



MNF Group Limited
Annual Report **2016**

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Board of Directors

Mr Terry Cuthbertson

B. Bus., CA
Chairman

A Chartered Accountant, previously partner at KPMG with extensive corporate finance expertise and knowledge. Also a Director and Chairman of Australian Whisky Holdings Ltd, Austpac Resources N.L., Mint Wireless Ltd, South American Iron & Steel Ltd, Malachite Resources Ltd and Isentric Ltd.

MNF Director since March 2006

Mr Andy Fung

B.E. MCom
Non-Executive Director

Extensive experience in telecommunications. Formerly Director of Business Development of Lucent Technologies. Co-Founder of MyNetFone, Symbio Networks Pty Ltd, and Symbio Wholesale Pty Ltd.

MNF Director since March 2006

Mr Rene Sugo

B.Eng. (Hon)
Chief Executive Officer and Director

Extensive experience in telecommunications. Formerly Technical Director of Lucent Technologies. Co-Founder of MyNetFone, Symbio Networks Pty Ltd, and Symbio Wholesale Pty Ltd.

MNF Director since March 2006

Mr Michael Boorne

Electronics Eng. Dip.
Non-Executive Director

A successful entrepreneur with extensive track record in combining technical expertise with commercial and corporate experience. Founder of Sprit Modems and Mitron Pty Ltd and previously a Non Executive Director of Netcomm Ltd.

MNF Director since December 2006

Ms Catherine Ly

B.Bus., CPA
Company Secretary since July 2006



Letter from our Chairman

Fellow Shareholders,

It is with great satisfaction that I present to you the 2016 full year results for the MNF Group Limited. It has been another very successful year for the MNF Group. The company achieved another record financial result for the sixth consecutive year.

Our consolidated group revenue increased to \$161 million, up 88% from the previous year. Our EBITDA rose by 46% to \$17.8 million, and our NPAT rose 25% to \$9.0 million. The company ended the year with no net debt, and the ability to redraw \$13 million from our revolving acquisition facility.

This year's success is attributed to solid contribution from all three segments of the business – Domestic Retail, Domestic Wholesale, and our newest segment Global Wholesale. Particularly pleasing was the organic growth in the Domestic Wholesale segment which saw gross margin increase by 49% on prior year. The Global Wholesale segment also performed very strongly in its maiden full year result demonstrating a relative full year growth of 21% on prior year margin contribution.

This year's solid performance has allowed the board to declare an annual dividend of 7.0 cents per share fully franked – an increase of 22% over the previous year. The dividend is consistent with our track record of providing consistent returns to shareholders in the order of 50% of NPAT.



Achievements

During the year MNF Group grew thanks to some incredible achievements and the dedication and effort of our invaluable team. The highlights of our year are:

- **Completing the acquisition of TNZI** – This large strategic acquisition has kick started the company's global growth strategy. This year was one for completing the complex transaction and integrating staff and systems into the MNF Group. Other major milestones achieved as part of the transaction are the granting of a US carrier licence by the FCC, as well as upgrading infrastructure in London, Los Angeles and Hong Kong. There are still many more challenges to come in executing this global growth strategy, but the team is primed and ready to execute as effectively as possible. We look forward to more great things to come in the years ahead from this strategic acquisition.
- **Organic growth** – As mentioned earlier, the company's Domestic Wholesale segment grew organically 49% on the previous year at the margin level. This is due to the incredible momentum built up by the domestic wholesale sales and operations teams. The ability to deliver high value services in a fast and reliable fashion has meant that our existing wholesale customers can focus on growing their businesses, and many more wholesale customers are now choosing Symbio as their preferred platform for hosting their voice capabilities.
- **Innovation recognition** – The MNF Group prides itself on developing its own proprietary software systems and building its own network. This is a key part of our market differentiator compared to other Australian communications providers. Our R&D team is growing steadily, as are their achievements. This year we have been recognised by several key industry bodies for our product innovation. We have been awarded the national Australian Internet Industry Association 'iAward', and the Australian Communications Alliance & CommsDay 'ACOMMS' award for our TollShield fraud mitigation platform. These awards are only a brief indication of the strength of our underlying intellectual property and skills base available inside the Group.

The Future

The company has established three very solid independently performing business segments, each with a well-defined strategy for growth. The Domestic Retail segment is performing steadily with some good potential in addressing small business and government customers. The Domestic Wholesale segment has excellent momentum coming out of last year, and is poised to capitalise on the company's position in the domestic market. And finally the Global Wholesale

segment is on the cusp of a big push into the Asia-Pacific market to capitalise on our locally developed technology.

In addition to developing our own organic growth strategy, the company continues to seek sensible acquisitions that will deliver incremental value to shareholders. Our goal is to find opportunities that allow us to leverage our strong intellectual property assets, incredibly skilled team, and massive synergy potential of our nationally interconnected voice network.

Additionally, we continue to develop new technology, software and processes that will deliver new products and services into a market ripe with opportunity driven by change. Our strategy remains centered on voice communications technology and applications. We are constantly looking at how to push the boundaries of change in the global market and capture new emerging revenue streams in an Internet enabled world. The MNF Group is truly in a unique position to seize this new market opportunity as it emerges.

On behalf of the board, I would like to thank all of the staff and management team in achieving another great result for our company. The board continues to provide its full support to the team to ensure the company maintains its momentum and growth into the future.

I would also like to thank my fellow members of the Board for their hard work and dedication over the last 12 months. Their insight and vision has truly shaped an innovative and successful organisation that stands out as a rapidly emerging player in the Australian telecommunications market.

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



Terry Cuthbertson
Chairman

Letter from our CEO

Dear Shareholders,

I am very pleased to report another record full year result for MNF Group, making it our 5th consecutive year of double-digit EBITDA growth.

In this past year, our focus has been on integrating the prior year acquisition of the global TNZI voice business to create a springboard for new market opportunities; as well as developing organic growth in the strongly performing domestic business.

MNF Group's performance has been excellent delivering 46% EBITDA growth to \$17.8 million (2015: \$12.2 million) – slightly ahead of forecast thanks to solid margin growth & overhead costs control. Our NPAT grew to \$9 million (2015: \$7.2 million), an increase of 25% over the previous year and 23.5% CAGR over the last 5 years demonstrating solid consistent growth. The separation between NPAT from EBITDA is due to interest, depreciation and amortisation introduced through prior acquisitions, however this is a once-off occurrence and the separation is expected to stabilise going forward. Revenue grew 88% to \$161 million (2015: \$85.7 million) driven by full 12 month contribution from the TNZI acquisition (except TNZI USA revenue which only contributed one month), and very strong organic growth in the Domestic Wholesale segment.

