 28 August 2018 in accordance with a resolution by the directors of the Company.

MNF Group Limited is a for-profit entity limited by shares and incorporated and domiciled in Australia. Shares are publicly traded on the Australian Securities Exchange (ASX). The nature of the operations and principal activities of the Group are described in the Directors' report.

The separate financial statements of the MNF Group Limited, the parent entity of the Group, have not been presented within this financial report as permitted by the *Corporations Act 2001*. The financial information of the Company has been disclosed in Note 25.

## 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 (AASB 9)**

AASB 9 is applicable for annual reporting periods beginning on or after 1 January 2018. The Group expects to adopt the new requirements from its mandatory reporting date, the financial year beginning 1 July 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.

The Group does not expect a significant impact on its balance sheet or equity on applying classification and measurement requirements of AASB 9. It expects to continue to measure derivatives at fair value through other comprehensive income.

The new impairment model requires updates to the expected credit losses recognised at each reporting date to reflect changes in risk for debt securities, loans and trade receivables. The Group does not expect material variances as it applies the expected losses on a 12-month basis.

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under AASB 9. As the general principles of accounting for effective hedges do not change as a result of AASB 9, there is an expectation that the impact to the Group's financial statement on application would not be significant.

#### **AASB 15 Revenue from Contracts with Customers (AASB 15)**

This Standard will come into effect on 1 January 2018 and 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. The Group provides telecommunication services. Some contracts may include more than one performance obligation from the provision of services and low value hardware. The Group accounts for the equipment and service as separate deliverables. Consideration between these deliverables are allocated using the relative fair value approach. Under AASB 15, allocation will be made based on relative stand-alone selling prices. Hence, the allocation of the consideration of revenue recognised in relation to these sales would be affected. 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.

The Group expects to adopt the new requirements from its mandatory reporting date, the financial year beginning 1 July 2018.

#### **AASB 16 Leases (AASB 16)**

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 disclosures. The Directors anticipate the adoption of AASB 16 may have an impact on the Group's financial statements. The Group has conducted an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The Group has operating lease commitments and will be required to recognise new assets and liabilities for its operating leases of office spaces.

AASB 16 is applicable for annual reporting periods beginning on or after 1 January 2019. The Group expects to adopt the new requirements from its mandatory reporting date, the financial year beginning 1 July 2019.

### c. Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by the Company 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 Company 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. 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 consolidated 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. See Note 2p for further details regarding impairment testing.

### e. Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the consolidated 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 the 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, the Research & Development tax concession for the current financial year is based on management's operational knowledge and best estimate at the time, utilising prior year's claim as a benchmark. 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*

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**

The Group as a lessee - 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 consolidated 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 consolidated 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 and other receivables are non-interest bearing financial assets with fixed or determinable payments that are not quoted on an active market. The balance is recognised and carried at original invoice amount net of any provision for doubtful debts. A provision for doubtful debts is estimated based on analysis made by the Group regarding the collectability of the debt with reference to the counterparty's current financial situation. Bad debts are written off when it is determined the debt is irrecoverable. These amounts have been included in other expenses.

**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 Company'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 statement of profit or loss and other comprehensive income.

**k. Income tax**

*(i) Current tax*

Current income tax expense charged to the profit or loss is the tax payable on taxable income, calculated using applicable income tax rates enacted as at reporting date. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority.

*(ii) Deferred tax*

Deferred taxes arise due to temporary timing differences between accounting and tax treatments of income and expenses. They are calculated at the tax rates expected to apply to the period when the asset is realised or the liability is settled.

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

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.

*(iii) 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 Australia.

**I. 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**

Costs of purchased inventory are determined after deducting rebates and discounts. Inventories are measured at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## n. Property, plant and equipment

### (i) Carrying amount

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 more than the recoverable amount from these assets.

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 profit or loss and other comprehensive income during the financial period in which they are incurred.

