mnf group

MNF Group Limited
Annual Report 2019

ABN 37 118 699 853

Contents

MNF Group **powers communication** in the apps and services you use every day

Highlights

Recurring Revenue
Up 89% to $74m

Recurring Gross Margin
Up 89% to $74m

EBITDA
Up 11% to $27.2m

Underlying NPAT-A
Up 13% to $15.9m

Phone numbers
Up 19% to 3.8m

Gross Margin
Up 20% to $82.5m

Underlying EPS-A
Up 12% to $21.7m

Message from our CEO

Dear Shareholders,

It has been another record year of growth for the MNF Group, with our total numbers on the network growing 18% to 3.8 million phone numbers. We attribute this increase to consumers and businesses moving their voice communications requirements into the cloud. Additionally, many of our established customers are themselves experiencing booming growth which is in turn compounding ours. We expect this trend to continue well into the future based on analyst predictions for the UCaaS, CPaaS and CCaaS markets in Australia and globally.

Strong bottom line growth

This year saw MNF reach new record levels of profitability with EBITDA reaching $27.2m up 11% on prior year (FY18: $24.5m). The year also saw several once-off expenses to do with the large and complex acquisition of Telcoinabox, however underlying NPAT-A grew to $15.9m up 13% on prior year comparable figures (FY18: $14.1m). This led to an underlying EPS-A rise of 12% to 21.7 cents per share (FY18: 19 cps). Cash conversion in H2 was 77% of EBITDA leading the company to finish with $15.5m cash in bank at June 30.

Reaffirmation of FY20 EBITDA guidance

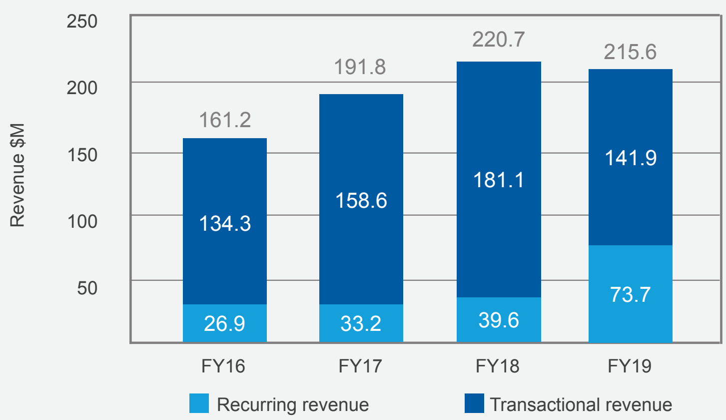
With the acquisition in Telcoinabox behind us and the integration well progressed, this has allowed the company to re-affirm its prior FY20 EBITDA guidance of $33.0m to $36.0m, a forecast growth of 27% at the guidance mid-point.

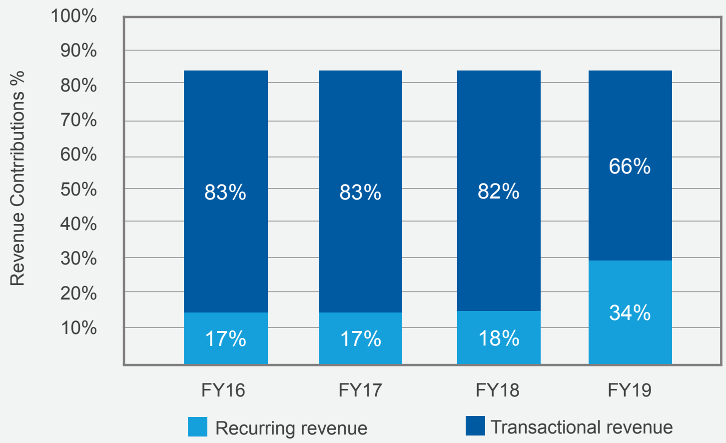
Strong business performance indicators

Our recurring revenue streams grew 89% to $74m (FY18: $40m), which makes up 34% of our over-all revenue mix. These recurring revenue streams are long term, sticky and high margin.

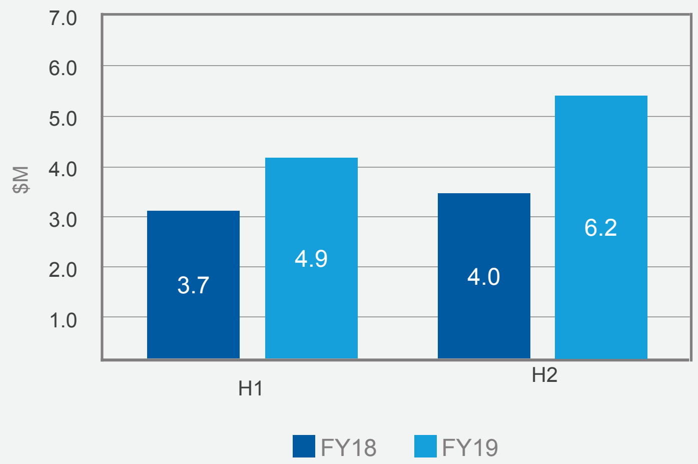
Similarly, our gross margin grew 20% to $82.5m (FY18: $69.0m), with recurring margin streams growing 60% to $49m (FY18: $31m). Our average gross margin generation is now sitting at 38% of revenue, up from 31% from the prior year.

Given recurring margins are generated from very sticky products, this leads to long term stability of gross margin generation and a monotonically increasing margin profile.





Wholesale Global Customer Recurring Revenue Growth



The company saw H2's existing global recurring customer revenue grow by 56% compared to the same quarter in the prior year – from $4.0m to $6.2m.

This rapid growth with existing customers demonstrates MNFs ability to deliver a high-quality product with high levels of scalability.

FY19 Achievements:

Acquisition of Telcoinabox

The company successfully completed what was a complex and drawn out acquisition of Telcoinabox. The acquisition consolidates the wholesale aggregation market and makes MNF a clear leader in this space with over 800 wholesale customers across Australia utilising MNF for their voice, mobile and NBN service delivery.

Sale of consumer DSL/NBN business

The company completed the sale of its DSL/NBN consumer customer base towards the end of FY19. This divestment aids in the simplification of the MNF business and removes a potential EBITDA headwind as the retail margins decline in the NBN space. This further allows MNF to focus resources on growing customer segments such as Small to Medium Business and Enterprise and Government.

Re-launch of Connexus

the company relaunched the Connexus brand to be its premier brand for Small to Medium Business. MNF has been growing steadily in the SMB space with its Virtual PBX product suite. This re-launch not only allows MNF to provide a new set of products, but also a new approach to branding and marketing which will allow it to maximise market share gain in the direct SMB segment.

Our Competitive Advantage:

Our company today offers a "one-stop shop" that hides all the "old world telco" complexity from our customers. Below is a summary of our key differentiators, which we see as our competitive advantage:

1. We own our network, our quality, our reliability
2. We offer a comprehensive suite of voice and telco services through our APIs
3. We are uniquely a software company sitting on a strong telco foundation
4. We speak and act the way our customers demand
5. We hide the complexity of being a telco in Australia, New Zealand and shortly Singapore, and eventually the majority of Asia-Pacific
6. Our strategic advantage is our ability to offer wholesale services at a lower cost than the customer could build themselves
7. We benefit from all the margin advantages of owning our entire value stack

By 2021, 90% of IT leaders will not purchase new premises-based UC infrastructure — up from 50% today

Global UCaaS spending will grow to reach $46.4 Billion (USD) in 2023

– Gartner

MNF underpins the voice, video, messaging and telco capabilities that connect your daily life

Texting, calling and browsing at home…

…collaborating and conferencing at work…

…communicating via everyday apps and ads…

…or chatting with friends & colleagues overseas

The Future:

MNF is privileged to have a large established customer base that see their market opportunity booming, and are growing on the back of a range of diverse drivers. Looking specifically at Australia, there is a “once-in-a-generation” shift occurring driving strong growth for MNF.

The cease sale of legacy PSTN/ISDN services

The backbone of the telco incumbent offerings for the last 30 years is opening the doors for Small to Medium Businesses and Enterprise & Governments alike to migrate to VoIP services. This is supported by the 23% YoY organic growth we are seeing by MNFs global customers.

The NBN rollout

The government forced obsoletion of any remaining copper infrastructure is forcing consumers and businesses to move to VoIP as the only option. There is a 30% YoY growth in our domestic wholesale customers.

The UCaaS, CPaaS and CCaaS revolution

Looking internationally, we are seeing an increase in demand for our services from new customers both large and small. This is supported by the Gartner research forecast for the future of UCaaS, where spending is set to grow rapidly and reach over $46 Billion globally over the next 4 years.

Over the remainder of FY20 MNF intends to maximise its opportunities in this exciting area while positioning itself for long term sustainable growth and expansion into the Asia Pacific region.

Thank you:

On behalf of my fellow directors, I would like to thank my executive team, and all my staff in achieving another solid result in what has been an incredibly hectic year. Without the hard work and dedication of a highly capable team we would not be able to maximise our growth in this rapidly changing industry.

I thank all our shareholders for their continued support. The company is looking forward to continuing its growth well into the future.

Rene Sugo

CEO and Executive Director

mnf group

Business overview

Glossary

API

A set of coding standards for developers wishing to connect different bits of software.

CPaaS

Communication Platform as a Service

A framework for developers to add telecom capabilities to their software, without needing to build backend infrastructure.

MVNO

A way to provide mobile services without the need to build an independant mobile network.

Porting

The process of transferring a phone number from one telecom carrier to another.

PSTN

The global network of phone users, encompassing every phone number in the world.

SLA

The agreed standard of service reliability between a customer and a service provider.

SIP Trunk

A way for voice and video calls to travel over VoIP networks. It is the digital equivalent of a phone line.

Termination

The process of routing a phone call, from one telecom provider to another, until it reaches the recipient.

Transaction Revenue

Revenue that is billed when a user makes a phone call, typically low margin and variable.

UCaaS

Unified Communication as a Service

Software that enables users to call, conference and message from a single interface, delivered as-a-service via the cloud.

Virtual Number

A phone number that is operated on a VoIP network without needing an underlying phone line service.

Virtual PBX

A business phone service, typically connecting multiple business users, delivered as-a-service via the cloud.

VoIP

A way of turning phone calls into data that can be transmitted over the internet and routed to any recipient.

4 Pillars of Growth

Geography

Extending our software capabilities into new regions of SE Asia, built on our own integrated multi-regional voice IP network

Achievements:
- Strong organic growth in Australia
- Acquired Super Internet in Singapore
- New Zealand network fully operational

Vision:
- Continue to dominate Australian wholesale segment
- Complete upgrade of Singapore network
- Ramp up New Zealand revenue

Market share

Winning new customers directly via our own brands, and indirectly via our wholesale customers

Achievements:
- Massive growth in recurring revenues from wholesale UCaaS and CCaaS customers
- Market-leading wholesale and enablement base of 800+ customers
- Achieved milestone 10,000 Pennytel mobile customers
- Exited the direct consumer NBN market
- Continue recurring revenue growth from Small to Medium Business
- Strong pipeline in Enterprise & Government for Cisco and Microsoft UCaaS solutions

Vision:
- Underpin the growth of UCaaS and CCaaS market entrants in Australia, NZ and Singapore
- Maintain organic growth momentum in Domestic Wholesale
- Increase organic growth in Domestic Retail with key brands – Pennytel, Connexus, MNF Enterprise & Express Virtual Meetings

Software

Deepening our technology moat by providing the most seamless, modern experience for software and telco providers

Achievements:

- Acquired Telcoinabox including specialist software underpinning major MVNO and wholesale customers
- Commenced integration of Telcoinabox network, delivering synergies due to cost saving and scale
- Continued development of communication APIs and launch of developer portal for wholesale customers
- Launch of video conferencing product for CCI
- Launch of Open RTP calling product for TNZI
- Launch of new hosted PBX features for Telcoinabox

Vision:

- Deeply integrate the technology of Inabox, iBoss and Symbio Networks with the vision of a single platform that can be deployed globally
- Engineer highly scalable and highly automated systems that can support extreme growth and demand from the world's largest software companies
- Continue to launch and refresh products to serve the growing demand for cloud communications

Wholesale partnerships

Working closely with market leaders and innovators to create the future of communications

Achievements:

- Achieved world first Webex Calling deployment in partnership with Cisco
- Delivered a significant MVNO project for disruptive mobile market entrant in Australia
- Delivered cutting-edge IoT solution for vehicles in collaboration with global mobile network

Vision:

- Deepen relationships with existing global and domestic wholesale partners to entrench their future growth with MNF Group
- Secure more partnerships in the IoT space, collaborating with mobile network operators
- Continue to work closely with Cisco and Microsoft and their respective partner networks in Australia

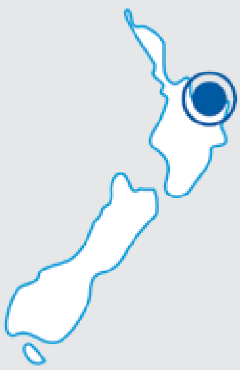
Multi-region network

Australia

Established network

Full national coverage

Global interconnect



Our integrated network provides global reach and scale as well as comprehensive in-country capabilities in Australia, New Zealand with Singapore online this FY