As always, we at MNF Group recognise the importance of delivering consistent shareholder returns. Both our Earnings Per Share (EPS) and Dividends Per Share (DPS) are at a record high this financial year at 13.45cps and 7.00cps respectively, with dividends representing 52% of EPS consistent with prior years.

Segment Performance

Shareholders will notice that segment reporting is a new element in this year's report. By breaking out our three core market segments, we have endeavoured to deliver more insight into the Group structure & performance for our investors.

All three segments performed strongly, reflecting our balanced and diverse portfolio of services. In particular the Domestic Wholesale segment delivered the standout performance with margin organically growing 49% on the previous year. The Domestic Retail segment was steady due to slight decline in the Residential sub-segment, which was largely offset by strong growth in Business, Enterprise and Government sub-segments. The Global Wholesale segment, incorporating newly acquired TNZI and the global customers of the Symbio business, also performed above expectation with full year relative margin growth of 21% and capable of big future potential long term organic growth.

Our commitment to innovation & market disruption remains unwavering with all three segments focused on our area of specialisation – the delivery of new-generation voice communications driven by innovation, software development and network deployment.

Network Expansion

The key to leveraging the TNZI acquisition to create further growth has been the global network upgrade project. This included capacity and capability expansion in London and LA Points of Presence (PoPs), and the deployment of a new Hong Kong PoP. This was the final link in our global network ring, positioning TNZI as regional specialist and the voice 'carrier of choice' for European and US telcos seeking capabilities in the high potential Asia-Pacific region.

This increased global presence is combined with deployment of Symbio's new-generation capabilities and services into the TNZI network, enabling us to soon start selling value-added services into TNZI's established customer base. Further service cross-pollination is planned for the year ahead to position TNZI as the 'go to' provider for new-generation communications in the Asia-Pacific region.



The next phase of Domestic Wholesale expansion will be the deployment of the Symbio model into New Zealand. While Symbio has offered certain capabilities in that market for many years, full deployment will allow us to shake up the wholesale market with a complete new-generation service suite.

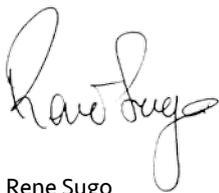
Future Roadmap

As the world transitions to internet-based communications, we are seeing exciting opportunities at every market level. With the prevalence of 'always connected' devices, 'any to any connectivity' will be the main challenge. And where there is challenge – there is opportunity. Today, MNF Group's smart network already delivers core building blocks for the voice communication needs of the future. We will continue to innovate and build our broad portfolio of capabilities to be the leading provider enabling this exciting voice communications revolution in our region.

This commitment to creating value-added services and leveraging our own voice technology gives us confidence that organic growth will remain strong. We are also, of course, still looking for and evaluating potential further acquisitions. My thanks goes to all MNF Group staff globally, as well as the executive team, for their outstanding contribution and achievements accomplished this year.

The future presents many opportunities, and we hope you are excited to be part of the journey with us.

Kind regards,

A handwritten signature in black ink, appearing to read "Rene Sugo". The signature is fluid and cursive, with a large initial "R" and "S".

Rene Sugo
CEO

About the MNF Group

MNF Group is an integrated voice services business that provides IP communication technologies to Australia, New Zealand and the world.

The Group was founded in Sydney in 2004, and listed on the Australian Stock Exchange in 2006 (ASX: MNF). Now a global business, the Group has grown from strength to strength in just over a decade and received many industry and retail awards.

Our people

Powering the dynamic product & brand mix is a specialist team of almost 250 staff across offices in Australia, New Zealand, UK and USA.

The team's track record of innovation positions the Group as a disruptor in the communications market.

Our capabilities

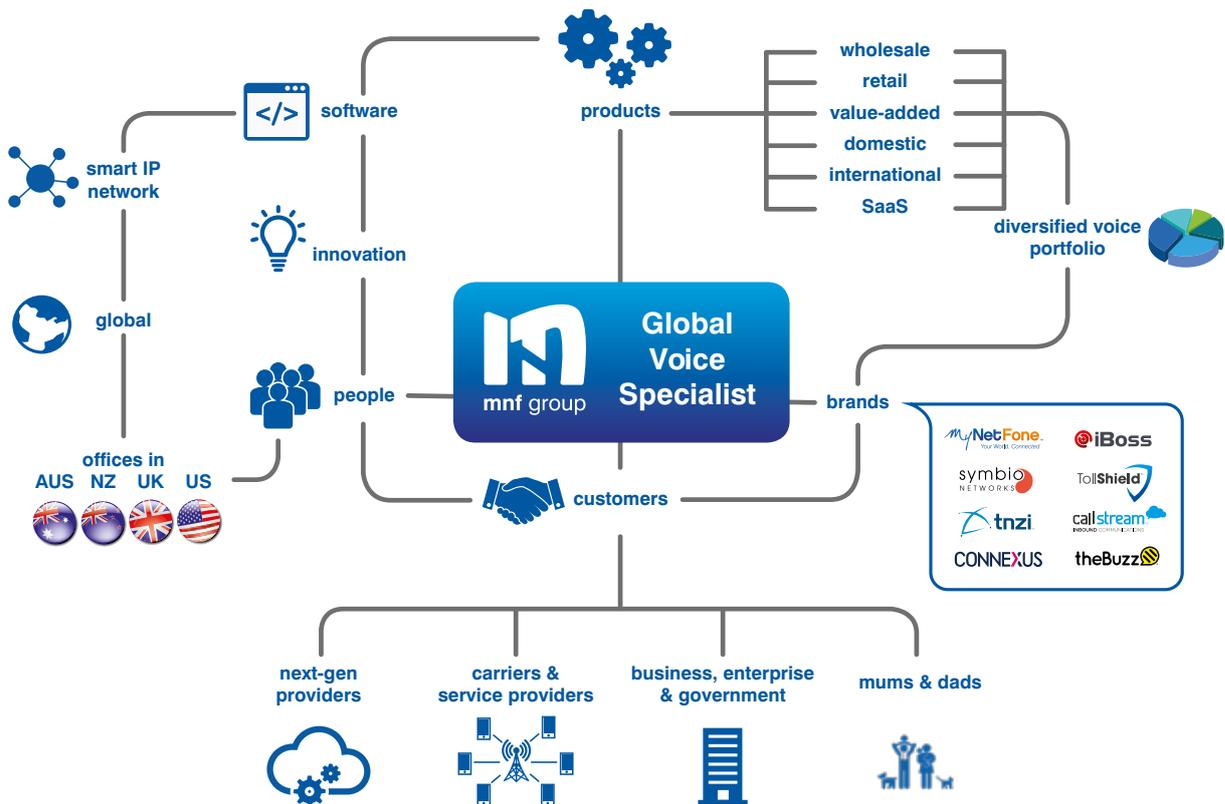
MNF Group specialises in the delivery of voice communications capabilities around the globe.