### (ii) 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:

■ 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated statement of profit or loss and other 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 profit or loss and other 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 KMPs) 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 the 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. Operating segments

The Group operates in one business segment being telecommunications, which is further broken down into three sub-segments. These sub-segments reflect the organisational structure of the day to day operations as well as the separate target markets, being Australian Domestic Retail, ANZ Domestic Wholesale & Global Wholesale. These segments are based on internal management reporting that is used by the executive management team (chief operating decision makers) in assessing performance and allocating resources.

#### Australian Domestic Retail

- The core MyNetFone 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, Internet, Virtual PBX and SIP trunking
  - End-to-end audio and web conferencing solutions for SMBs, toll free numbers and number porting

#### Australia/New Zealand Domestic Wholesale

- The core Symbio and iBoss brands service wholesale customers based in Australia & New Zealand
- Key products offered by this segment are:
  - Call termination & collection, pre-select, SIP trunking, DIDs, inbound numbers, porting and virtual numbers
  - Wholesale aggregation, SaaS, 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 in this segment include:
  - Voice carriage and International toll free services (ITFS)
  - Toll Fraud prevention
  - Class 4 Softswitch and billing

	Australian Domestic Retail	Australia/New Zealand Domestic Wholesale	Global Wholesale	Total
	\$'000	\$'000	\$'000	\$'000

#### 2018

External revenue	35,382	33,758	151,588	220,728
Inter-segment revenue	-	4,565	4,942	9,507
<b>Segment revenue</b>	<b>35,382</b>	<b>38,323</b>	<b>156,530</b>	<b>230,235</b>
<b>Segment margin</b>	<b>22,968</b>	<b>17,703</b>	<b>28,374</b>	<b>69,045</b>

#### 2017

External revenue	32,213	27,133	132,406	191,752
Inter-segment revenue	-	4,737	1,754	6,491
<b>Segment revenue</b>	<b>32,213</b>	<b>31,870</b>	<b>134,160</b>	<b>198,243</b>
<b>Segment margin</b>	<b>18,882</b>	<b>15,431</b>	<b>24,300</b>	<b>58,613</b>

For the year ended 30 June	2018	2017
	\$'000	\$'000

#### 4. Revenue and expenses

##### a. Revenue

Rendering of services and sale of goods	220,728	191,752
Interest on bank deposits	576	1,350
Other income	552	-
	<b>1,128</b>	<b>1,350</b>

##### b. Employee benefits expense

Wages and salaries	26,857	22,533
Superannuation	2,447	1,845
Share based payments expense	396	293
Other employee benefits expense	2,013	1,357
	<b>31,713</b>	<b>26,028</b>

##### c. Depreciation and amortisation

Depreciation of fixed assets	4,313	3,305
Amortisation of intangible assets	1,997	1,778
	<b>6,310</b>	<b>5,083</b>

##### d. Other expenses

Marketing	1,760	1,641
Property	2,898	1,460
Technology & support	2,195	2,416
Distribution	464	363
Accounting & audit	435	563
Legal & consulting	219	169
Bank and transaction costs	404	422
Other administrative expenses	5,490	3,020
	<b>13,865</b>	<b>10,054</b>

##### e. Financing costs

Finance charges related to hedge instrument	508	956
Finance charges payable on bank loan	762	834
	<b>1,270</b>	<b>1,790</b>

For the year ended 30 June	2018	2017
	\$'000	\$'000

## 5. Income tax

### a. Income tax expense

The major components of income tax expense are as follows:

Current tax	5,361	4,716
Adjustment in respect of prior year tax	(564)	(139)
Origination and reversal of temporary differences	97	(133)
	<b>4,894</b>	<b>4,444</b>

### b. Reconciliation between tax expense and the accounting profit

<b>Profit before income tax</b>	<b>16,753</b>	<b>16,510</b>
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At the Group's statutory rate of 30% (2017: 30%)	5,026	4,953
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Tax incentives	(289)	(247)
Effect of tax rates in foreign jurisdictions	(124)	(68)
Non-temporary differences	845	(28)
Adjustment in respect of prior year	(564)	(166)
	<b>4,894</b>	<b>4,444</b>