New Zealand

Network launched

Full national coverage

Global interconnect

Singapore

Metro fiber network

FBO (carrier) license

Build underway

SE Asia growth focus

25M
AUS

5% Market Share

30M
AUS + NZ

<4% Market Share

We plan to extend our network and platform into Singapore and other South East Asian countries – powering communications in these immense markets

Currently MNF Group is generating $1.00 of EBITDA per head of population in AU, growing at 11% YoY

36M

AUS + NZ + SG

<3% Market Share

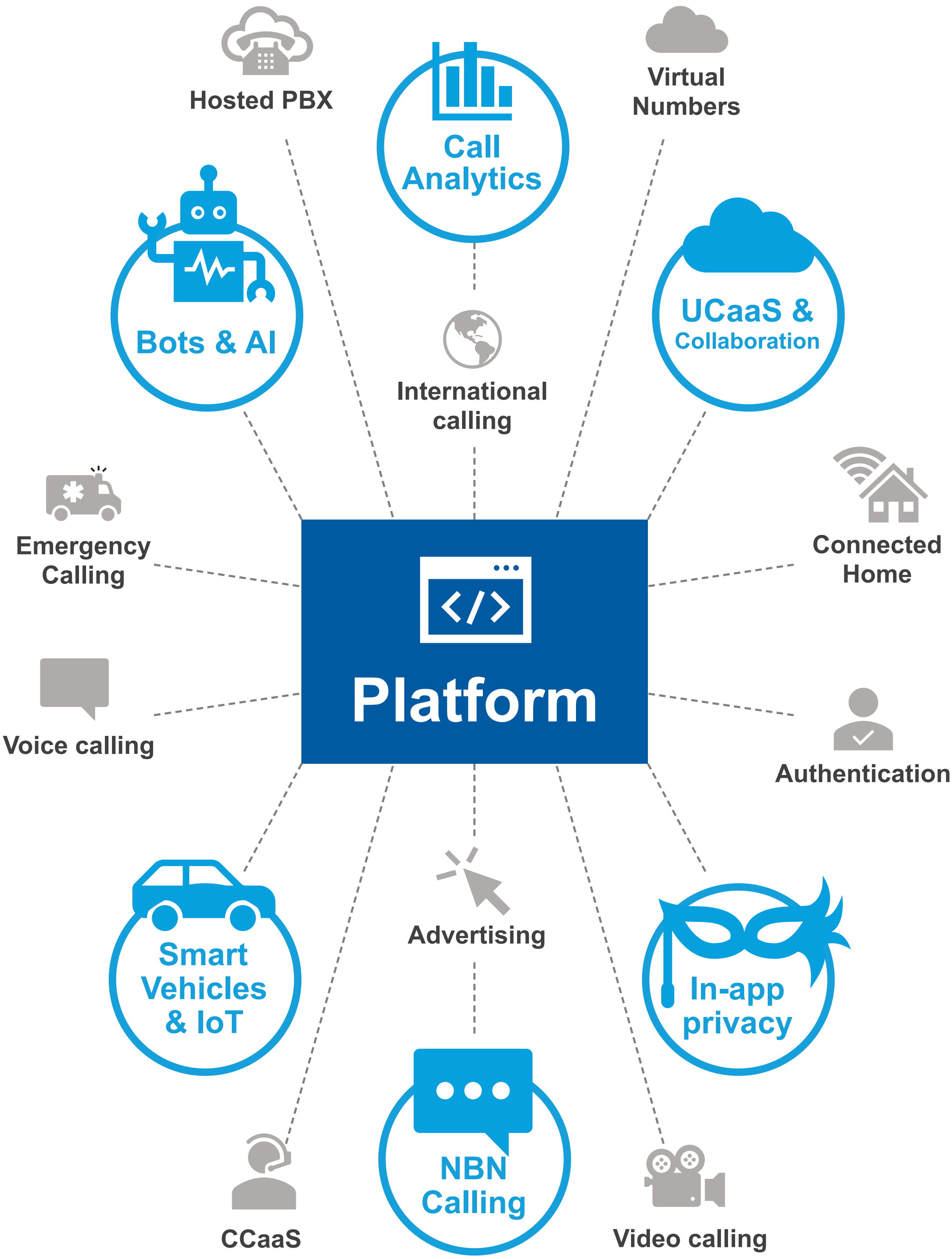
650M+

AUS + NZ + SG
+ SE Asia

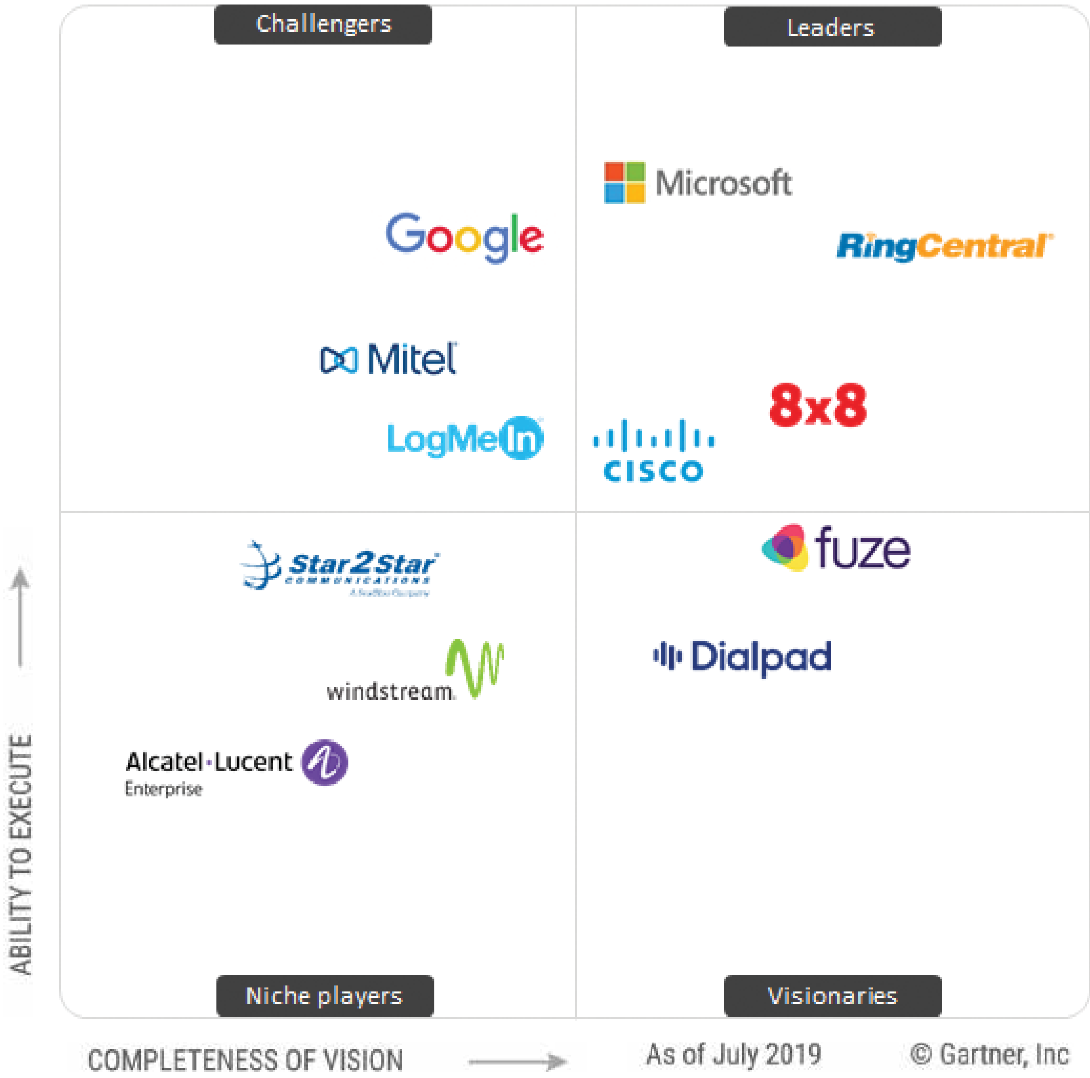
SE Asia includes: Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Thailand, Timor-Leste and Viet Nam (ex. China, India and Singapore).
Sources: ABS (2019), Stats NZ (2019), Singstat (2019), UN DESA (2019)

Infinite use cases

The MNF Group platform enables developers to embed our telecom capabilities in software, mobile apps, smart devices and more. Our capabilities power the apps and services you use every day. The potential applications are endless, and our platform already underpins market-leading vendors in UCaaS, CCaaS and online advertising.



Market share



While local telcos are squeezed by NBN and aging infrastructure, MNF Group has unlocked a large recurring revenue opportunity by supplying telecom capabilities as a service to global software companies.

Technology tailwind

Copper networks being replaced by VoIP and unified communications in the cloud (UCaaS).

Market leading position

MNF Group is the Australian provider of choice for vendors in the Gartner UCaaS magic quadrant. MNF Group is the *only* APAC provider with the CPaaS capabilities and multi-regional voice network to underpin global software companies.

Critical to customer success

We can power up to 80% of the UCaaS value stack (call termination, number portability, SIP Trunks etc). Numbers, SIP Trunks and routing underpin every customer use case – the 'picks and shovels' of the communications gold rush.

Long-term opportunity

Our customers are growing successfully, delivering 119% retention rate in dollar terms. We plan to extend our network and CPaaS into Singapore and other South East Asian countries – powering communications in these immense markets.

Gartner – Magic Quadrant for Unified Communications as a Service, Worldwide (30 July 2019) ID G00354149

Wholesale Partnerships

Powering smart cars & IoT

MNF Group underpins emergency calling systems built into prestige cars and SUVs.

Our capabilities enable car makers to pinpoint drivers in distress, and seamlessly dispatch local repairers or emergency services.

In partnership with:

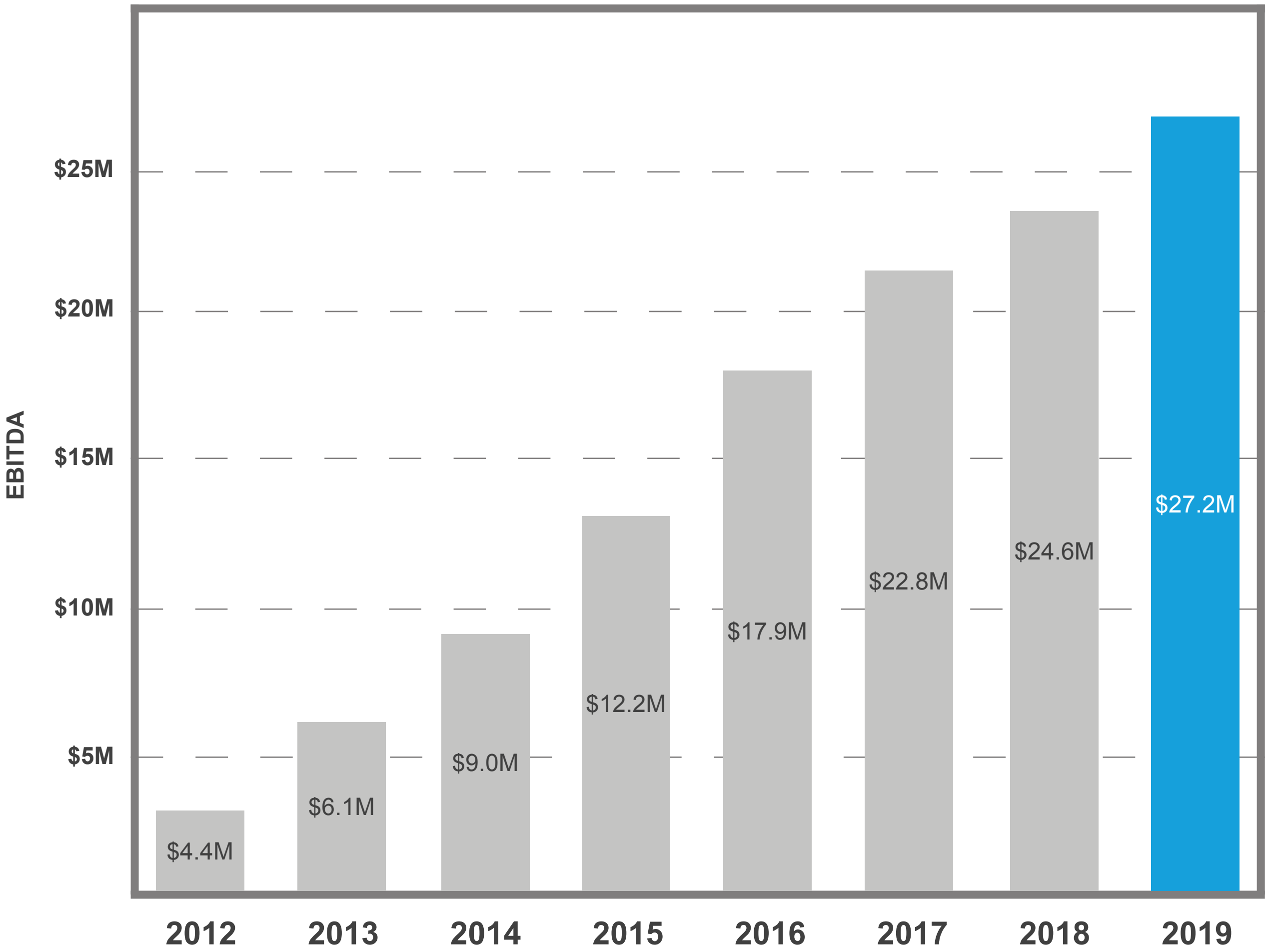
Powering NBN calling

MNF Group underpins VoIP calling for NBN resellers, mobile networks and challenger telcos.