The Group's smart IP voice network delivers a diversified portfolio of voice products to over 250 global providers and 100,000 retail customers across multiple brands.

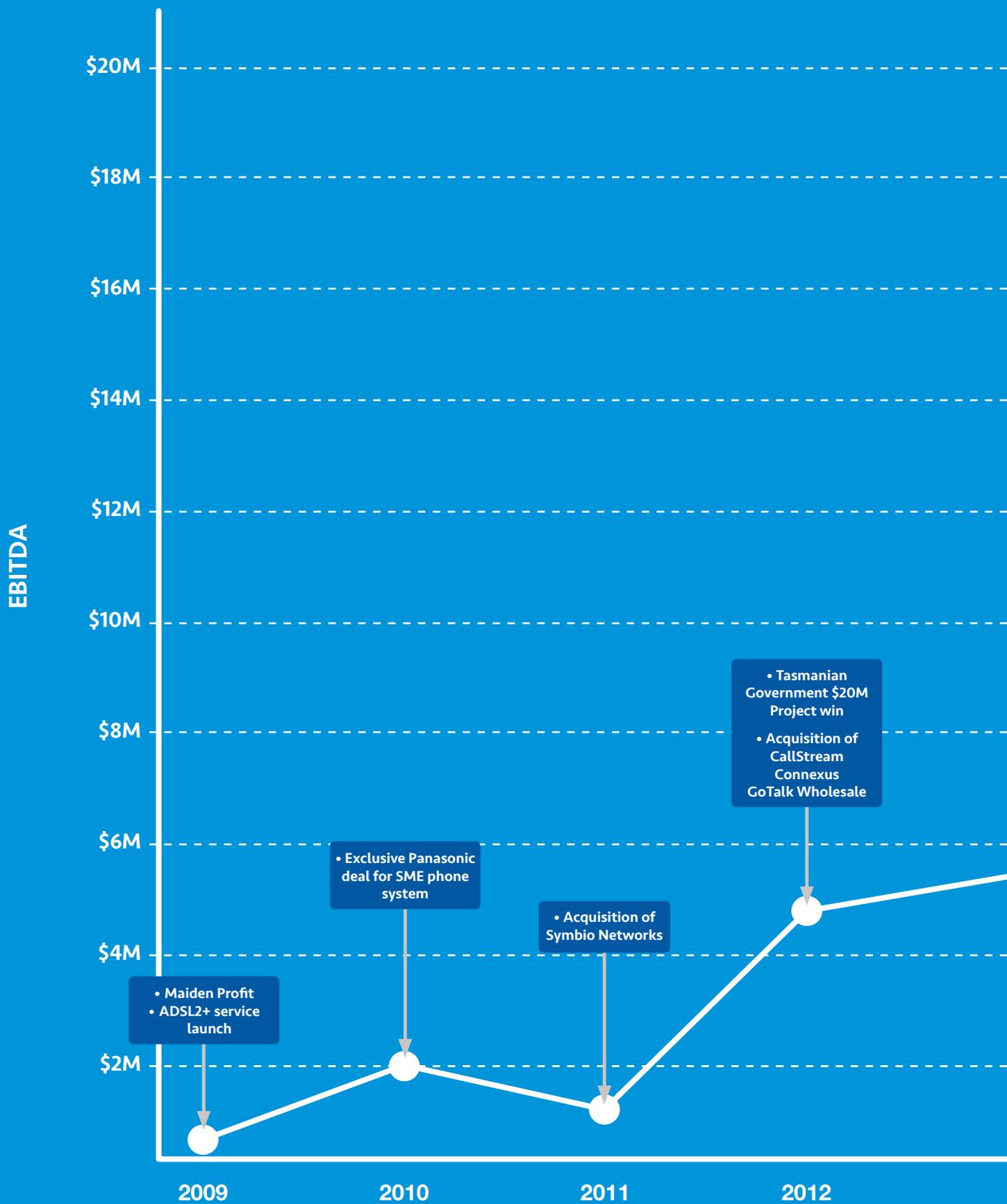
Brands & customers

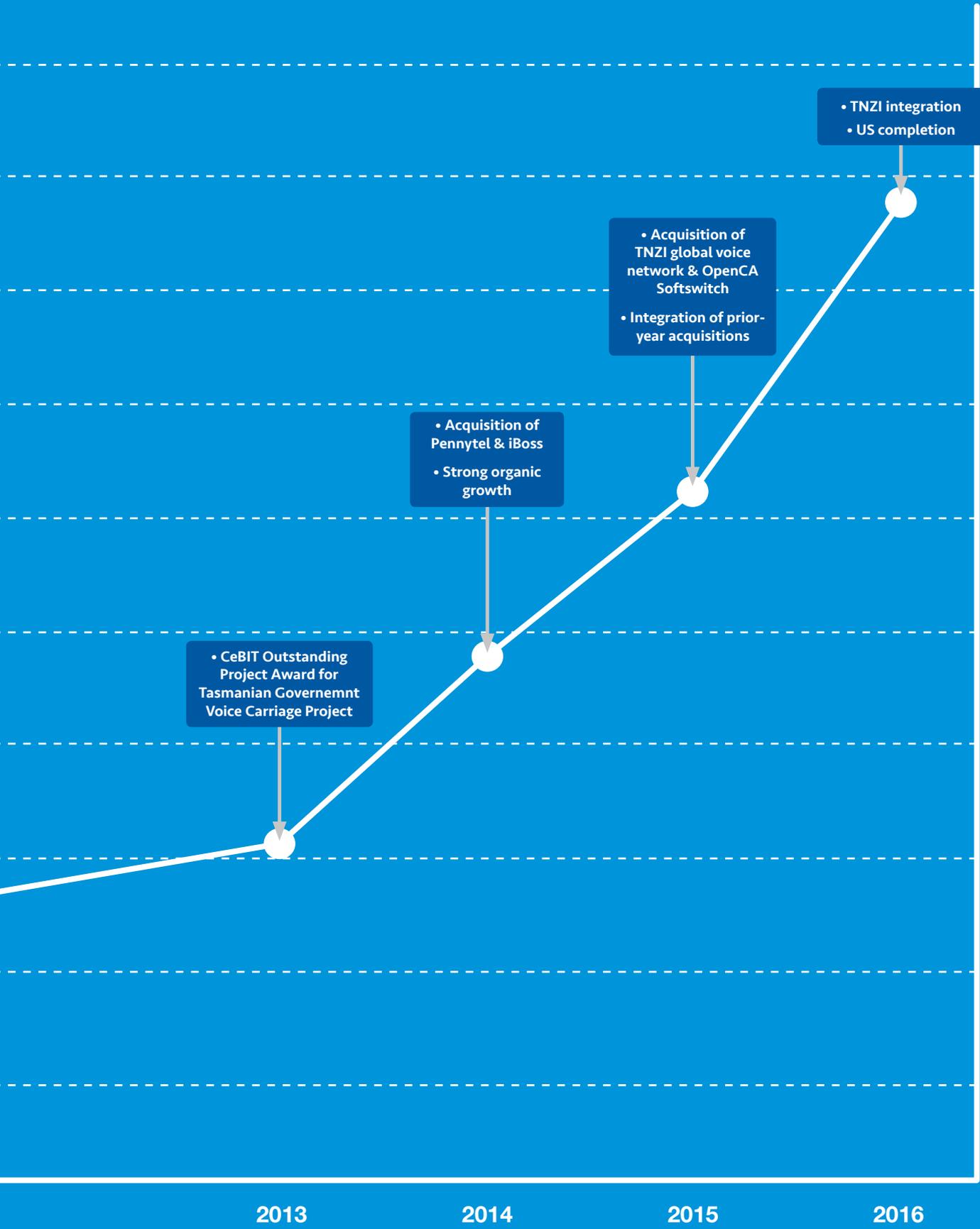
Each brand in the MNF Group portfolio services a defined target market with products designed to meet evolving user needs.