Effective income tax rate	29%	27%
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### c. Deferred tax asset

Relating to temporary differences	1,040	958
	<b>1,040</b>	<b>958</b>

### d. Deferred tax liability

Relating to temporary differences	1,349	1,420
	<b>1,349</b>	<b>1,420</b>

e. The Company and its wholly-owned Australian entities are members of a tax consolidated group. Transactions within the tax consolidated 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	2018	2017
	\$'000	\$'000

## 6. Operating cash flows reconciliation

### a. Cash and cash equivalents

Cash at bank and on hand	18,870	52,358
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### b. Reconciliation of net profit after tax to net cash flows (used for)/from operating activities

<b>Profit for the year</b>	<b>11,859</b>	<b>12,066</b>
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Adjustments for:

Depreciation and amortisation	6,310	5,083
Share based payments expense	396	293
Tax expense	4,894	4,444

Changes in assets and liabilities, net of the effects of acquisitions:

Change in trade and other receivables	1,047	(207)
Change in inventories	19	(365)
Change in trade and other payables	(36,018)	(2,914)
Change in other financial assets	(591)	(2,164)
Change in deferred revenue	152	(57)
Change in provisions and employee benefits	235	214
<b>Cash (used for) from operating activities</b>	<b>(11,697)</b>	<b>16,393</b>
Tax paid	(4,599)	(3,016)
<b>Net cash flows (used for)/from operating activities</b>	<b>(16,296)</b>	<b>13,377</b>

## 7. Trade and other receivables

Trade receivables	30,671	28,602
Doubtful debts provision	(1,010)	(1,008)
Other receivables	3,789	2,527
	<b>33,450</b>	<b>30,121</b>

Trade receivables balance is mostly made up of contractual agreements with customers. Generally, the terms and conditions of these contracts require settlement between 14 to 30 days from the date of invoice.

### Allowance for doubtful debts

The Group applies professional judgement to estimate the allowance for doubtful debts for trade receivables. Assessment is based on historical trends and management's assessment of general economic conditions. Credit risks, insolvency risk and incapacity to pay a legally recoverable debt are taken into consideration when applying this allowance.

Office furniture & equipment	Leasehold improvements	Network infrastructure & equipment	Work in progress	Total
\$'000	\$'000	\$'000	\$'000	\$'000

## 8. Property, plant and equipment

### a. Reconciliation of carrying amount

#### Cost:

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)
<b>At 30 June 2017</b>	<b>3,196</b>	<b>1,559</b>	<b>24,876</b>	<b>3,399</b>	<b>33,030</b>
At 1 July 2017	3,196	1,559	24,876	3,399	33,030
Additions	965	3,100	4,702	88	8,855
Disposals	(5)	-	(113)	-	(118)
Transfers from work in progress	-	402	2,997	(3,399)	-
Effect of movement in exchange rates	9	14	169	-	192
<b>At 30 June 2018</b>	<b>4,165</b>	<b>5,075</b>	<b>32,631</b>	<b>88</b>	<b>41,959</b>

#### Accumulated depreciation:

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
<b>At 30 June 2017</b>	<b>(1,524)</b>	<b>(869)</b>	<b>(11,974)</b>	<b>-</b>	<b>(14,367)</b>
At 1 July 2017	(1,524)	(869)	(11,974)	-	(14,367)
Depreciation expense	(529)	(639)	(3,145)	-	(4,313)
Disposals	1	-	84	-	85
Effect of movement in exchange rates	(6)	(6)	(208)	-	(220)
<b>At 30 June 2018</b>	<b>(2,058)</b>	<b>(1,514)</b>	<b>(15,243)</b>	<b>-</b>	<b>(18,815)</b>

#### Net Book Value

At 30 June 2017	1,672	690	12,902	3,399	18,663
<b>At 30 June 2018</b>	<b>2,107</b>	<b>3,561</b>	<b>17,388</b>	<b>88</b>	<b>23,144</b>

## 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 material impact to the profit or loss account in relation to these disposals.