Our capabilities ensure that NBN providers can win customers that want to keep their landline numbers as they move from copper and ISDN.

In partnership with:

Organic and acquisitive growth



2012

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

2014

- Acquisition of Pennytel & iBoss
- Strong organic growth

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

2019

- Acquisition of Inabox Group business
- Strong organic growth in Domestic Wholesale
- Strong tailwinds for NBN phone line migration, UCaaS and CPaaS markets

Company Structure

Rene Sugo
CEO and Executive Director

John Boesen
CTO
Technology Business Unit

Andrew Tierney
Acting 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

Business unit profiles

John Boesen | CTO | Technology Business Unit

Our Technology business unit continued to accelerate its growth strategy commenced in FY18, improving overall technology business unit efficiency and effectiveness. We focused resource investment into core areas of delivery, software, systems and networks; and transitioned from waterfall practices to iterative delivery methods to inject additional agility into our delivery processes.

Over the last 12 months, we saw increasing demand from our customers for access to our capabilities via our Applications Programming Interfaces (API) and as a result we launched our new API developer zone in Q1 FY19 to improve the developer onboarding experience.

In Q4 FY19 the team successfully completed integration of the TIAB technology team post acquisition and commenced core voice network integration and rationalisation activities that will result in a full year benefit in FY21.

We also commenced moving on-premise non-critical workloads into public cloud services, going to serverless architectures where possible to reduce operating and carbon footprints and commenced an aggressive program to automate all cloud infrastructure provisioning to an Infrastructure as Code (IaC) only approach to enable our technology teams to scale and move faster than ever before. The technology team are rallying behind the growth potential we all see for our products and services and are currently excited and focused on delivering our next major market rollout in Singapore.

Andrew Tierney | Acting President | Global Commercial Business Unit

Our TNZI brand remains one of a handful of global leaders in the international voice trading business. This is due to its continued ability to bring new technical and commercial concepts to market.

The TNZI global business has delivered a solid year in a market where retail operators around the world are facing downward pressure on their traditional minutes calling products. Despite some headwinds coming out of FY18, strong results have been attained in FY19 through the delivery of further innovation and a continued focus on world class customer relationships with the biggest telecom companies around the globe.

The TNZI team has rallied around building solutions and capabilities for our global telco customers. Leveraging our relationships, reputation and network capabilities allows TNZI to provide complete solutions to our customers.
Of particular focus is the Asia-Pacific region where TNZI has a particularly strong incumbency. While we continue to trade on our wholly-owned softswitch platform and global network, we will be leveraging capability from across the MNF Group to bring solutions beyond just international calling to our global customer base.

Jon Cleaver | CCO | Domestic Commercial Business Unit

The Domestic Commercial business unit delivered yet another impressive year of growth. We managed to continue delivering organic growth while absorbing major acquisitions, executing brand refreshes and navigating consolidation in a fast-changing market.

Wholesale growth was especially pleasing, achieving strong results in both transactional and recurring revenue streams. Telco-In-A-BoxTelcoinabox was a welcome addition, ensuring we remain the wholesale market leader in Australia & New Zealand even as we push into Asia.

Enterprise & Government and Business segments kept up momentum while building products and the hard work culminated in MNF Enterprise signing the first Cisco Webex Calling customer in Australia. In the Business segment, the exciting Connexus relaunch opens up an additional 50% of the SMB market with a product that doesn't require technical skills – complementing MyNetFone's more tech-savvy offering.

In the consumer space, Pennytel held its own in an extremely competitive mobile market with its customer service- focused brand promise. The team is set for another year of growth, focusing on efficiency and integration to maximise opportunities in all segments.

Ritsa Hime | COO | Operations Business Unit

The Operations business unit provides a centralized customer experience capability across the MNF Group. Our customer facing teams continued to demonstrate all-round strong performance and remain the epicenter of our service model across all customer segments supporting our multi brand strategy.

We continued investment in our Customer Experience program across all our customer segments and brands, capturing and tracking our customers' sentiment from single interactions for our consumer and business customers through to the relationship strength with our strategic wholesale customers.

This year we have achieved a new high of NPS +43 across our direct customer segments, claiming an 8-point increase from the previous year. Similarly, we improved our customer service performance with 94% of enquiries being resolved in the first call. This is the second year of significant improvement in our customers' experience feedback across these two key metrics, measured in real-time, and reflects on our staff's engagement and value of our Quality Assessment program.

Matthew Gepp | CFO | Finance Business Unit

Our Finance business unit focus is to support the business in fulfilling its short- and long-term growth strategies. We provide the underlying business partnering to assist the executive team in their decision-making processes.

This year the finance team provided critical support for the due diligence, negotiation and integration of two strategic acquisitions for the group: the acquisitions of SuperInternet in July and the Telcoinabox business in December. SuperInternet gives us access to key licensing and network assets in Singapore, providing a launch pad for our new Singapore domestic voice network. The Telcoinabox acquisition strengthens our Australian domestic customer footprint, making us the dominant wholesale provider in the country. The Finance BU has been strengthened with the addition of several new team members.

In addition to business as usual, the finance team worked on capital management, strengthening our balance sheet in order to support the acquisitions and ongoing investment in the business. In December the debt facility with Westpac (WBC) was raised to $55.0m to facilitate the acquisition of Telcoinabox. Later in May 2019 this facility was re-financed, adding HSBC Australia as a new banking partner, while maintaining the relationship with WBC. The refinance had the effect of significantly strengthening the balance sheet with the loan re-structured into 3- and 5-year tenors with no repayments required during the term of facility.

Helen Fraser | General Counsel | Legal & Compliance Business Unit

The Legal & Compliance team supports the Board and the group as a whole with strategic and operational advice. Our goal is to enable the business to achieve its objectives while minimising legal and compliance risk.

A key focus area over the past year has been the acquisition of the Telcoinabox group of companies and related early integration activities. At the same time, we have continued to support the product expansion and new sales initiatives of the commercial teams.

We are continually seeking to improve our customers' experience – both internally and externally – while balancing the group's legal interests. We work closely with our business partners to understand what they want to achieve and help craft solutions to get them there.

We value the trust placed in us by the business and work hard to be worthy of it. We recognise that continuing development of our people is crucial to be able to navigate the changing landscape of our business and industry.

Corporate Social Responsibility

Parental Leave

MNF Group understands how valuable providing support to our employees can be as their families grow to enable them to balance the needs of work and family life.

Paid parental leave (PPL) is recognised globally as providing significant benefits physically, psychologically, socially and economically to all of those involved in the parenting equation.

MNF Group's Parental Leave was launched on July 1st 2019 and is available to permanent FT/PT employees with a minimum of 12 months tenure. They're entitled to 12 weeks primary carer leave and 2 weeks partner/secondary carer leave at 100% of base salary.

Since July 1st we've had 6 primary requests (2 male, 4 female) and 2 male secondary requests.

Requests:

50% male

50% female

Stillbirth Foundation
AUSTRALIA

MNF Group is proud to be recognised by the Stillbirth Foundation Australia and featured on their corporate register.

www.stillbirthfoundation.org.au/corporate-register

Flight Offset

In line with our Corporate Social Responsibility Policy and our **commitment to the environment, all flights** are to be selected with the Carbon Offset option.

Environmental co-benefits include supporting the maintenance of habitat for native animal and plant species, avoiding clearing of vegetation and re-establishing vegetation on previously cleared areas.

Social co-benefits include employment for local people through managing the project, reduced social welfare, and providing health and educational improvements.

www.environment.gov.au

Good2Give

- Payroll Giving Platform - Not-for-profit founded in 2001.
- Support communities & causes you care about
- Easy for businesses & employees to support the communities & causes they care about.
- Facilitated >$200 million to more than 7,000 Australian and international communities.
- Employees donating enjoy immediate tax benefits; no need to keep/find tax receipts
- Admin fee covered by MNF Group so 100% of donation goes to charity.
- Launching August 2019.

www.good2give.ngo

Télécoms Sans Frontières

As part of our continued commitment to corporate social responsibility, MNF Group is proud to announce our support of Télécoms Sans Frontières (TSF).

Since being established in 1998, TSF has been providing technology and telecommunications in times of humanitarian crises. We have committed to bi-annual donations to help support their critical work and look forward to continuing to find new ways to support the telecommunications industry in the future.

www.tsfi.org/en/

Volunteer Days

OZHARVEST

www.ozharvest.org

OzHarvest accepts donated food items that would normally go to waste. Under multi-faceted programs, the donated goods are outsourced to local charities, and are distributed either as a whole item i.e groceries, or are prepared into meals for outreach programs i.e. soup kitchens.

MNF Group took part in the OzHarvest 'Cooking for a Cause' program, which engage volunteers to prepare meals to provide to the less fortunate in the community. The morning event (held in purpose built kitchens) includes an information session on food wastage and the impact this has on the community/environment, kitchen skills (headed by a chef), as well as an opportunity to work alongside a colleague that you may not encounter during your normal working day.

Upcoming 2019 volunteer days:

- Harbour Clean Up Sydney
- Ronald McDonald House Sydney
- Tree planting Sydney
- Guide Dogs Melbourne & Sydney

People Experience (PX)

MNF Group is a values-based organisation, and our people are what makes MNF Group a success. Be Brave, Honest & Fair, Collaborate, Deliver Excellence, and We Care are not just values to us, they are part of our global purpose statement - our GPS - that guide us in our everyday interactions with each other.

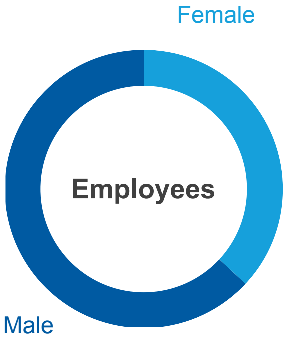
- Australia (440)
- New Zealand (47)
- Singapore (7)
- United Kingdom (5)
- Canada (1)
- United States (1)

- NSW (379)
- VIC (47)
- TAS (2), QLD (2), WA (2)
- NT (7), ACT (1)

2019 D&I Survey Result

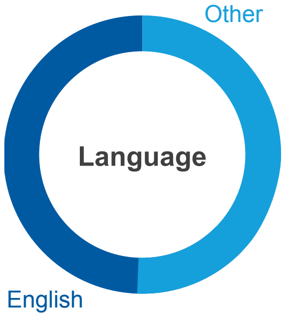
3.95/5

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

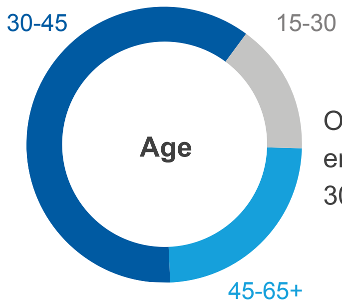


Our workforce composition in Australia, (based on our 2019 Workplace Gender Equality Agency [WGEA] Report) is 34% female and 66% male

In senior leadership roles in Australia, we have 33% female representation



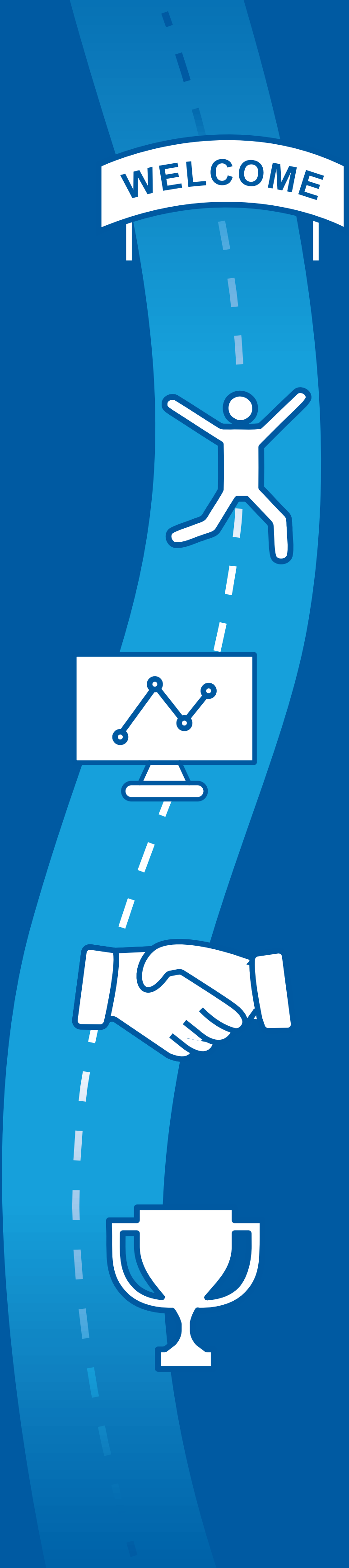
52% of our workforce fluently speak a language other than English



Over 60% of our employees fall in the 30-45 age group

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

Welcome
Transitioning from a candidate to a member of the MNF Group family is the first key component in an employee's journey with us. Our approachable Talent Acquisition experts manage a robust but friendly recruitment process which is aligned to our values and our culture. Onboarding is managed through our online system, giving a streamlined and consistent approach for all employees prior to their start date and beyond.