Customer profiles span next-generation service providers, carriers, business and government, right through to mums & dads.



MNF Group Timeline





Smart Network

As the world moves to IP communications, MNF Group is building the network and technology to lead the way.

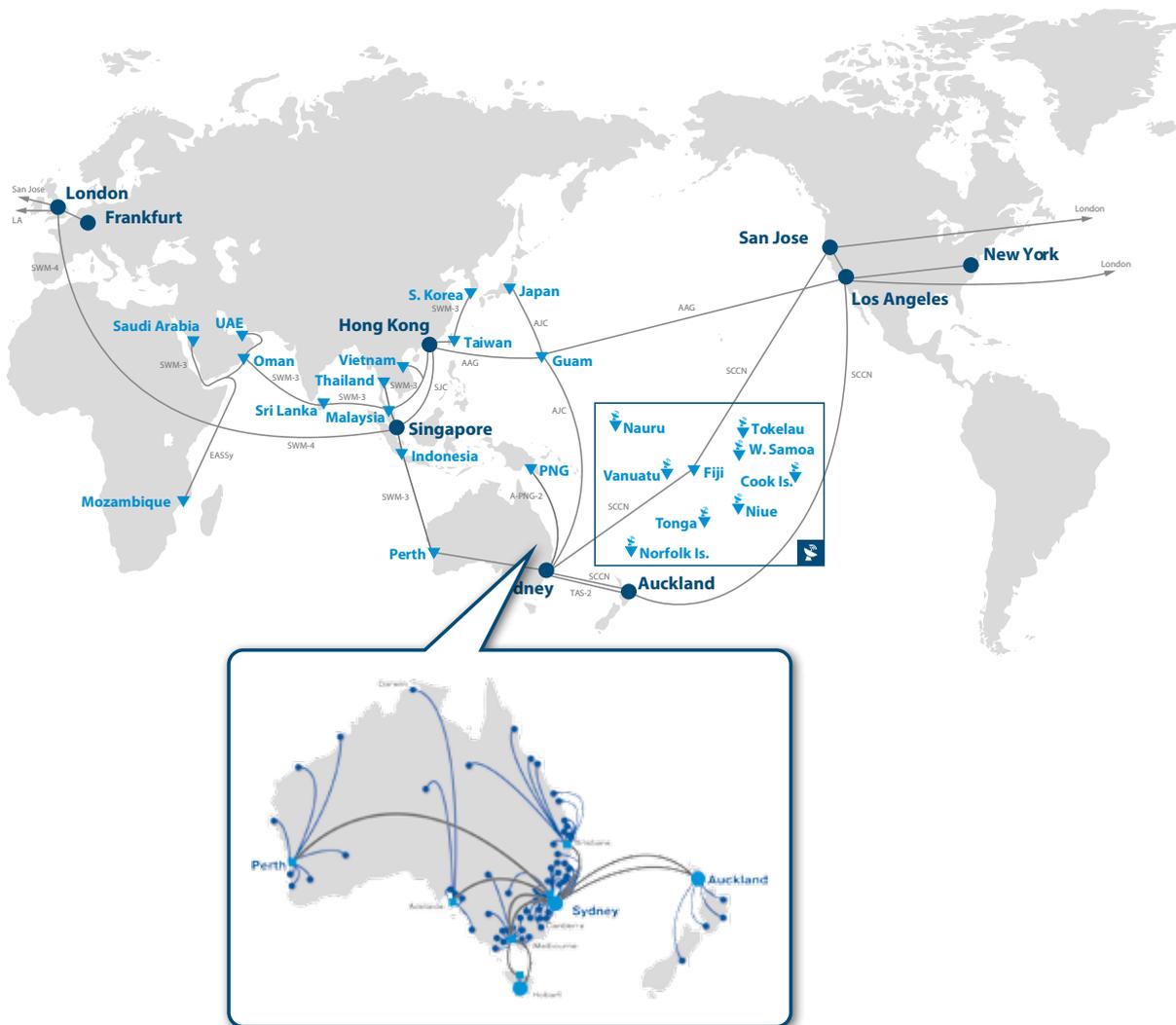
Global Scale

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

Having developed market-leading managed voice services for its Australian network, the Group is now progressively rolling out these smart network capabilities to the rest of its global network.

Unlike traditional carriers, the Group's focus is on making it easy for service providers to do business – The Group's smart network enables easy integration and has the flexibility to meet evolving customer needs.

These innovative capabilities combined with first-mover advantage puts the MNF Group in prime position to be the carrier of choice for providers looking to reach the fast-growing Asia Pacific region.



Domestic Expertise

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

High speed fibre connectivity between major cities and modern VoIP nodes in all 65 regional call collection areas make this network the 'go to' for new-generation OTT providers and global carriers looking to establish or expand their presence in Australia and New Zealand.

Group of Brands

As the global voice specialist, MNF Group delivers comprehensive communications solutions through a diversified product portfolio offered across 3 key market segments.

The multi-brand approach empowers the Group to tailor solutions to different customer needs while eliminating the risk of relying on any one product in today's fast-paced technology environment. From call termination for global Tier 1 carriers, API-powered smarts for new-generation app players, innovative fraud prevention, to voice and data for home and business, MNF Group powers all levels of the IP voice revolution.

The Group gathers consumer insights across all these segments to continue developing innovative software solutions and address customer needs in the changing communications landscape.