For the year ended 30 June	2018	2017
	\$'000	\$'000

## 9. Trade and other payables

Trade payables	10,264	46,038
Other creditors and accruals	19,797	17,088
Security deposits held	59	55
	<b>30,120</b>	<b>63,181</b>

## 10. Loans and borrowings

Current liabilities		
Secured bank loan	2,500	2,500
Non-current liabilities		
Secured bank loan	8,190	8,690
	<b>10,690</b>	<b>11,190</b>

The Group's bank facility (the Facility) consists of a \$27.0m (2017: \$27.0m) revolving acquisition facility and a \$2.1m (2017: \$2.1m) revolving multi-option credit facility. The Facility has a maturity date of 20 April 2020. In the current reporting period, the Group has drawn down \$2.0m on the acquisition facility.

\$1.8m (2017: \$1.5m) of the revolving multi-option credit facility has been utilised as bank guarantees for property leases and supplier securities where required.

The Facility is secured by a fixed and floating charge over the assets of the Group and is interest bearing. The interest rate payable under the bank facility is based on the Bank Bill Swap Rate (BBSY) rates plus a fixed margin. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 26.

The Facility requires compliance with financial covenants. During the financial year, there were no defaults or breaches on the Facility.

For the year ended 30 June	2018	2017
	\$'000	\$'000

## 11. Financial instruments

### Current liabilities

Forward foreign exchange contract - fair value hedge	-	592
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### Non-current liabilities

Interest rate swap contract - cash flow hedge	80	140
	<b>80</b>	<b>732</b>

#### 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. On 23 April 2015, the Group entered into an interest rate swap agreement (which was rolled into a new contract in January 2018) 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 starting January 2018 at fixed rate of 2.85% (2017: 2.64%) per annum. The swap covers 88.3% (2017: 95.5%) 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 U.S. Dollar, Pound Sterling, Euro, New Zealand Dollar and Singapore 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. During the period, the Group entered into forward foreign exchange contracts to protect any exposed creditor balances from increasing foreign exchange rates. Hedge relationships were designated and there has been no material ineffectiveness during the year. As at 30 June 2018, there are no unsettled forward foreign exchange hedges due to a shift in the mix of foreign currency debtors and creditors.

#### Foreign exchange hedge effectiveness Foreign exchange movement

Foreign currency term deposits	-	1,012
Foreign currency liabilities	-	(435)
<b>Gain in foreign currency valuations</b>	<b>-</b>	<b>577</b>

Fair value of hedging contract	-	(592)
<b>Loss in valuation of hedge</b>	<b>-</b>	<b>(592)</b>

Hedge effectiveness	-%	97%
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For the year ended 30 June	2018	2017
	\$'000	\$'000

## 12. Deferred revenue

Pre-paid accounts	<b>1,763</b>	<b>1,611</b>
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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	Makegood provision	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2017	1,483	921	-	<b>2,404</b>
Reclassification of 2017 balance from current liabilities	-	-	290	<b>290</b>
Arising during the year	940	148	702	<b>1,790</b>
Utilised during the year	(714)	(95)	-	<b>(809)</b>
Movement due to change in foreign currency translation rates	(1)	-	3	<b>2</b>
<b>As at 30 June 2018</b>	<b>1,708</b>	<b>974</b>	<b>995</b>	<b>3,677</b>

Current	1,708	-	93	<b>1,801</b>
Non-current	-	974	902	<b>1,876</b>

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	2018	2017
	\$'000	\$'000

## 14. Issued capital

### a. Ordinary shares

Issued capital	50,221	49,000
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Movements in ordinary shares on issue:	2018		2017	
	Number of shares	\$'000	Number of shares	\$'000
At 1 July	72,778,264	49,000	67,454,337	26,440
Exercise of share options (i)	89,250	-	355,000	960
Issued for cash	-	-	4,133,333	17,949
Issued from DRP participation (ii)	250,394	1,221	168,753	703
Issued from SPP participation	-	-	666,841	2,948
<b>At 30 June</b>	<b>73,117,908</b>	<b>50,221</b>	<b>72,778,264</b>	<b>49,000</b>

(i) In 2018 options were exercised with an exercise price of \$Nil. In 2017, 325,000 options were exercised with an exercise price of \$3.00 and 30,000 options were exercised with an exercise price of \$Nil.