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. Performance is managed through our cloud-based system so that all employees, regardless of location, get a consistent experience.

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.

Support
We Care is another of our Values at MNF Group which means that our people are supported in both their Health & Wellbeing, as well as given opportunities to support our local communities and various initiatives. Our Corporate Social Responsibility (CSR) framework includes charity fundraisers, Volunteering Days, and payroll giving. Our Wellbeing program provides EAP, regular webinars on mental health, paid Domestic Violence leave, and employee blood donations with Red25. These are just some of the ways that our people can engage in bolstering their own wellbeing. In addition, our people are provided with space to create, relax and innovate.

Appreciate
To reward our staff for their hard work and Delivering Excellence, we have regular local level events and recognition initiatives. We also run an annual Global Reward & Recognition program, based around our values. Our people love our variety of great benefits which include our paid birthday leave, paid parental leave, volunteering events and great flexibility options.

Directors’ report

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 2019.

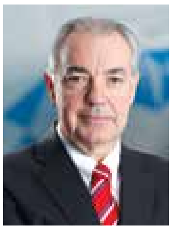
Board of directors

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.

Terry Cuthbertson	Chairman, Non-Executive Director
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 (resigned on 20 May 2019); 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 (resigned on 31 May 2019).
Special responsibilities	Member of the Audit and Remuneration Committees
Interest in shares	920,906
Interest in options	100,000

Michael Boorne	Non-Executive Director
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 Spirit 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

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	14,213,185
Interest in options	100,000



David Stewart	Non Executive Director
Qualifications	MAICD
Experience and expertise	Appointed as Non-Executive Director on 13 August 2019. Mr Stewart is an experienced CEO and successful entrepreneur with more than 30 years in management and business leadership roles. Mr Stewart founded Banksia Technology Pty Limited in 1988 and in 1996, he instigated the successful takeovers of a number of his competitors, including NetComm Limited. He assumed the role of Managing Director of the merged entity and remained at the helm of the company until his retirement in 2016. A year later, Mr Stewart was appointed as a Non-Executive Director of NetComm Wireless, a position he held until 2019. In 2016, Mr Stewart was recognised for his significant contribution to the Australian communications industry with the presentation of the Communications Ambassador 2016 award, the highest honour presented by ACOMMS Communications Alliance and CommsDay each year. Since retiring, Mr Stewart began working with a number of tech startups in an advising and investing capacity. He was announced as Chairman for Pycom on July 01, 2017 and a Director of Beam Communications (formerly known as World Reach Limited) on November 9, 2017, following investments in both. The start of 2018 saw Mr Stewart join the board of Lockbox Technologies.
Directorships of listed entities (last 3 years)	Director of Beam Communications Holding Limited from November 2017 Director of Netcomm Wireless Limited from 1997 (resigned on 30 June 2019)
Special responsibilities	Member of the Audit and Remuneration Committees
Interest in shares	None
Interest in options	None

Rene Sugo	Chief Executive Officer and Executive Director
Qualifications	Bachelor of Engineering (Hons), GAICD
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	11,915,431
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.

Board and Committee Meetings

From 1 July 2018 to 30 June 2019, the directors held 17 board meetings and 2 audit committee meetings. Each director's attendance at those meetings is set out in the following table:

	Board		Audit	
Directors	Eligible to attend	Attended	Eligible to attend	Attended
Mr. Terry Cuthbertson	17	17	2	2
Mr. Michael Boorne	17	16	2	2
Mr. Andy Fung	17	17	2	2
Mr. Rene Sugo	17	17	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 Group 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 and also the Telcoinabox brand from FY19, 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

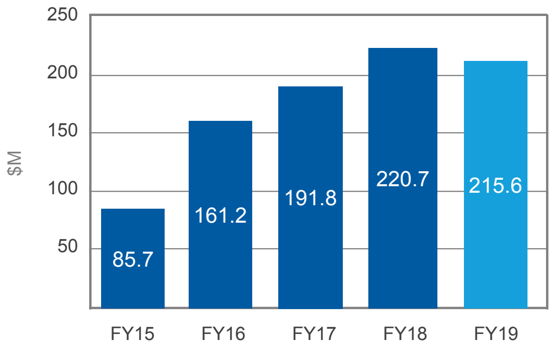
Excluding costs associated with acquisitions, earnings before net interest, tax expense, depreciation and amortisation expense (EBITDA) increased by 11% to $27.2 million, with net profit after tax (NPAT) decreasing by 3.9% to $11.4 million, compared to the prior year.

The Group issued updated guidance in February 2019. EBITDA of $27.2 million is consistent with that guidance and NPAT of $11.4 million is 3.6% above that guidance. NPAT includes $1.2 million of acquisition costs incurred in the year in relation to the Telcoinabox and SuperInternet acquisitions.

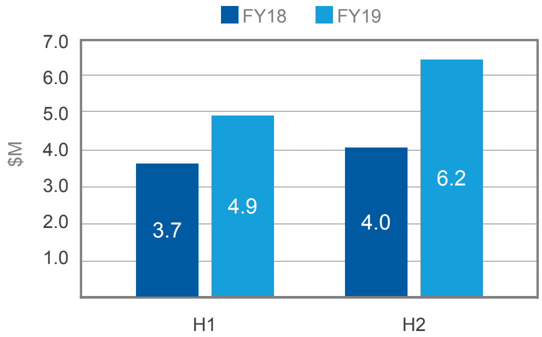
The total dividend for the full year is 6.1 cents per share (fully franked), with the company declaring a final dividend of 4.0 cents per share for the second half of the 2019 financial year. The full year dividend payments represent 39% of the 2019 full year EPS.

MNF Group performance at a glance

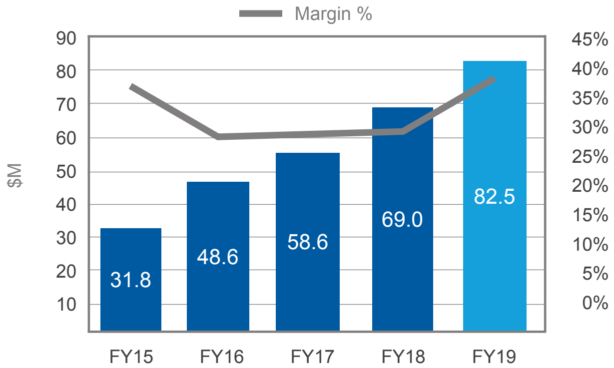
REVENUE $215.6 million



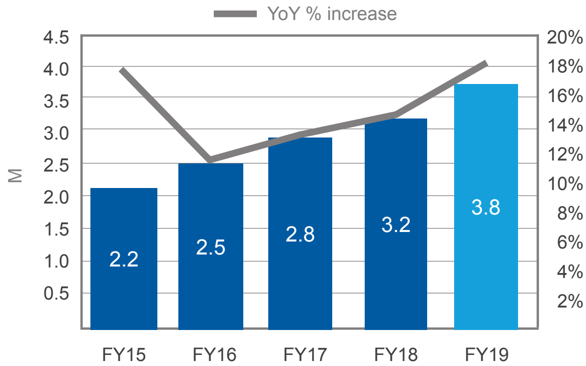
WHOLESALE SAME CUSTOMER MRC HOH GROWTH



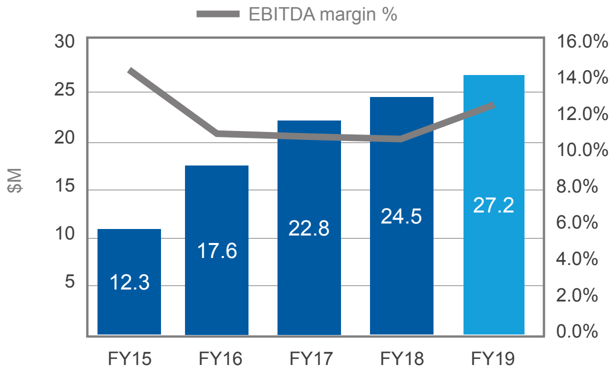
MARGIN $82.5 million



PHONE NUMBERS 3.8m

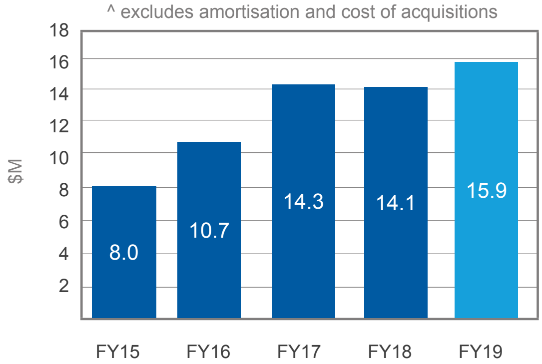


EBITDA $27.2 million

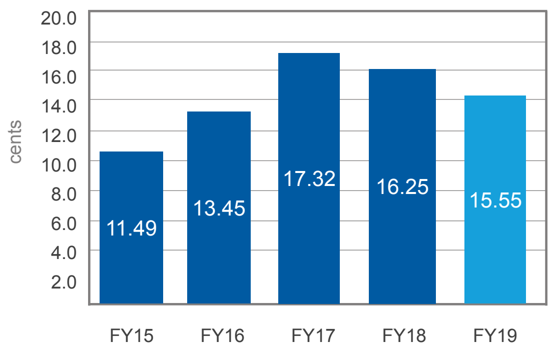


UNDERLYING NPAT-A $15.9 million^

^ excludes amortisation and cost of acquisitions

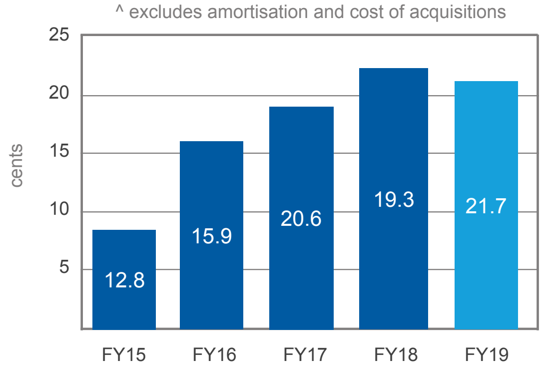


EPS 15.55 cents



UNDERLYING EPS-A 21.70 cents^

^ excludes amortisation and cost of acquisitions



Review of operations

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

Record Margin and EBITDA

Margin increased $13.5m (20%) on the prior year to a record $82.5m (2018: $69.0m). EBITDA of $27.2m was up 11% on the prior year. Net profit after tax (NPAT) for the year was slightly down at $11.4m (2018: $11.9m) with Earnings per share (EPS) decreasing to 15.55 cents per share (2018: 16.25 cents per share).

	Year ended 30 June 2019	Year ended 30 June 2018	% change
Revenue	$215.6m	$220.7m	-2%
Gross profit	$82.5m	$69.0m	20%
EBITDA	$27.2m	$24.6m	11%
NPAT	$11.4m	$11.9m	-4%
EPS	15.55 cents	16.25 cents	-4%

Reconciliation of NPAT to EBITDA

	2019 $'000	2018 $'000	2017 $'000
NPAT	**11,399**	**11,859**	**12,066**
Add back			
Depreciation & Amortisation	8,973	6,310	5,083
Interest expense	1,874	1,270	1,790
Income tax expense	2,994	4,894	4,444
Acquisition costs	1,168	262	498
Discontinued Data product	500	-	-
EBITDA	**26,908**	**24,595**	**23,881**
Non-cash share option costs	420	396	293
Interest revenue	(130)	(576)	(1,350)
Reported EBITDA	**27,198**	**24,415**	**22,824**

Prior to 2018 MNF Group had 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 methodology to calculate the previously reported EBITDA and the EBITDA after removing interest revenue and option costs.

Cash and debt

The closing cash balance as at 30 June 2019 was $15.5m (Dec 18: $10.5m / June 18: $18.9m).

Total Debt as at 30 June 2019 is $55.6m. The Group has net debt of $40.1m as at the year end.