Domestic Retail

Stable performance, with several strategic wins in enterprise and government sectors. Growth focus on SME with Virtual PBX refresh and strong pipeline of enterprise prospects.

Domestic Wholesale

Fastest organically growing segment, with gross margin increasing 49% on previous year. Continued strong Australian performance and full deployment of New Zealand network underway.



Global Wholesale

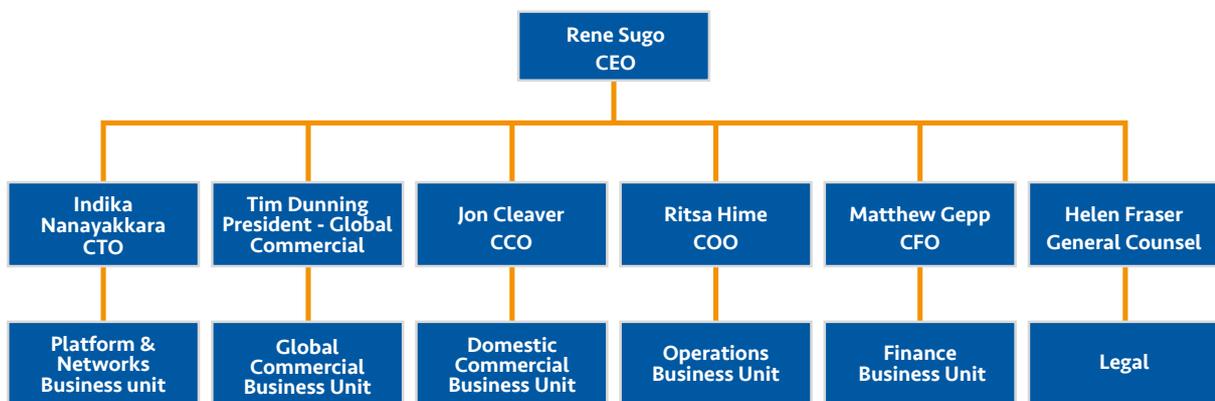
Strong track record in global voice termination, leveraging global tier 1 reputation. Addition of new-generation services such as freephone and local numbers, and TollShield® is set to drive further growth.

Company Structure



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

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

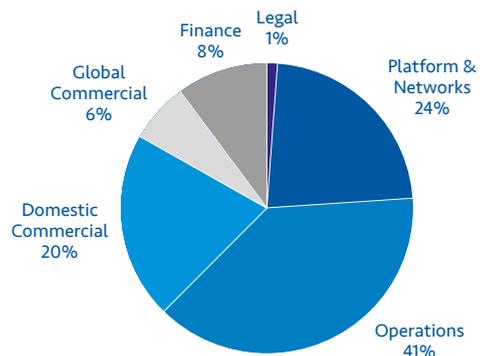


Commitment to Innovation

While expanding internationally, the MNF Group remain committed to in-house Research & Development and bringing disruptive new products to market.

Approximately 25% of the Group headcount, residing in the Platform & Networks Business Unit, works in the R&D field. This includes new product development, new features, user experience improvement and core network stability and expansion.

Business Unit Headcount



Business Unit Profiles



Domestic Commercial Business Unit - Jon Cleaver, CCO



The Domestic Commercial Business Unit is responsible for executing the company's multi-brand strategy in Australia through sales & marketing, combined with the vision and innovation from the product management and solutions teams ensuring we service what customers need today and anticipate their needs for the future.

"I believe we have the structure just right," said Jon Cleaver, CCO. "Following a few key additions to our established team of specialists and industry veterans, I am confident we will stay well ahead of the curve. Our focus remains on providing further automation and efficiency in our current channels, whilst expanding into new segments through product innovation. This gives us a clear funnel for continued organic growth"

The figures speak for themselves, but especially pleasing is the continued growth in the wholesale space and further gains in government and enterprise. In FY2017, NBN ramp up and further expansion in mobility will round out the Group's full UC offerings. In-house development has also maximised automation on Symbio's smart network, allowing us to easily deploy the wholesale model into other countries with New Zealand just around the corner. It is certainly an exciting outlook ahead.

Global Commercial Business Unit - Tim Dunning, President



The Global Commercial Business Unit continues to go from strength to strength as the benefits of integrating into the MNF Group accrue.

Upgraded network assets in the United Kingdom, Los Angeles, and Hong Kong position TNZI to offer new-generation services to the global market. This investment further enhances network capacity and capability, supporting a growing presence and strength in the Asia-pacific and other regions.

"Leveraging global relationships and intellectual property built from a long-tenure staffing base, we will continue to roll out MNF Group managed service solutions through building presence and infrastructure in new markets," said Tim Dunning.

Continued investment in network and software systems as well as recent front-line staff placements enhance the Global Commercial Business Unit's ability to meet the challenges of a dynamic global environment.



Operation Business Unit - Ritsa Hime, COO



Customer experience continues to be the focal point of the Operations Business Unit - this goes well beyond a friendly representative answering calls. It must include every touch point a customer experiences from online and self-serve portal capability through to the technical acumen of the team.

For these reasons and coupled with customer feedback, the Operations Business Unit embarked on an operational efficiency drive focused on developing innovative online capabilities that deliver a superior customer experience. This will enable MNF Group customers to use the full suite of products and services with ease and flexibility, leveraging the high performance network and infrastructure that MNF is recognised for.

“Over the past 12 months, we focused our energies on platform integrations and process improvements,” said Ritsa Hime. “We set plans and delivered effective training programs for our Operations staff to enable first call resolution support for our customers.”

Operations continue to work closely with the Commercial Business Unit and other stakeholders across the MNF Group to ensure the company roadmap is strategically aligned.



Finance Business Unit - Matthew Gepp, CFO

FY2016 was another successful year for MNF Group, not just in terms of the outstanding result that we reported but also the successful integration of the TNZI business which we had only just acquired at the start of the year, and which now forms the foundation of the global wholesale segment.

The year saw significant investment in both the domestic and global voice infrastructure, which has created a more robust network with the available capacity and reach to enable further growth and see our key products, namely our intellectual property in the form voice enablement software, reach global markets. We are particularly pleased with the organic growth that was delivered through both the domestic and global wholesale segments in 2016.

MNF finished the year with a strong balance sheet, which will allow us to move decisively to take advantage of growth opportunities as they are presented.

“The Finance BU continues to focus on preserving the value that has been created for the benefit of our shareholders and creating the platform that will promote sustainable organic and acquisitive growth into the future,” said Matthew Gepp. “This is achieved by delivering internal stakeholders the support they require to achieve the ambitious goals we have set for ourselves in the coming years.”