(ii) Shares issued as a result of participation in the MNF Group dividend reinvestment plan (at an issue price of \$4.73 and \$5.07, 2017: \$4.00 and \$4.51).

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:	2018		2017	
	Number	WAEP \$	Number	WAEP \$
Outstanding at 1 July	890,000	4.98	355,000	3.00
Granted during the year	-	-	620,000	7.15
Granted during the year	-	-	300,000	0.00
Exercised during the year	(89,250)	-	(325,000)	3.00
Exercised during the year	-	-	(30,000)	0.00
Expired during the year	(750)	-	(30,000)	3.00
<b>Outstanding at 30 June</b>	<b>800,000</b>	<b>5.54</b>	<b>890,000</b>	<b>4.98</b>
Exercisable	800,000	5.54	890,000	4.98

The outstanding options balance as at 30 June 2018, 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. Two tranches of options at 90,000 each were issued to employees with an exercise price of \$Nil and expiry dates of 30 June 2019 and 30 June 2020 respectively.

For the year ended 30 June	2018	2017
	Number	Number

## 15. Share-based payments

### Outstanding options

Employee option plan	350,000	440,000
Options granted to directors	450,000	450,000
<b>Total</b>	<b>800,000</b>	<b>890,000</b>

#### 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 six 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 in the prior 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:

	2018		2017	
	Number	WAEP \$	Number	WAEP \$
Outstanding as at 1 July	450,000	7.15	-	-
Granted during the year	-	-	450,000	7.15
Exercised during the year	-	-	-	-
<b>Outstanding as at 30 June</b>	<b>450,000</b>	<b>7.15</b>	<b>450,000</b>	<b>7.15</b>

## 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.

In the current year, a lease negotiation was undertaken and an executed deed of amendment has changed the original six-year term lease to termination given with four months' notice.

Future minimum lease payments under non-cancellable operating leases not recorded in the financial statements as at 30 June 2018 are as follows:

	2018	2017
	\$'000	\$'000
Within one year	2,447	1,169
After one year, not more than five years	9,232	10,056
More than five years	2,305	6,944
	<b>13,984</b>	<b>18,169</b>

### Commitments

There were no commitments as at 30 June 2018. At 30 June 2017, the Group had commitments of \$2.3m relating to the fit-out of leasehold properties in Sydney and Melbourne.

### Guarantees

There were no new guarantees as at 30 June 2018. The Company has 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 the Company 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.

### Acquisition of Super Internet group

On 6 July 2018, the Company completed the acquisition of 100% of the issued shares in SuperInternet (s) Pte Ltd for SGD2.0m (AUD2.0m), SuperInternet is a fully licensed independent facilities-based operator (FBO) in Singapore. The acquisition has increased the Group's footprint into Asia with voice and data capabilities.

## 18. Auditor's remuneration

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

	2018	2017
	\$'000	\$'000

### Auditors of the Group

Amounts received or due and receivable by MNSA Pty Ltd Chartered Accountants for:

Audit and review of the annual report of the entity	308	272
Non-audit services	-	-

### Other Auditors

Audit and review of financial statements	89	91
	<b>397</b>	<b>363</b>

## 19. Director and executive disclosures

### a. Details of Key Management Personnel (KMP)

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

### b. Compensation of KMPs

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 AASB 124 *Related Party Disclosures*. These disclosures are provided in the directors' report designated as audited.