The business has seen strong operating cash flow in H2 with positive operating cash flow for the full year as well. This is following a number of years that saw cash decrease year on year and negative operating cash flows as a result of the unwinding of the large novated creditor that came onto the balance sheet in 2016, a process which completed in FY19 H1.

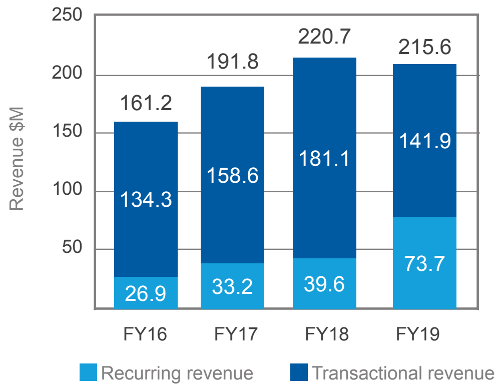
These historical movements and subsequent improvement in cash were anticipated by management and the paying down of this creditor will bring the cash closer to a normalised balance for the business moving forward.

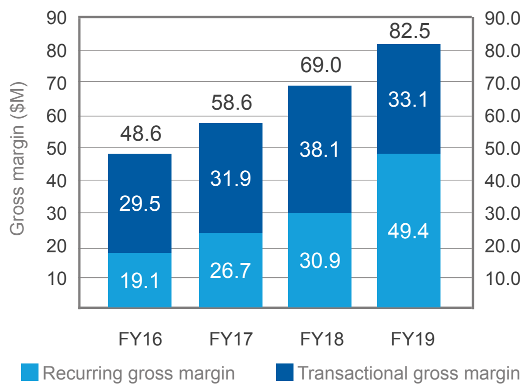
The business refinanced its debt facility in May 2019. This significantly improved the strength of the balance sheet. Details of the new arrangements can be found in Note 10 of the Financial Statements.

Business outlook

The MNF Group operates with three solid independent segments – Domestic Wholesale, Global Wholesale and Domestic Retail. 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 focussed on growing Monthly Recurring Revenue (MRR) across all three segments. These recurring revenue streams tend to be high gross margin and very sticky for customers. There is a transition away from transactional (or usage) based revenues which tend to be low margin and dynamic in nature. The business grew recurring revenues by 86% on prior year to $74m during the year, with corresponding recurring gross margins growing 60% to $49m during the year.





The business is confident of long-term sustainable organic Monthly Recurring Revenue (MRR) and gross margin growth across all three segments.

Trio of Industry Tailwinds

The company is experiencing strong organic growth in its core product areas – being hosting of next generation voice services in the cloud. This growth is being driven by strong structured tailwinds in the industry comprising of:

a) cease sale of legacy PSTN/ISDN services,

b) the NBN Roll out,

c) the UCaaS, CPaaS and CCaaS revolution.

The company is well positioned to leverage all three tailwinds thanks to its network infrastructure, software assets and customer relationships.

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 Wholesale Segment

Operating under the Symbio brand, the domestic wholesale segment offers a complete range of wholesale telecommunications products, services and capabilities to small Carriage Service Providers (CSP) in Australia and New Zealand.

The business finalised the acquisition of the wholesale assets of Inabox Group in December 2018. This business is highly complementary and synergistic with the Symbio wholesale business. The integration of the business is well under way with most operational teams completing integration within the next few months, and network integration expected to be completed by the end of 2020. The financial results include 7 months of contribution from the Inabox Group business which is operating as expected.

The domestic wholesale customer base is currently sitting at 613 unique CSP, up 104% on prior year, including customers transitioning from the Inabox Group acquisition.

The Domestic Wholesale business generates both Monthly Recurring Revenues (MRR) and transactional (usage) based revenues. The business is focussed on growing the MRR which is mostly high margin and very sticky for customers. The domestic wholesale business is undergoing strong organic growth with organic gross margin contribution growing by $5.3m during the year, up 30% on prior year. The company expects this trend to continue.

Global Wholesale Segment

The global wholesale segment offers a complete A-Z service for global voice minutes termination under the globally recognised TNZI brand. Additionally, the segment offers access to the next generation Symbio brand of services for next generation global companies.

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 for the company is strongest.

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 brand offers access to the Australian, New Zealand and soon Singapore markets for global software and telecommunications companies to deliver their product value proposition locally without having to build extensive in-country infrastructure. This component of the global wholesale segment is undergoing strong organic growth with organic gross margin contribution up by $2.8m during the year, up 23% on prior year. The company expects this trend to continue.

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.

a. Residential

This year the business divested its direct consumer DSL and NBN customer base in May 2019. This decision to divest this asset was driven by the customer base being sub-scale in a highly regulated and competitive market. The company maintains its original MyNetFone consumer VoIP customer base, and the PennyTel mobile customer base.

The PennyTel brand is focussed on the over-55 post-paid consumer located in regional Australia. The company has identified this as a niche demographic that is currently underserviced by the other mobile brands in the market. The PennyTel customer base continues to grow strongly with subscriber numbers passing 10,000 SIO in July 2019, up 553% on prior year. The business remains confident that the PennyTel subscriber base will continue to grow strongly in the foreseeable future.

The MyNetFone VoIP base dropped slightly due to the transfer of some voice customers who were attached to an NBN or DSL service. The VoIP customer base is currently sitting at 76,117, a drop of 10.3% on prior year.

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 Group 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.

The Virtual PBX and SIP trunk products, which are the core product in this segment, grew by 11% to 4,141 SIO. The revenue in this segment is typically MRR with high margins.

c. Enterprise & Government

The Enterprise & Government sub-segment consists of selling enterprise grade telecommunications solutions such as SIP Trunks, Microsoft Skype for Business, Cisco BroadSoft/BroadCloud and other solutions within Australia, New Zealand and Singapore. The sub-segment operates under the MNF Enterprise brand, holding unique partnerships with Cisco and Microsoft.

MNF Group maintains purchasing panel arrangements with the Singapore Government, New Zealand Government, NSW Government, Victorian Government, Tasmanian Government, the Municipal Association of Victoria, and the West Australian Association of Local Government. These panel arrangements allow for MNF Group to bid for business tenders as and when they become available matching our product portfolio.

The Enterprise & Government segment currently has approximately 1,000 SIO, up significantly on prior year. The revenue in this segment is typically MRR on multi-year contracts with high margins.

d. Conferencing & Collaboration

The conferencing and collaboration business provides audio, video and desktop sharing services for small to medium, enterprise and government customers in Australia and New Zealand. This segment is undergoing transformation from traditional voice collaboration to multi-media voice, video and desktop sharing. MNF has recently launched various multi-media services to evolve and grow its offering.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group 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.

Future developments

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

The Group 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**
2018 Final dividend of 4.05 cents per share paid on 04 October 2018	2,964	100%
2019 Interim dividend of 2.10 cents per share paid on 04 April 2019	1,541	100%
Dividends recommended (subsequent to year end):		
2019 Final dividend of 4.00 cents per share recommended on 27 August 2019	2,936	100%

The 2019 final dividend is to be paid on 3 October 2019 to shareholders registered as at 9 September 2019.

Options

Shares under option or issued on exercise of options

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

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

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

At the date of this report, the unissued ordinary shares of MNF Group Limited under options which were granted during the 2019 financial year is as follows:

Grant Date	Date of expiry	Exercise price	Number of options
15 September 2016	30 June 2020	Nil	90,000
27 October 2016	30 June 2021	$7.15	620,000
11 December 2018	30 June 2020	Nil	120,000
11 December 2018	30 June 2021	Nil	120,000
11 December 2018	30 June 2022	Nil	120,000
			1,070,000

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 2019. 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 2019 financial year:

Name	Position	Term as KMP
Non-executive directors		
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
Executive director		
Mr Rene Sugo	Chief Executive Officer	Full financial year
Other KMPs		
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 2018 audited remuneration report received positive shareholder support at the 2018 annual general meeting (AGM) with a vote of 87.87% in favour (2017: 91.45%)

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.

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:

<table>
<tr><th rowspan="2">Fixed Remuneration</th><th colspan="3">Variable Remuneration</th></tr>
<tr><th>Short-term Incentive (STI)</th><th colspan="2">Long-term Incentive (LTI)</th></tr>
<tr><th colspan="2">Cash</th><th colspan="2">Equity</th></tr>
<tr><td>• Base salary plus superannuation
• Set based on market benchmarks and individual performance, qualifications and experience</td><td>• Eligibility for payment is dependent on the Group exceeding budgeted NPAT
• Paid within the quarter following financial year-end</td><td>• Share options to vest after each successive tranche, conditional upon continuation of employment
• Aimed to retain key staff</td><td>• Share options are linked to share price performance at $7.15 strike price. It incentivises KMPs to create shareholder wealth, based on individual skills, qualifications and experience, to expire on 30 June 2021</td></tr>
</table>

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

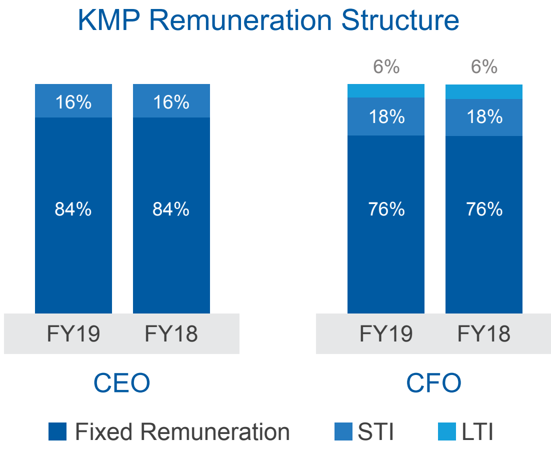
The objective of the STI plan is to link the Group's financial and operational targets with the remuneration received by senior managers charged with meeting those targets. As part of their respective employment agreements the CEO, CFO and other senior managers are eligible for a cash bonus subject to the attainment of these clearly defined objectives. The STI plan applies to the period from 1 July 2018 to 30 June 2019.

100% of the STI target for financial year 2019 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.

Original NPAT guidance provided at the 2018 AGM was $12.8m, this guidance was downgraded on 26 February to a range of $11m to $12m, as such the STI is not payable and is not accrued in the 2019 financial report.

The below chart 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:

<table>
<tr><th>Plan attributes</th><th>Detail</th></tr>
<tr><td>Participants</td><td>Mr M Gepp, Ms C Ly</td></tr>
<tr><td>Allocation</td><td>The allocation of the options granted is separated into four tranches, each vesting to the KMPs as detailed below:
<table>
<tr><th></th><th colspan="2">Number of options</th></tr>
<tr><th>Vesting date</th><th>Mr M Gepp</th><th>Ms C Ly</th></tr>
<tr><td>1 Sep 2016</td><td>2,000</td><td>500</td></tr>
<tr><td>1 Sep 2017</td><td>6,000</td><td>1,500</td></tr>
<tr><td>1 Sep 2018</td><td>6,000</td><td>1,500</td></tr>
<tr><td>1 Sep 2019</td><td>6,000</td><td>1,500</td></tr>
</table></td></tr>
<tr><td>Value</td><td>The options granted have an exercise price of $Nil.</td></tr>
<tr><td>Vesting</td><td>Vesting of each successive tranche is conditional upon the recipient continuing employment with the Group up until date of vesting.</td></tr>
<tr><td>Alignment/objective</td><td>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.</td></tr>
<tr><td>Forfeiture</td><td>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.</td></tr>
</table>

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	The allocation of the options granted to each director and senior manager is as below: 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 These options were granted on 27 October 2016. The options granted to directors were approved by shareholders at the 2016 AGM.
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 Total Shareholder Return (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	2019	2018	2017	2016	2015
Revenue ('000)	$215,587	$220,728	$191,752	$161,217	$85,675
NPAT ('000)	$11,399	$11,859	$12,066	$8,990	$7,184
Basic EPS (cents)	15.55	16.25	17.32	13.45	11.49
Dividends paid ('000)	$4,505	$6,417	$5,099	$4,512	$3,128
Dividends declared per share (cents)	6.10	8.35	8.25	7.00	5.75
Share price (as at 30 June)	$3.85	$5.25	$4.37	$4.00	$3.82
Change in share price	($1.40)	$0.88	$0.37	$0.18	$1.40
Market Capitalisation	$282m	$384m	$318m	$270m	$240m

Remuneration details of directors and KMPs for the year ended 30 June 2019

Details of the nature and amount of benefits and payments for each director and KMP of the company for the 2018 and 2019 financial years are as follows, represented on an accrual basis:

		Short term benefits				Post employment benefits	Shared based pay-ments	
Non-executive Directors		Cash salary & fees (i) $	STI/ Bonus paid(ii) $	STI/ Bonus accrued(iii) $	Non-monetary benefits(iv) $	Superannuation $	Options (v) $	**Total** $
Mr T Cuthbertson	2019	120,000	-	-	-	11,400	-	**131,400**
	2018	120,000	-	-	-	11,400	-	131,400
Mr M Boorne	2019	103,000	-	-	-	9,785	-	**112,785**
	2018	100,000	-	-	-	9,500	-	109,500
Mr A Fung	2019	82,400	-	-	-	7,828	-	**90,228**
	2018	80,000	-	-	-	7,600	-	87,600
Executive Director								
Mr R Sugo	2019	517,025	-	-	7,340	25,000	-	**549,365**
	2018	517,025	135,013	-	6,930	25,000	-	683,968
Other KMPs								
Mr M Gepp	2019	344,563	-	-	4,880	25,000	30,233	**404,676**
	2018	337,719	97,805	-	4,470	25,000	29,067	494,061
Ms C Ly	2019	169,167	-	-	-	16,071	7,558	**192,796**
	2018	164,167	-	-	-	15,675	7,267	187,109
Total	**2019**	**1,336,155**	**-**	**-**	**12,220**	**95,084**	**37,791**	**1,481,250**
	2018	1,318,911	232,818	-	11,400	94,175	36,334	1,693,638

(i) Cash salaries paid are reviewed annually.
(ii) STI amounts paid in the 2018 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.