Platform & Networks - Indika Nanayakkara, CTO

The Platforms & Networks Business Unit builds and operates the infrastructure and software systems which underpin the suite of products and services delivered by the MNF Group.

“FY2016 was a busy year with the expansion of TNZI POPs and the Australian network, as well as the work on integrating the TNZI systems into the MNF Group network,” said Indika Nanayakkara, CTO. “A number of major customer migrations and system consolidations were also carried out to meet data retention obligations.”

The in-house software development and systems integration skills continue to be a key differentiator for the MNF Group, with the team’s capabilities being reflected in the awards for innovation received from ACOMMS and iAwards.

FY2017 is expected to be another busy year for the BU with many development activities planned to leverage the infrastructure, intellectual property and software systems that the MNF Group has developed over the years. Some of the highlights include:

- Expanding the New Zealand network which will allow the MNF Group to offer its full suite of products and services to NZ customers.
- Enhancements to the product suite for Small Business, Enterprise and Government customers
- Enhancements to B2B APIs to make it simpler for customers and partners to integrate their systems with the MNF Group infrastructure



Legal Services Unit - Helen Fraser, General Counsel



The Legal Services unit provides advice and support to the Board and the business as a whole at both strategic and operational levels.

Transactions, regulatory, corporate governance and intellectual property rights are all key areas of focus.

“Working closely with stakeholder groups across the company, we look for pragmatic, business savvy solutions to facilitate their business objectives and meet the strategic needs of the group,” said Helen Fraser. “With this in mind, FY2016 has seen the development of a new contract framework and standard terms for our TNZI brand, which will provide a platform for global sales of a wider product range.”

The goal is to establish frameworks and solutions which are flexible and scalable to support the company as it grows while still meeting the business’ legal requirements.

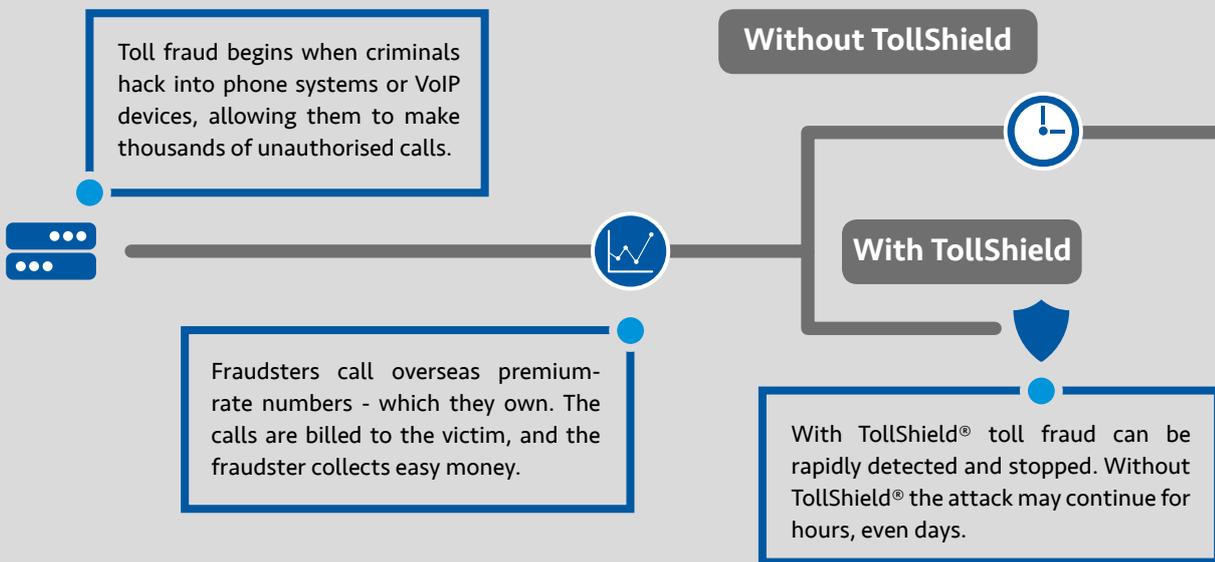


Innovation Spotlight



In a few short years, TollShield® has grown from an in-house innovation to become an industry-recognised tool, essential in the fight against new-generation threats.

Anatomy of a toll fraud attack



How TollShield® fights toll fraud

The challenge of toll fraud

Toll fraud relies upon unsecured devices, like VoIP modems or PBXs, which provide a 'backdoor' for hackers to make unauthorised voice calls.

For telcos, toll fraud is impossible to prevent. Every customer and every device is a potential weak point. Worse, the costs of toll fraud are often passed on to the service provider – because victims are understandably reluctant to pay.

An innovative, real time solution

TollShield® is the MNF Group's proprietary toll fraud mitigation software. It uses advanced machine-learning technology to attune to a network and 'understand' the difference between toll fraud and legitimate call traffic.

TollShield® enables telcos to pinpoint toll fraud in near real-time. By catching fraud early, service providers can mitigate its impact on brand and revenue.

2014

The basic idea of TollShield® was conceived in September 2014, during an internal innovation session to better protect business and enterprise customers from toll fraud.

Today

Since global launch at ITW (2015) TollShield® has been deployed by networks in the UK, Asia, NZ and Australia. TollShield® is standard on the TNZI and Symbio Networks.

Days later



If toll fraud is undetected, the 'per minute' costs quickly compound. In 2015, fraud-related losses were estimated at \$38 billion (US).¹



TollShield® enables service providers to detect, investigate and block toll fraud in near real time - mitigating loss and brand damage.

Estimated global losses from toll fraud¹
US\$ 38,000,000,000

Awards & recognition

1. CFCA, 2015.



TollShield® will be our first line of defence against toll fraud by providing a new level of visibility and blocking capacity.

Dee Telecom Thailand.
Vice President, Mr John Clark.

Multi award-winning

TollShield® has been listed among Australia's Smart 100 innovations (Anthill 2015), and has recently won industry honours from the ACOMMS (Emerging Vendor Innovation 2016) and the iAwards (NSW Industry & Platforms Innovation of the Year 2016; NSW Business Service of the Year 2016).