### c. Shareholdings of KMPs

	Year	Balance at the beginning of period	Traded during the year	Options exercised	Balance at end of period
<b>Directors</b>	<b>2018</b>	<b>28,852,993</b>	<b>(1,173,723)</b>	<b>-</b>	<b>27,679,270</b>
	2017	28,754,859	98,134	-	28,852,993
<b>Other KMPs</b>	<b>2018</b>	<b>340,926</b>	<b>(9,750)</b>	<b>7,500</b>	<b>338,676</b>
	2017	282,665	5,761	52,500	340,926

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

### d. Share options of KMPs

	Year	Balance at the beginning of period	Granted	Options exercised	Balance at end of period
<b>Directors</b>	<b>2018</b>	<b>450,000</b>	<b>-</b>	<b>-</b>	<b>450,000</b>
	2017	-	450,000	-	450,000
<b>Other KMPs</b>	<b>2018</b>	<b>92,500</b>	<b>-</b>	<b>(7,500)</b>	<b>85,000</b>
	2017	50,000	95,000	(52,500)	92,500

## 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	
		2018	2017
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	Australia	100%	100%
Symbio Wholesale (Singapore) Pte Limited	Singapore	100%	100%
TNZI International Pty Limited	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	Australia	100%	100%
Express Virtual Meetings Pty Limited	Australia	100%	100%
Eureka Teleconferencing Pty Limited	Australia	100%	100%
Conference Call Asia Pty Limited	Australia	100%	100%
Ozlink Conferencing Pty Limited	Australia	100%	100%

## 21. Goodwill and other intangibles.

	Goodwill	Brands	Customer contracts	Software development costs	Software, and other assets <sup>#</sup>	Total
Cost	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	17,327	1,823	1,433	967	11,226	32,776
Additions	-	-	-	462	-	462
Acquisition of CCI	13,462	3,000	1,500	-	250	18,212
<b>Balance at 1 July 2017</b>	<b>30,789</b>	<b>4,823</b>	<b>2,933</b>	<b>1,429</b>	<b>11,476</b>	<b>51,450</b>
Additions	-	-	-	2,350	704	3,054
<b>Balance at 30 June 2018</b>	<b>30,789</b>	<b>4,823</b>	<b>2,933</b>	<b>3,779</b>	<b>12,180</b>	<b>54,504</b>

### Accumulated Amortisation

Balance at 1 July 2016	-	-	(359)	-	(1,615)	(1,974)
Amortisation	-	-	(412)	(192)	(1,175)	(1,779)
<b>Balance at 1 July 2017</b>	<b>-</b>	<b>-</b>	<b>(771)</b>	<b>(192)</b>	<b>(2,790)</b>	<b>(3,753)</b>
Amortisation	-	-	(587)	(235)	(1,175)	(1,997)
<b>Balance at 30 June 2018</b>	<b>-</b>	<b>-</b>	<b>(1,358)</b>	<b>(427)</b>	<b>(3,965)</b>	<b>(5,750)</b>

### Net Book Value

At 30 June 2017	30,789	4,823	2,162	1,237	8,686	47,697
<b>At 30 June 2018</b>	<b>30,789</b>	<b>4,823</b>	<b>1,575</b>	<b>3,352</b>	<b>8,215</b>	<b>48,754</b>

# 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:

For the year ended 30 June	2018	2017
	\$'000	\$'000
<b>CGUs</b>		
Australia/New Zealand Domestic Wholesale	6,086	6,086
Australian domestic retail	19,327	19,327
Global Wholesale	5,376	5,376
<b>Total goodwill</b>	<b>30,789</b>	<b>30,789</b>

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 is incurred.