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 $186,150, consisting of base salary and superannuation, reviewed annually by the Board in September

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:

	2019		2018		
Non-executive Directors	Shareholding	Options	Shareholding	Options	Shareholding movement %
Mr T Cuthbertson	920,906	100,000	920,906	100,000	0%
Mr M Boorne	709,543	100,000	709,543	100,000	0%
Mr A Fung	14,213,185	100,000	14,151,954	100,000	0.43%
Executive Director					
Mr R Sugo	11,915,431	150,000	11,896,867	150,000	0.16%
Other KMPs					
Mr M Gepp	49,000	56,000	43,000	62,000	14%
Ms C Ly	299,775	21,500	295,676	23,000	1%
Total	**28,107,840**	**527,500**	**28,017,946**	**535,000**	

This concludes the audited remuneration report.

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 (2018: $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 82 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.

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, 27 August 2019

mnf group

Consolidated financial statements 2019

Consolidated statement of profit or loss and other comprehensive income

		Consolidated group	
For the year ended 30 June		2019	2018
		$'000	$'000
Continuing operations	**Notes**		
Revenue	4a	215,587	220,728
Cost of sales		(133,120)	(151,683)
Gross profit		82,467	69,045
Other income	4a	2,508	1,128
Employee benefits expense	4b	(38,989)	(31,713)
Depreciation and amortisation	4c	(8,973)	(6,310)
Other expenses	4d	(19,578)	(13,865)
Costs related to acquisition		(1,168)	(262)
Financing costs	4e	(1,874)	(1,270)
Profit before income tax		**14,393**	**16,753**
Income tax expense	5a, 5b	(2,994)	(4,894)
Profit from continuing operations		**11,399**	**11,859**
Net profit for the year		**11,399**	**11,859**
Other comprehensive income/(loss) **Items that may be reclassified to profit or loss:**			
Exchange differences on translation of foreign operations		537	475
Changes in fair value of cash flow hedges		(519)	352
		18	**827**
Total comprehensive income for the year		**11,417**	**12,686**
Earnings per share from continuing operations			
- Basic earnings per share (cents)	24	15.55	16.25
- Diluted earnings per share (cents)	24	15.32	16.08

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June	Notes	Consolidated group 2019 $'000	Consolidated group 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	6a	15,481	18,870
Trade and other receivables	7	42,030	33,450
Income tax receivables		853	-
Inventories		1,548	650
Total current assets		**59,912**	**52,970**
Non-current assets			
Property, plant and equipment	8a	30,776	23,144
Deferred tax asset	5c	2,052	1,040
Goodwill and other intangibles	21	89,785	48,754
Total non-current assets		**122,613**	**72,938**
Total assets		**182,525**	**125,908**
Liabilities			
Current liabilities			
Trade and other payables	9	32,158	30,120
Loans and borrowings	10	-	2,500
Deferred revenue	12	1,494	1,763
Income tax payable		-	1,996
Provisions	13	3,797	1,801
Total current liabilities		**37,449**	**38,180**
Non-current liabilities			
Loans and borrowings	**10**	55,600	8,190
Financial instruments	**11**	628	80
Provisions	**13**	1,236	1,876
Deferred tax liability	**5d**	3,143	1,349
Total non-current liabilities		**60,607**	**11,495**
Total liabilities		**98,056**	**49,675**
Net assets		**84,469**	**76,233**
Equity			
Issued capital	14a	51,125	50,221
Reserves		1,931	1,493
Retained earnings		31,413	24,519
Total equity		**84,469**	**76,233**

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June	Notes	Consolidated group 2019 $'000	Consolidated group 2018 $'000
Cash flows from operating activities			
Receipts from customers		229,837	231,224
Payments to suppliers and employees		(217,219)	(242,907)
Settlement of financial asset		-	603
Settlement of financial liability		-	(694)
Interest received		167	836
Interest paid		(1,601)	(759)
Income tax paid		(5,663)	(4,599)
Net cash from/(used for) operating activities	**6b**	**5,521**	**(16,296)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,334)	(8,101)
Payment for business acquisitions		(35,070)	-
Payment in advance for business acquisitions		-	(646)
Software development costs		(8,283)	(2,350)
Purchase of other intangible assets		(74)	(704)
Net cash used for investing activities		**(50,761)**	**(11,801)**
Cash flows from financing activities			
Proceeds from share placement and options exercised - SPP		286	-
Proceeds from share placement and options exercised - DRP		618	-
Proceeds from share placement and options exercised		-	1,221
Dividends paid		(4,505)	(6,417)
Proceeds from borrowings		46,160	2,000
Repayment of borrowings		(1,250)	(2,500)
Repayment of finance lease liability		(56)	-
Net cash from/(used for) financing activities		**41,253**	**(5,696)**
Net decrease in cash and cash equivalents		(3,987)	(33,793)
Impact of FX on cash and cash equivalents		598	305
Cash and cash equivalents at 1 July		18,870	52,358
Cash and cash equivalents at 30 June	**6a**	**15,481**	**18,870**

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 2017	49,000	1,646	(913)	(463)	19,077	68,347
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
Balance at 30 June 2018	**50,221**	**2,042**	**(438)**	**(111)**	**24,519**	**76,233**
Profit for the period	-	-	-	-	11,399	11,399
Other comprehensive income	-	-	537	(519)	-	18
Dividends paid	-	-	-	-	(4,505)	(4,505)
Shares issued - DRP	618	-	-	-	-	618
Shares issued - SPP	286	-	-	-	-	286
Share-based payments		420	-	-	-	420
Balance at 30 June 2019	**51,125**	**2,462**	**99**	**(630)**	**31,413**	**84,469**

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 2019. The financial statements were authorised for issue on 27 August 2019 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 26.

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 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 16 *Leases* (AASB 16)

AASB 16 was issued in January 2016 and it replaces AASB 117 *Leases* and will almost result in all leases being recognised in the statement of financial position as a "right of use" (ROU) asset with a corresponding lease liability to reflect future lease payments. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the ROU asset and an interest expense on the recognised lease liability.
There are two exemptions to this standard for lessees – lease of low value assets and short-term leases.

The accounting for lessors will not significantly change with this standard and will continue to carry forward the requirements of AASB 117.

AASB 16 is applicable for annual reporting periods beginning on or after 1 January 2019. The Group will adopt the standard from 1 July 2019 and will apply the standard using a modified retrospective approach whereby the ROU asset will equal to the lease liability and no restatement of comparative information.

The Group has a number of long term property leases for office buildings which will have a material impact when recognised in the statement of financial position. Based on the preliminary assessment performed by the Group during the year, it is estimated that lease assets and financial liabilities on the balance sheet will both increase by approximately $23m (subject to change once the Group finalises the assessment).

Due to the adoption of AASB 16, the Group's operating profit will improve while its interest expense will increase:

- The equity reported in next financial year will reduce because the carrying amount of the lease assets will reduce more quickly than the carrying amount of the lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the interest in the lease payments will be presented as part of finance costs rather than operating expenses
- Operating cash outflows will be higher as financing cashflows will be higher as the principal repayments on the lease liabilities will now be included in financing activities rather than operating activities. Interest repayments will also be included in financing activities

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, utilitising 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

(i) Revenue from Contracts with Customers
The Group has adopted the AASB 15 Revenue from Contracts with Customers for the current reporting period, including presentation of prior year comparatives on the same basis. In accordance with the Standard, the Group recognises revenue to depict the transfer of goods and services to customers, in an amount that reflects the consideration to which the Group is entitled in exchange for those goods and services. Note 4 provides specific information to assist users to understand the nature, timing and uncertainty of revenues and cash flows from contracts with customers. All reported revenue for the consolidated Group, apart from interest revenue and other income, is generated from Contracts with Customers.

The Group provides telecommunication services, including data and voice services and provision of low value hardware as part of total business communication solutions. Accordingly, performance obligations for contracts with customers are generally satisfied over time, and revenue is recognised accordingly. Where hardware is purchased outright by a customer, revenue is recognised at the time of purchase. This does not represent a material level of revenue for the Group.

Where payment is received by the Group in advance of a performance obligation being satisfied, a contract liability is recognised in the balance sheet. Where a performance obligation has been satisfied and the Group is yet to issue an invoice to the customer, a contract asset is recognised in the balance sheet. Where a performance obligation has been satisfied and an invoice has been issued to a customer but not yet paid, a trade receivable is recognised in the balance sheet.

Transaction prices for provision of goods and services are agreed within Contracts with Customers. The Group determines its transaction prices based on the cost to the Group in acquiring or supplying the good or service itself, plus a margin to cover operating costs and return requirements of the Group. The Group may offer discounts to customers for bulk supply of particular goods or services. Discounts are recognised in line with corresponding revenue recognition.

The cost to the Group in fulfilling return, refund and warranty obligations is negligible. The majority of the Group's revenue is generated from the provision of voice services and call connections that do not have enduring obligations.

Impairment of contract assets and trade receivables for Contracts with Customers is assessed by the Group on an ongoing basis and allowed for within the Group's provisions for doubtful debts calculation (refer to Note 7).
Costs incurred in obtaining contracts with customers are not material at the Group level, and the Group does not recognise any assets in relation to costs to obtain or fulfil contracts with customers, outside of contract assets as identified above.

(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.

l. Goods and Services Tax (GST)

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

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

m. Inventories

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 10 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 consolidated statement of profit or loss and other 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 three segments, which are based on internal management reporting that is used by the executive management team (chief operating decision makers) in assessing performance and allocating resources.

(i) The Australian domestic retail segment, which consists of:

- The core MyNetFone brand, services Residential, SMB (Small to Medium Business), Enterprise and Government customers in Australia
- The Conference Call International Pty Limited (CCI) brand, offers complete, end-to-end audio and web conferencing solutions for SMBs and
- Other brands of the Group, marketed under Connexus, Callstream, Pennytel and theBuzz
- Key products in this segment include:
  - VoIP, Internet, Virtual PBX and SIP trunking
  - Conferencing, toll free numbers and number porting

(ii) The Australia/New Zealand domestic wholesale segment, which includes:

- The core Symbio and iBoss brands aimed at servicing wholesale customers based in Australia and New Zealand.
- Key products in this segment include:
  - Call termination, pre-select, SIP trunking, inbound numbers, virtual numbers and porting
  - Wholesale aggregation, data enablement and MVNO
- Other brands in this segment include Telcoinabox and iVox providing end to end white labelled telecommunications wholesale solutions to Retail Service Providers who predominantly service small to medium sized businesses.
  - Key products include: Fixed wire, mobile, data services and hosted voice

(iii) The global wholesale segment, which is made up of:

- The TNZI Brand which services the global wholesale market within the Group, and
- The TollShield and OpenCA brand, which aims to prevent toll fraud.
- Key products in this segment include:
  - Voice carriage and International Toll Free Services (ITFS)
  - Toll Fraud prevention
  - Class 4 Softswitch and billing services

The accounting policies used by the Group in reporting segment information internally are the same as those contained in Note 2 to the 2019 Financial Statements.