Caption: iAwards and ACOMMS trophies - 2016

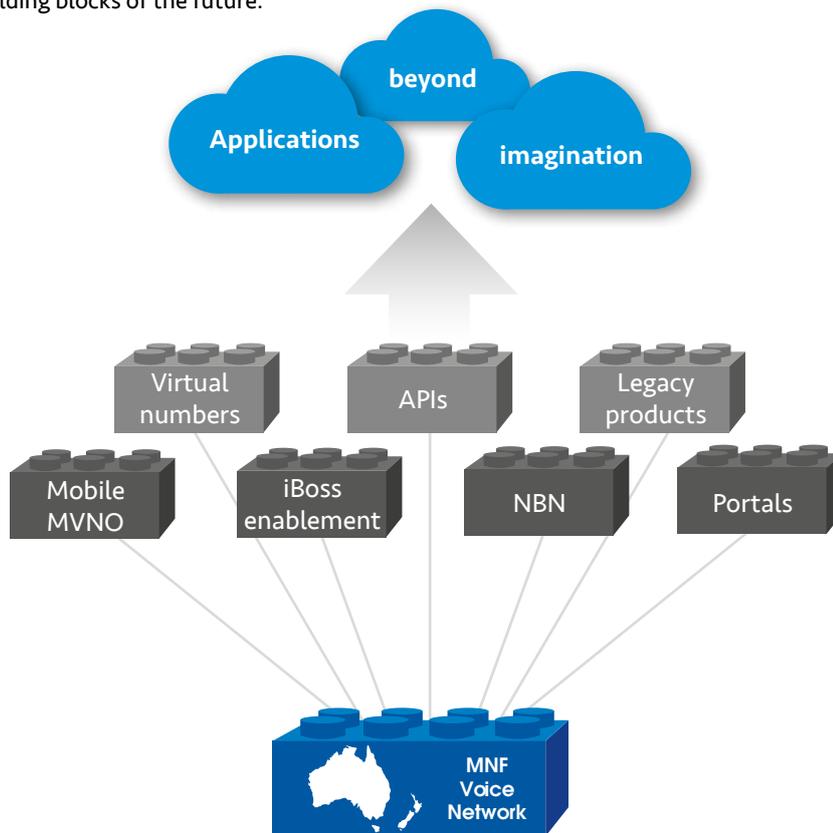
Future Roadmap

The next step in the new-generation voice communications evolution is “any to any” connectivity, with applications working across all devices. This requires smart networks and applications that act as the glue between the ever growing ecosystems of devices.

MNF Group is a credible small player in this very big and still growing market, with plenty of opportunity for growth. An expert in new-generation voice, MNF has the first-mover advantage in delivering these communication solutions of the future.

Powering innovation

While other telcos ‘traditional’ networks are being dug out of the ground, MNF Group’s smart network is already delivering the building blocks of the future.



The Group combines the scale and credibility of a global Tier 1 network with the flexibility of a new-generation software-defined network that continuously evolves to anticipate customer needs.

Looking to the future, MNF Group will continue to focus on creating value-added innovations right here in Australia, and exporting them to the world by leveraging existing Tier 1 relationships of its Symbio & TNZI global brands.



Domestic Opportunity

- Industry consolidation creates gap in middle of the market – MNF steps in
- New Mobile MVNO capabilities will drive growth
- New portals and API capabilities to embed and lock in customer loyalty
- **MNF Group has the most extensive wholesale eco-system in Australia/NZ**



Global Expansion

- Global players buy access to **regional infrastructure** to create a **global capability**
- MNF’s smart, API-driven network is the building block for new-generation cloud communication solutions
- TNZI provides access to global players and pathway into the Asia-Pacific region



MNF Group Limited

ABN 37 118 699 853

30 June 2016
Annual Financial Report



Directors' Report

Directors' Report

For the year ended 30 June 2016

Your directors present this report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2016.

Information on directors

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

Name and qualifications	Experience, special responsibilities and other directorships
Mr Terry Cuthbertson B. Bus., CA Chairman	<p>Mr Cuthbertson is the Chairman and an independent non-executive director; he was previously a partner at KPMG and has extensive corporate finance expertise and knowledge. Mr Cuthbertson is also a director and Chairman of Australian Whisky Holdings Ltd, Austpac Resources N.L., Malachite Resources Ltd, South American Iron & Steel Ltd and Mint Wireless Ltd. He is also a non-executive director of Isentric Ltd.</p> <p>Mr Cuthbertson has been a director since March 2006.</p>
Mr Michael Boorne Electronics Eng. Dip. Non-Executive Director	<p>Mr Boorne is an independent non-executive director; he is a successful entrepreneur with extensive experience in combining technical expertise with commercial and corporate experience. He has founded start-up businesses such as Sprit Modems and Mitron, and is a director and committee member of numerous private companies and charitable foundations. He was previously a non-executive director of Netcomm Ltd.</p> <p>Mr Boorne is the Chairman of the Audit and Remuneration committees, and has been a director since December 2006.</p>
Mr Andy Fung B.E. MCom Non-Executive Director	<p>Mr Fung is a non-executive director; he is a co-founder and was formerly Managing Director of My Net Fone since its inception in 2006 until February 2012. He has been a director of Symbio Networks Pty Ltd since 2002 and Symbio Wholesale Pty Ltd since 2009.</p> <p>Mr Fung has been a director since March 2006.</p>
Mr Rene Sugo B.Eng. (Hon) CEO and Director	<p>Mr Sugo is the CEO and a director; he is a co-founder and was formerly Technical Director of My Net Fone since its inception in 2006 until February 2012 when he was made Chief Executive Officer. He is a director of all MNF Group operating companies globally.</p> <p>Mr Sugo is a strong industry advocate, representing the interests of MNF Group and competition in general. He has been a director of the Australian Communications Alliance and the INMS (Industry Number Management Services) since 2015.</p> <p>Mr Sugo sits on various industry committees locally and overseas including the Numbering Steering Group (NSG) and the ITW Global Leaders Forum (GLF). Mr Sugo also regularly contributes articles and opinions on issues affecting the industry, such as the NBN, regulatory policy and innovation.</p> <p>Mr Sugo has been a director since March 2006.</p>

Company Secretary

Ms. Catherine Ly B.Bus., CPA. Ms Ly was appointed Company Secretary in July 2006.

Directors' Report for the year ended 30 June 2016 (continued)

Board and Committee Meetings

From 1 July 2015 to 30 June 2016, the directors held 11 board meetings and 2 audit committee meetings. Each director's attendance at those meetings is set out in the following table:

Directors	Board		Audit	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr. Terry Cuthbertson	11	11	2	2
Mr. Michael Boorne	11	11	2	2
Mr. Andy Fung	11	11	2	2
Mr. Rene Sugo	11	11	2	2

Principal activities and significant changes in nature of activities

The principal activity of the MNF Group is providing voice communications, broadband Internet, and cloud based communications 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. There was also revenue derived from the sale of hardware, equipment and consulting services to support the primary products of the business.