In determining value in use, management apply their 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 consider that, as the Domestic Wholesale, Domestic Retail and Global Wholesale 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 10.5% (2017: 9.8%) 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% (2017: 2.5%). The International CGU has been assessed using a discount rate of 14.0% (2017: 14.0%) and a Terminal Value of 2.0% (2017: 2.0%)

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

## 23. Earnings per share

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

	2018	2017
	\$'000	\$'000
Net profit attributable to ordinary equity holders of the Company	11,859	12,066

	2018	2017
	Number	Number

### Weighted average number of shares:

Weighted average number of ordinary shares for basic earnings per share	72,974	69,683
Add effect of dilution: - Share options	800	890
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>73,774</b>	<b>70,573</b>

## 24. Dividends paid and proposed

Recognised amounts:	Cents per share	\$'000	Date of payment
2017 fully franked final dividend declared and paid	4.50	3,279	28-Sep-17
2018 fully franked interim dividend declared and paid	4.30	3,138	5-Apr-18

### Unrecognised amounts:

2018 fully franked final dividend declared (i)	4.05	2,961	4-Oct-18
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(i) The final dividend was declared on 28 August 2018. The amount has not been recognised as a liability in the 2018 financial year and will be brought to account in the 2019 financial year.

The proposed payment date of the 2018 final dividend is 4 October 2018.

The amount of franking credits available for future reporting periods is \$8,552,247 (2017: \$5,092,271).

The tax rate at which paid dividends have been franked is 30% (2017: 30%). Dividends proposed will be franked at the rate of 30%.

## 25. Parent entity

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

For the year ended 30 June	2018	2017
	\$'000	\$'000

### Statement of profit or loss and other comprehensive income

Loss attributable to the owners of the company	(2,777)	(128)
Other comprehensive gain/(loss)	60	(142)
<b>Total comprehensive loss attributable to the owners of the company</b>	<b>(2,717)</b>	<b>(270)</b>

### Statement of financial position

Total current assets	1,812	3,330
Total non-current assets	62,008	61,697
Total current liabilities	(6,554)	(5,488)
Total non-current liabilities	(13,676)	(8,432)
<b>Net assets</b>	<b>43,590</b>	<b>51,107</b>

Issued Capital	55,036	53,815
Reserves	1,962	1,506
Retained earnings	(13,408)	(4,214)
<b>Total equity</b>	<b>43,590</b>	<b>51,107</b>

## 26. 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:

### (i) 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. Contracts are in place with all major creditworthy financial institutions

#### *Sensitivity to foreign currency movements:*

A movement of 10% in the Australian dollar at 30 June 2018 would impact the profit or loss by less than \$270k (30 June 2017: \$250k). 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.

### (ii) 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 agrees 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.

**(iii) 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.

**(iv) 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.

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Cash Weighted average effective interest rate 1.5% (2017: 0.1%)	15,201	15,201	16,905	16,905
Cash at call Weighted average effective interest rate 3.5% (2017: 2.6%)	3,669	3,669	35,453	35,453
Trade and other receivables	33,450	33,450	30,121	30,121

**Financial liabilities**

*On statement of financial position*

Trade payables	30,120	30,120	63,181	63,181
Loans and borrowings Weighted average effective interest rate 4.7% (2017: 4.8%)	10,690	10,690	11,190	11,190
Forward foreign exchange contract – fair value hedge	-	-	592	592
Interest rate swap contract – cash flow hedge	80	80	140	140

## 27. Company details

The registered office and principal place of business of MNF Group Limited is:  
 Level 4, 580 George Street, Sydney, NSW, 2000, Australia

# MNF Group Limited

## Directors' Declaration

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

1. The consolidated financial statements and notes, as set out on pages 50 to 81, 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 2018 and of the performance for the year ended on that date of the 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**  
Chairman



**Rene Sugo**  
CEO and Executive Director

**Sydney, 28 August 2018**



**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 2018 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.

MNSA PTY LTD

MNSA PTY LTD

**Mark Schiliro**  
Director

Dated in Sydney this 28<sup>th</sup> day of August 2018



**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 2018, 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 2018 and of its performance for the year then ended; 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.



### *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, Significant accounting policies.

### *How Our Audit Addressed the Key Audit Matter*

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.



### 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
- entry of the billing system reports to the financial accounting records.

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.

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 2018, 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.

## 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.



## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 41 to 47 of the Directors' report for the year ended 30 June 2018.