	Australian Domestic Retail	Australia/New Zealand Domestic Wholesale	Global Wholesale	Total
	$'000	$'000	$'000	$'000
2019				
External revenue	36,414	67,851	111,322	215,587
Inter-segment revenue	-	10,081	4,671	14,752
Segment revenue	**36,414**	**77,932**	**115,993**	**230,339**
Segment margin	**22,006**	**33,414**	**27,047**	**82,467**
2018				
External revenue	35,382	33,758	151,588	220,728
Inter-segment revenue	-	4,565	4,942	9,507
Segment revenue	**35,382**	**38,323**	**156,530**	**230,235**
Segment margin	**22,968**	**17,703**	**28,374**	**69,045**

For the year ended 30 June	2019	2018
	$'000	$'000

4. Revenue and expenses

a. Revenue and other income

Rendering of services and sale of goods	**215,587**	**220,728**

Interest on bank deposits	130	576
Bargain purchase gain on acquisition (note 23)	1,317	-
Other income	1,061	552
	2,508	**1,128**

Disaggregation of revenue from contracts with customers

Adoption of ASSB 15 does not affect 2018 comparative revenue figures.
The disaggregation of the Group's revenue is set out below:

2019

Revenue type	Revenue recognition	Australian Domestic Retail $'000	Aust/ NZ Domestic Wholesale $'000	Global Wholesale $'000	TOTAL
External revenue	Over time	36,414	67,851	111,322	215,587
Inter-segment revenue	Over time	-	10,081	4,671	14,752
Total		**36,414**	**77,932**	**115,993**	**230,339**

2018

Revenue type	Revenue recognition	Australian Domestic Retail $'000	Aust/ NZ Domestic Wholesale $'000	Global Wholesale $'000	TOTAL
External revenue	Over time	35,382	33,758	151,588	220,728
Inter-segment revenue	Over time	-	4,565	4,942	9,507
Total		**35,382**	**38,323**	**156,530**	**230,235**

Disaggregation of revenue is presented in line with the Operating Segment reporting as included in Note 3. External revenue above represents revenue from contracts with customers, inter-segment revenue represents inter-company transactions (inter-company revenue is eliminated in the revenue figure included in the consolidated statement of profit or loss).

Revenue generated from contracts with customers give rise to contract assets. This arises when performance obligations are satisfied not through the passing of time. Across all segments, services are invoiced on a monthly basis, with payment terms between 14 - 30 days. All contract assets are disclosed under Note 7. Contract liabilities identify receipts received in advance of satisfaction of performance obligations within contracts with customers. Contract liabilities are disclosed under Note 12.

For the year ended 30 June	2019	2018
	$'000	$'000

b. Employee benefits expense

Wages and salaries	31, 841	26,857
Superannuation	3,678	2,447
Share based payments expense	420	396
Other employee benefits expense	3,050	2,013
	38,989	**31,713**

c. Depreciation and amortisation

Depreciation of fixed assets	5,597	4,313
Amortisation of intangible assets	3,376	1,997
	8,973	**6,310**

d. Other expenses

Marketing	1,744	1,760
Property	4,397	2,898
Technology & support	3,790	2,195
Business process outsourcing	3,321	866
Distribution	695	464
Tax and audit	603	435
Legal & consulting	447	219
Bank and transaction costs	388	404
Other administrative expenses	4,193	4,624
	19,578	**13,865**

e. Financing costs

Finance charges related to hedge instrument	-	508
Finance charges payable on bank loan	1,874	762
	1,829	**1,270**

For the year ended 30 June	2019	2018
	$'000	$'000

5. Income tax

a. Income tax expense

The major components of income tax expense are as follows:

Current tax	2,878	5,361
Adjustment in respect of prior year tax	(210)	(564)
Origination and reversal of temporary differences	326	97
	2,994	**4,894**

b. Reconciliation between tax expense and the accounting profit

Profit before income tax	**14,393**	**16,753**
At the Group's statutory rate of 30% (2018: 30%)	**4,318**	**5,026**
Tax incentives	(1,541)	(289)
Effect of tax rates in foreign jurisdictions	128	(124)
Non-temporary differences	299	845
Adjustment in respect of prior year	(210)	(564)
	2,994	**4,894**
Effective income tax rate	21%	29%

c. Deferred tax asset

Relating to temporary differences	2,052	1,040
	2,052	**1,040**

d. Deferred tax liability

Relating to temporary differences	3,143	1,349
	3,143	**1,349**

e. The Group 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	2019	2018
	$'000	$'000

6. Operating cash flows reconciliation

a. Cash and cash equivalents

Cash at bank and on hand	**15,481**	**18,870**

b. Reconciliation of net profit after tax to net cash flows from/(used for) operating activities

Profit for the year	**11,399**	**11,859**
Adjustments for:		
Depreciation and amortisation	8,973	6,310
Share based payments expense	420	396
Gain on acquisition	(1,317)	-
Tax expense	2,994	4,894
Changes in assets and liabilities, net of the effects of acquisitions:		
Change in trade and other receivables	10,344	1,047
Change in inventories	(850)	19
Change in trade and other payables	(21,188)	(36,018)
Change in other financial assets	-	(591)
Change in deferred revenue	(923)	152
Change in provisions and employee benefits	1,332	235
Cash from/(used for) operating activities	**11,184**	**(11,697)**
Tax paid	(5,663)	(4,599)
Net cash flows from/(used for) operating activities	**5,521**	**(16,296)**

7. Trade and other receivables

Trade receivables	37,499	30,671
Doubtful debts provision	(1,508)	(1,010)
Other receivables	6,039	3,789
	42,030	**33,450**

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 our 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.

8. Property, plant and equipment

a. Reconciliation of carrying amount

	Office furniture & equipment $'000	Leasehold improvements $'000	Network infrastructure & equipment $'000	Work in progress $'000	Total $'000
Cost:					
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
At 30 June 2018	**4,165**	**5,075**	**32,631**	**88**	**41,959**
At 1 July 2018	4,165	5,075	32,631	88	41,959
Acquisitions	2,883	3	3,741	2,211	8,838
Additions	698	331	6,677	51	7,757
Disposals	(66)	(956)	(14)	-	(1,036)
Transfers from work in progress	-	-	2,303	(2,303)	-
Effect of movement in exchange rates	16	19	592	4	631
At 30 June 2019	**7,696**	**4,472**	**45,930**	**51**	**58,149**
Accumulated depreciation:					
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)
At 30 June 2018	**(2,058)**	**(1,514)**	**(15,243)**	**-**	**(18,815)**
At 1 July 2018	(2,058)	(1,514)	(15,243)	-	(18,815)
Acquisitions	(2,056)	(2)	(1,622)	-	(3,680)
Depreciation expense	(920)	(603)	(4,074)	-	(5,597)
Disposals	59	990	14	-	1,063
Effect of movement in exchange rates	(9)	(12)	(323)	-	(344)
At 30 June 2019	**(4,984)**	**(1,141)**	**(21,248)**	**-**	**(27,373)**
Net Book Value:					
At 30 June 2018	2,107	3,561	17,388	88	23,144
At 30 June 2019	**2,712**	**3,331**	**24,682**	**51**	**30,776**

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	2019	2018
	$'000	$'000

9. Trade and other payables

Trade payables	18,434	10,264
Other creditors and accruals	13,318	19,797
Security deposits held	406	59
	32,158	**30,120**

10. Loans and borrowings

Current liabilities		
Secured bank loan	-	2,500
Non-current liabilities		
Secured bank loan	55,600	8,190
	55,600	**10,690**

The Group's finance facilities consist of a $60.0m (2018: $27.0m) revolving credit facility and a $3.0m (2018: $2.1m) revolving multi-option credit facility.

In December 2018 the Group increased its existing finance facility by $28.0m to fund the acquisition of the Wholesale and Enablement Business from Inabox Group Limited. The Group subsequently refinanced its facilities across two lenders in May 2019.

A total of $45.0m of the facilities has a maturity date of 16 May 2022 and $15.0m has a maturity date of 16 May 2024. The facilities are interest only, there are no compulsory principal repayments.

$2.5m (2018: $1.8m) of the revolving multi-option credit facility has been utilised for bank guarantees for property leases and supplier securities as required.

Facilities are secured by a fixed and floating charge over the assets of the Group. Interest rates payable under the bank facilities are based on BBSY rates plus a variable margin based on the net leverage ratio of the Group (calculated quarterly). For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

For the year ended 30 June	2019	2018
	$'000	$'000

11. Financial instruments

Non-current liabilities		
Interest rate swap contract - cash flow hedge	628	80
	628	**80**

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 April 2019) 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 April 2019 at a fixed rate of 1.385% (2018: 2.85%) per annum. The swap covers 54.0% (2018: 88.3%) 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.

For the year ended 30 June	2019	2018
	$'000	$'000

12. Customer deposits

Pre-paid accounts	**1,494**	**1,763**

Customer deposits 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 2018	1,708	974	995	**3,677**
Arising from acquisition	632	464	-	**1,096**
Arising during the year	2,983	132	178	**3,293**
Utilised during the year	(2,664)	(177)	(192)	**(3,033)**
As at 30 June 2019	**2,659**	**1,393**	**981**	**5,033**

Current	2,659	1,138	-	**3,797**
Non-current	-	255	981	**1,236**

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	2019	2018
	$'000	$'000

14. Issued capital

a. Ordinary shares

Issued capital	**51,125**	**50,221**

Movements in ordinary shares on issue:	2019		2018	
	Number of shares	$'000	Number of shares	$'000
At 1 July	73,117,908	50,221	72,778,264	49,000
Exercise of share options (i)	86,000	-	89,250	-
Issued from DRP participation (ii)	140,738	618	250,394	1,221
Issued from SPP participation (iii)	65,669	286	-	-
At 30 June	**73,410,315**	**51,125**	**73,117,908**	**50,221**

(i) In 2019, 86,000 options were exercised with an exercise price of $Nil (2018: 89,250 options).
(ii) Shares issued as a result of participation in the MNF Group dividend reinvestment plan (at an issue price of $4.63 and $3.81, 2018: $4.73 and $5.07).
(iii) Shares issued as a result of participation in the MNF Group Share Purchase Plan at a price of $4.40.

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:	2019		2018	
	Number	WAEP $	Number	WAEP $
Outstanding at 1 July	800,000	5.54	890,000	4.98
Granted during the year	360,000	-	-	-
Exercised during the year	(86,000)	-	(89,250)	-
Expired during the year	(4,000)	-	(750)	-
Outstanding at 30 June	**1,070,000**	**4.14**	**800,000**	**5.54**
Exercisable	1,070,000	4.14	800,000	5.54

The outstanding options balance as at 30 June 2019, 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. 90,000 options were issued to employees with an exercise price of $Nil and expiry date of 30 June 2020. Three tranches of options at 120,000 each were issued to employees with an exercise price of $Nil with expiry dates of 30 June 2020, 30 June 2021 and 30 June 2022 respectively.

For the year ended 30 June	2019	2018
	Number	Number

15. Share-based payments

Outstanding options

	2019 Number	2018 Number
Employee option plan	620,000	350,000
Options granted to directors	450,000	450,000
Total	**1,070,000**	**800,000**

a. Employee option plan (EOP)

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

An option may also be exercised in special circumstances, that is, at any time within 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 movements of share options held by directors during the year:

	2019		2018	
	Number	WAEP $	Number	WAEP $
Outstanding as at 1 July	450,000	7.15	450,000	7.15
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding as at 30 June	**450,000**	**7.15**	**450,000**	**7.15**

16. Commitments and contingencies

Operating lease commitments

Operating leases relate to premises with lease terms remaining between one and eight years. The Group 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, the existing Sydney office leases were extended by a further 2 years and 7 months term.

Future minimum lease payments under non-cancellable operating leases not recorded in the financial statements as at 30 June 2019 are as follows:

	2019	2018
	$'000	$'000
Within one year	3,570	2,447
After one year, not more than five years	13,755	9,232
More than five years	8,447	2,305
	25,772	**13,984**

Commitments

There were no commitments as at 30 June 2019. At 30 June 2019, the Group had no commitments relating to the fit-out of leasehold properties.

Guarantees

There were no new guarantees as at 30 June 2019. 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.

There are no other events after reporting date.

18. Auditor's remuneration

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

	2019	2018
	$'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	377	308
Other Auditors		
Audit and review of financial statements	49	89
	426	**397**

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	Acquired/ (disposed) during the year	Options exercised	Balance at end of period
Directors	2019	27,679,270	79,795	-	27,759,065
	2018	28,852,993	(1,173,723)	-	27,679,270
Other KMPs	2019	338,676	2,599	7,500	348,775
	2018	340,926	(9,750)	7,500	338,676

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
Directors	2019	450,000	-	-	450,000
	2018	450,000	-	-	450,000
Other KMPs	2019	85,000	-	(7,500)	77,500
	2018	92,500	-	(7,500)	85,000

20. Controlled entities

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

Name	Country of incorporation	Ownership interest	
		2019	2018
My Net Fone Australia Pty Limited	Australia	100%	100%
Symbio Networks Pty Limited	Australia	100%	100%
Symbio Wholesale Pty Limited	Australia	100%	100%
Internex Australia Pty Limited	Australia	100%	100%
Pennytel Australia Pty Limited	Australia	100%	100%
Mobile Enablement Australia Pty Limited (i)	Australia	100%	100%
Symbio Wholesale (Singapore) Pte Limited	Singapore	100%	100%
TNZI International Pty Limited	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%
Superinternet (S) Pte Limited (ii)	Singapore	100%	-
Superinternet Access Pte Limited (ii)	Singapore	100%	-
Telcoinabox Operations Pty Limited (iii)	Australia	100%	-
IVox Pty Limited (iii)	Australia	100%	-
Neural Networks Pty Limited (iii)	Australia	100%	-
Symmetry Networks Pty Limited (iii)	Australia	100%	-
Mobile Service Solutions Pty Limited (iii)	Australia	100%	-

(i) On 19 June 2019, Numbering Services Australia Pty Limited applied for voluntary de-registration.