In our opinion the Remuneration Report of MNF Group Limited for the year ended 30 June 2018, 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 28<sup>th</sup> day of August 2018



**mnf group**

## **ASX Additional Information**

BOARDROOM

**mnf group**

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

The information is current as at 13 August 2018

**(a) Distribution of equity securities**

**(i) Ordinary share capital**

73,117,908 fully paid ordinary shares are held by 3,981 individual shareholders.  
All issued ordinary shares carry one vote per share and carry the rights to dividends.

**(ii) Options**

800,000 unlisted options are held by 48 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	1,650
1,001 – 5,000	1,372
5,001 – 10,000	421
10,001 – 100,000	509
100,001 and over	29
	<b>3,981</b>

The number of security investors holding less than a marketable parcel of ordinary shares is 154.

**(b) Substantial shareholders**

Ordinary shareholders	Fully Paid	
	Number	Percentage
Mr Andy Fung and related parties	14,151,954	19.35
Mr Rene Sugo and related parties	11,896,867	16.27
NAOS Asset Management Limited	10,871,529	14.87

**(c) Twenty largest holders of quoted equity securities**

Ordinary shareholders	Fully Paid	
	Number	Percentage
Mr Andy Kam Kan Fung & Ms My Van Monique Ly	13,943,600	19.07
National Nominees Limited	13,601,837	18.60
Avondale Innovations Pty Ltd	10,838,955	14.82
BNP Paribas Noms Pty Ltd	2,398,061	3.28
HSBC Custody Nominees (Australia) Limited	1,617,301	2.21
L & C Pty Ltd	1,244,117	1.70
JP Morgan Nominees Australia Limited	1,173,935	1.61
RACS SMSF Pty Ltd	1,057,912	1.45
Kore Management Services Pty Ltd	920,906	1.26
Boorne Gregg Investments Pty Ltd	893,419	1.22
Boorne Superannuation Fund Pty Ltd	832,910	1.14
Citicorp Nominees Pty Ltd	822,547	1.12
Sandhurst Trustees Ltd	599,874	0.82
G & E Properties Pty Ltd	529,247	0.72
Lee Superfund Management Pty Ltd	420,000	0.57
Mr Michael John Boorne	371,199	0.51
Ecapital Nominees Pty Ltd	330,000	0.45
Earglow Pty Ltd	324,938	0.44
Ms Catherine Ly	295,676	0.40
Endan Pty Ltd	273,951	0.37
	<b>52,490,385</b>	<b>71.76</b>

**(d) On-Market Buy Back**

There is currently no on-market buy back.



## Corporate Information

### Directors

Terry Cuthbertson (Chairman)  
Michael Boorne  
Andy Fung  
Rene Sugo (CEO)

### Company Secretary

Catherine Ly

### Chief Financial Officer

Matthew Gepp

### Registered Office

Level 4, 580 George Street  
Sydney NSW 2000  
Australia

### Bankers

Westpac Banking Corporation  
Westpac Place  
Sydney NSW 2000  
Australia

### Principal Place of Business

Level 4, 580 George Street  
Sydney NSW 2000  
Australia  
Phone: 61 2 8008 8000

### Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Australia  
Phone: 61 2 8280 7100

### Auditors

MNSA Pty Ltd  
Chartered Accountants  
Level 1, 283 George Street  
Sydney NSW 2000  
Australia

This annual report covers both MNF Group Limited as an individual entity and the consolidated group comprising MNF Group Limited and its subsidiaries.

The Group's functional and presentation currency is AUD. The company is listed on the Australian Securities Exchange under the code MNF.

The Annual General Meeting of MNF Group Limited will be held at Level 4, 580 George Street, Sydney at 16:30 on 30 October 2018.

### Annual Report

Copies of the 2018 Annual Report with the Financial Statements can be downloaded from:  
[www.mnfgroup.limited/investors/annual-reports](http://www.mnfgroup.limited/investors/annual-reports)



[www.mnfgroup.limited](http://www.mnfgroup.limited)

MNF Group Limited Annual Report 2018