(ii) On 6 July 2018, MNF Group completed the acquisition of Superinternet (S) Pte Limited and its subsidiary Superinternet Access Pte Limited.

(iii) On 12 December 2018, MNF Group completed the purchase of the Wholesale and Enablement Business of Inabox Group Limited.

21. Goodwill and other intangibles.

Cost	Goodwill	Brands	Customer contracts	Software development costs	Software, and other assets#	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	30,789	4,823	2,933	1,429	11,476	51,450
Additions	-	-	-	2,350	704	3,054
Balance at 1 July 2018	**30,789**	**4,823**	**2,933**	**3,779**	**12,180**	**54,504**
Additions	-	-	-	8,283	74	8,357
Acquisition of TIAB	15,493	596	5,518	-	14,444	36,501
Balance at 30 June 2019	**46,282**	**5,419**	**8,451**	**12,062**	**26,698**	**98,912**
Accumulated Amortisation						
Balance at 1 July 2017	-	-	(771)	(192)	(2,790)	(3,753)
Amortisation	-	-	(587)	(235)	(1,175)	(1,997)
Balance at 1 July 2018	**-**	**-**	**(1,358)**	**(427)**	**(3,965)**	**(5,750)**
Amortisation	-	-	(971)	(378)	(2,028)	(3,377)
Balance at 30 June 2019	**-**	**-**	**(2,329)**	**(805)**	**(5,993)**	**(9,127)**
Net Book Value						
At 30 June 2018	30,789	4,823	1,575	3,352	8,215	48,754
At 30 June 2019	**46,282**	**5,419**	**6,122**	**11,257**	**20,705**	**89,785**

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	2019	2018
	$'000	$'000
CGUs		
Australia/New Zealand Domestic Wholesale	21,579	6,086
Australian domestic retail	19,327	19,327
Global Wholesale	5,376	5,376
Total goodwill	**46,282**	**30,789**

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

The Goodwill (and other intangible assets) that were recognised on the acquisition of the Wholesale and Enablement Business from Inabox Group Limited were independently valued during the year. This valuation has been relied upon for the purposes of determining that the goodwill on acquisition is not impaired.

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 9.9% (2018: 10.5%) 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% (2018: 2.5%). The International CGU has been assessed using a discount rate of 14.0% (2018: 14.0%) and a Terminal Value of 2.0% (2018: 2.0%)

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

23. Business combinations

SuperInternet Group

On 21 June 2018, MNF Group Limited announced the purchase of Superinternet (S) Pte Ltd and its subsidiary, Superinternet Access Pte Ltd for SGD $2.0m. The acquisition completed on 6 July 2018.

SuperInternet has a fully interconnected voice network infrastructure in Singapore.

The acquisition of SuperInternet has been recognised in the accounts as follows:

	2019 Consolidated provisional	2019 Consolidated final
	$'000	$'000
Purchase consideration paid	1,993	1,993
Less cash acquired	(43)	(43)
Net cash paid	1,950	**1,950**
Less fair value of identifiable net assets	(1,950)	(3,267)
Bargain purchase	**-**	**(1,317)**
Identifiable net assets acquired:		
Trade receivables	277	277
Doubtful debts provision	(30)	(30)
Other debtors	224	224
Deferred tax asset	418	418
Fixed Assets	3,081	4,398
Accumulated Depreciation	(569)	(569)
Trade creditors	(564)	(564)
Other creditors	(887)	(887)
Fair value of identifiable net assets	**1,950**	**3,267**

The fair value of the acquired fixed assets has been independently valued and the above accounting reflects the final purchase price allocation adopted by the Directors.

23. Business combinations (continued)

Wholesale and Enablement business from Inabox Group

On 8 October 2018, The Company announced the purchase of the Wholesale and Enablement business of Inabox Group for $34.5m. In June 2019, Inabox Group settled a dispute raised by the Company and as result released $500,000 from escrow account to the Company. This amount has reduced the purchase price to $34.0m.

The acquisition included Telcoinabox Operations Pty Ltd, Ivox Pty Ltd, Neural Networks Pty Ltd, Symmetry Networks Pty Ltd and Mobile Service Solutions Pty Ltd. The acquisition completed on 12 December 2018 with effective date 1 December 2018.

The Inabox Group performs a leading role in the Australian wholesale telecommunications market and brings considerable volume and scale to the MNF Group.

Goodwill arising from the acquisition has been recognised as follows:

	2019 Consolidated provisional	2019 Consolidated final
	$'000	$'000
Purchase consideration paid	34,470	33,970
Less cash acquired	(200)	(200)
Net cash paid	**34,270**	**33,770**
Less fair value of identifiable net assets	(18,346)	(18,277)
Goodwill	**15,924**	**15,493**
Identifiable net assets acquired:		
Trade receivables	6,691	6,691
Doubtful debts provision	(1,073)	(1,455)
Other debtors	1,644	1,510
Deferred tax asset	370	828
Fixed assets	4,528	4,440
Accumulated depreciation	(3,165)	(3,079)
Customer contracts	3,000	5,518
Brand names	2,000	596
Software	15,000	14,444
Deferred tax liability	(1,500)	(1,834)
Trade creditors	(5,359)	(5,304)
Other creditors	(2,249)	(2,236)
Provisions	(1,123)	(1,124)
Customer deposits	(418)	(718)
Fair value of identifiable net assets	**18,346**	**18,277**

The fair value of the acquired intangible assets (brand name, customer bases and software assets) has been independently valued and the above accounting reflects the final purchase price allocation adopted by the Directors.

24. Earnings per share

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

	2019 $'000	2018 $'000
Net profit attributable to ordinary equity holders of the Company	**11,399**	**11,859**

	2019 $'000	2018 $'000
Weighted average number of shares:		
Weighted average number of ordinary shares for basic earnings per share	73,316	72,974
Add effect of dilution: - Share options	1,070	800
Weighted average number of ordinary shares for diluted earnings per share	**74,386**	**73,774**

25. Dividends paid and proposed

Recognised amounts:	Cents per share	$'000	Date of payment
2018 fully franked final dividend declared and paid	4.05	2,964	4-Oct-18
2019 fully franked interim dividend declared and paid	2.10	1,541	5-Apr-19
Unrecognised amounts:			
2019 fully franked final dividend declared (i)	4.00	2,936	3-Oct-19

(i) The final dividend was declared on 27 August 2019. The amount has not been recognised as a liability in the 2019 financial year and will be brought to account in the 2020 financial year.

The proposed payment date of the 2019 final dividend is 3 October 2019.

The amount of franking credits available for future reporting periods is $9,069,796 (2018: $8,552,247).

The tax rate at which paid dividends have been franked is 30% (2018: 30%). Dividends proposed will be franked at the rate of 30%.

26. Parent entity

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

	2019	2018
	$'000	$'000
Statement of profit or loss and other comprehensive income		
Loss attributable to the owners of the company	(3,732)	(2,777)
Other comprehensive (loss)/gain	(593)	60
Total comprehensive loss attributable to the owners of the company	**(4,325)**	**(2,717)**
Statement of financial position		
Total current assets	3,852	1,812
Total non-current assets	100,301	62,008
Total current liabilities	(6,461)	(6,554)
Total non-current liabilities	(61,598)	(13,676)
Net assets	**36,094**	**43,590**

Issued Capital	55,936	55,036
Reserves	1,393	1,962
Retained earnings	(21,235)	(13,408)
Total equity	**36,094**	**43,590**

27. Financial risk management objectives and policies

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

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

(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 2019 would impact the profit or loss by less than $445k (30 June 2018: $270k). 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.

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	$'000	$'000	$'000	$'000
Cash Weighted average effective interest rate 1.2% (2018: 1.5%)	14,581	14,581	15,201	15,201
Cash at call Weighted average effective interest rate 2.0% (2018: 3.5%)	1,000	1,000	3,669	3,669
Trade and other receivables	42,030	42,030	33,450	33,450
Financial liabilities *On statement of financial position*				
Trade payables	32,158	32,158	30,120	30,120
Loans and borrowings Weighted average effective interest rate 4.7% (2017: 4.8%)	55,600	55,600	10,690	10,690
Interest rate swap contract – cash flow hedge	628	628	80	80

28. 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 46 to 80, 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, 27 August 2019

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 2019 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 27th day of August 2019

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MNF GROUP LIMITED ABN 37 118 699 853 and Controlled Entities

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of MNF Group Limited (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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.

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Key Audit Matter	*How Our Audit Addressed the Key Audit Matter*
Carrying Value of Goodwill	
MNF Group Limited has goodwill of $46.3m 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.	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 to Note 23 to the Financial Statements, including the sensitivities provided with respect to acquisitions. Based on our procedures, we noted no issues of concern, and consider Management's key assumptions to be within a reasonable range.

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Revenue recognition

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

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

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Business Combinations

During the year the Group made two acquisitions:

Acquired 100% of the issued capital of SuperInternet (S) Pte Ltd and its subsidiary SuperInternet Access Pte Ltd.

- Subsequent to the acquisition, assets and liabilities were independently valued. During the period, the purchase price allocation for the acquisition was finalised as detailed in Note 23 of the financial statements.

Acquired the Wholesale and Enablement business of Inabox Group.

- Subsequent to the acquisition, assets, liabilities and intangibles were independently valued. During the period, the purchase price allocation for the acquisition was finalised as detailed in Note 23 of the financial statements.
- As detailed in Note 23 goodwill of $15.5m was acquired in the transaction.

We evaluated the appropriateness of Management's identification of assets and liabilities acquired within each acquisition. Connected with our evaluation we questioned and tested key assumptions by Management in the preparation of the independent valuations.

Our procedures included challenging both Management and the independent expert providing the valuation reports by performing the following:

- Discussing with Management the nature of the acquisitions to develop a detailed understanding of the acquisitions and the benefits achieved
- Assessment of the independent experts providing the valuation ensuring they have the appropriate level of experience and qualifications to provide the necessary opinion
- Assessing the key assumptions made in formulating the valuation reports.
- Discussing with Management the key findings of both reports
- Reviewing disclosures made in Note 23 in conjunction with key findings of the report to ensure figures are materially consistent.

Based on work done, we are not aware of any matters of concern relating to the accounting of the acquisitions.

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

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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 2019, 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.

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If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion.
- Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 38 to 43 of the Directors' report for the year ended 30 June 2019.

In our opinion the Remuneration Report of MNF Group Limited for the year ended 30 June 2019, 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 27th day of August 2019

mnf group

ASX additional information

Additional information required by ASX Ltd and not shown elsewhere in this report is as follows.
The information is current as at 16 August 2019.

(a) Distribution of equity securities

(i) Ordinary share capital

73,410,315 fully paid ordinary shares are held by 3,821 individual shareholders.
All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

1,070,000 unlisted options are held by 53 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	1,612
1,001 – 5,000	1,271
5,001 – 10,000	404
10,001 – 100,000	506
100,001 and over	28
	3,821

The number of security investors holding less than a marketable parcel of ordinary shares is 287.

(b) Substantial shareholders

	Fully Paid	
Ordinary shareholders	Number	Percentage
Mr Andy Fung and related parties	14,635,311	19.94%
Mr Rene Sugo and related parties	14,213,185	19.36%
NAOS Asset Management Limited	11,915,431	16.23%

(c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully Paid	
	Number	Percentage
National Nominees Limited	16,235,150	22.12
Mr Andy Kam Kan Fung & Ms My Van Monique Ly	14,004,831	19.08
Avondale Innovations Pty Ltd	10,838,955	14.76
JP Morgan Nominees Australia Limited	1,576,463	2.15
HSBC Custody Nominees (Australia) Limited	1,382,552	1.88
RACS SMSF Pty Ltd	1,076,476	1.47
L & C Pty Ltd	1,000,000	1.36
Kore Management Services Pty Ltd	920,906	1.25
Boorne Gregg Investments Pty Ltd	901,234	1.23
Boorne Superannuation Fund Pty Ltd	811,226	1.11
Sandhurst Trustees Ltd	678,926	0.92
Citicorp Nominees Pty Ltd	593,460	0.81
G & E Properties Pty Ltd	529,247	0.72
Ecapital Nominees Pty Ltd	508,000	0.69
BNP Paribas Nominees Pty Ltd	447,320	0.61
Lee Superfund Management Pty Ltd	420,000	0.57
Mr Michael John Boorne	371,199	0.51
Earglow Pty Ltd	324,938	0.44
Ms Catherine Ly	299,775	0.41
Endan Pty Ltd	273,951	0.37
	53,194,609	**72.46**

(d) On-Market Buy Back

There is currently no on-market buy back.

Corporate Information

Directors
Terry Cuthbertson (Chairman)
Michael Boorne
Andy Fung
David Stewart
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 Primus Hotel, Mezzanine Floor, 339 Pitt Street Sydney 16:30 on 22 October 2019

Annual Report
Copies of the 2019 Annual Report with the Financial Statements can be downloaded from:
www.mnfgroup.limited/investors/annual-reports

www.mnfgroup.limited

MNF Group Limited Annual Report 2019