The company acquired the global wholesale voice business of Telecom New Zealand International (TNZI) in April 2015. The company is now operating three main segments:

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

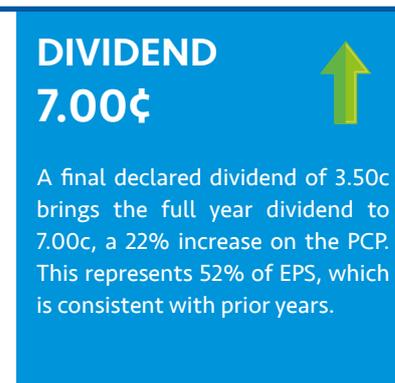
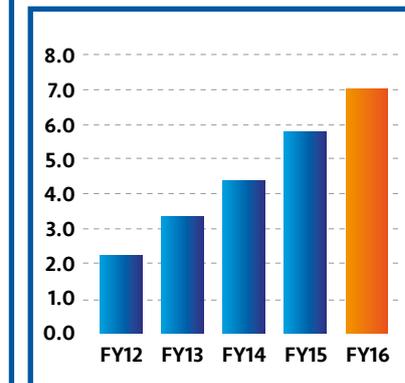
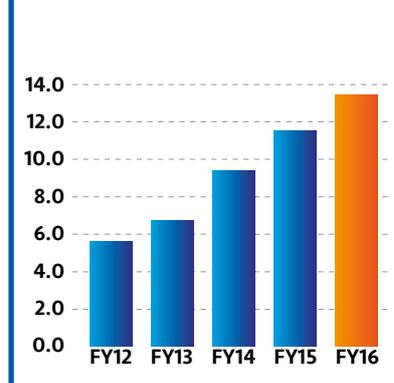
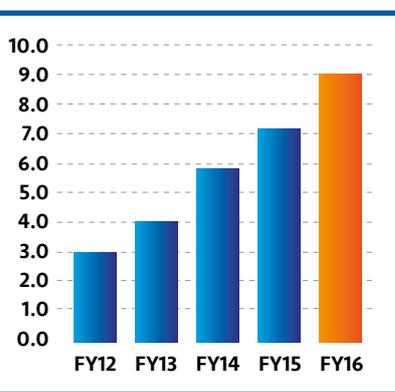
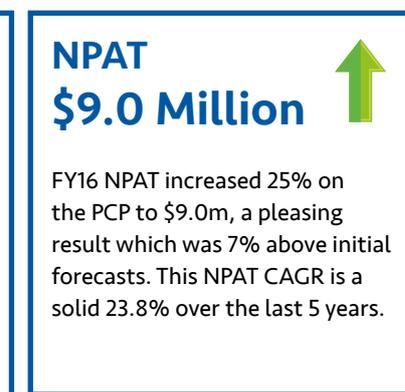
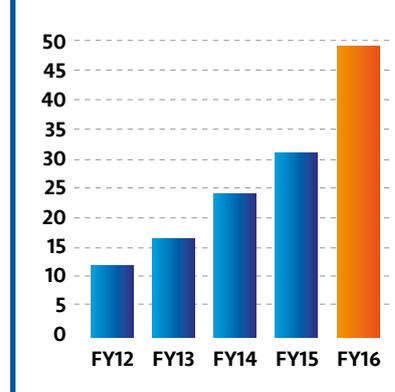
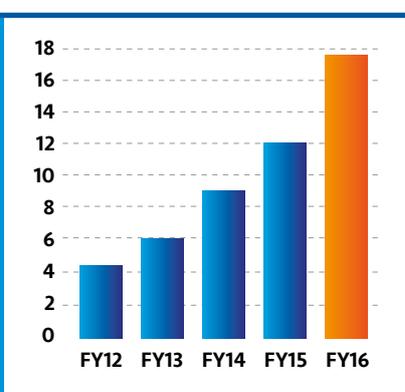
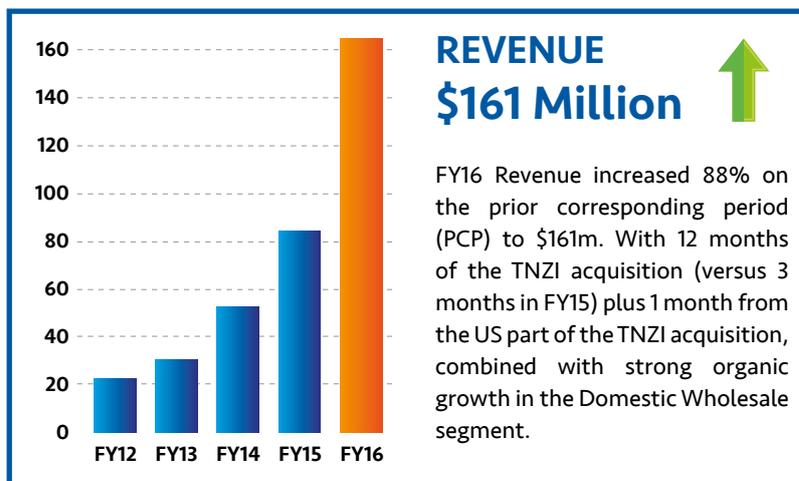
Operating Result

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 46% to \$17.8 million, with net profit after tax (NPAT) increasing by 25% to \$9.0 million, compared to the prior year. The result is slightly ahead of forecast, with EBITDA finishing 2.9% above forecast and NPAT finishing 7.0% above forecast. Revenue for the year increased 88% to \$161.2 million.

The total dividend for the full year has increased by 22% to 7.0 cents per share fully franked, with the company now declaring a final dividend of 3.5 cents per share for the second half. The full year dividend represents 52% of the FY16 EPS.

Directors' Report for the year ended 30 June 2016 (continued)

MNF performance at a glance:



Directors' Report for the year ended 30 June 2016 (continued)

Review of operations

	Year ended 30 June 2016	Year ended 30 June 2015	% change
Revenue	\$161.2m	\$85.7m	+88%
Gross profit	\$48.6m	\$31.8m	+53%
EBITDA	\$17.8m	\$12.2m	+46%
NPAT	\$9.0m	\$7.2m	+25%
EPS	13.45 cents	11.49 cents	+17%

Net cash flow

The closing cash balance as at 30 June 2016 was \$52.9m (2015: \$6.3m).

At year end debt in the form of a \$27.0m revolving acquisition facility was \$13.7m (2015: \$25.3m). The company had no net debt as at year end (2015: \$19.0m).

Acquisitions

MNF Group acquired the voice business of Telecom New Zealand International (TNZI) in April 2015. Subsequently, and after completing US regulatory approvals, on 31 May 2016 MNF Group completed the acquisition of the US assets of TNZI. That completed the acquisition of TNZI in its entirety.

There have been no further acquisitions in the current period.

Business outlook

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

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

Domestic Retail Segment

This segment is based on the original MyNetFone brand and other retail acquisitions, focussing on selling directly to residential, small business, enterprise & government customers. The segment overall is performing steadily with Gross Margin contribution stable at \$15.1M for the full year – the stability is a result of the diversification within the segment, with residential in gradual decline, and small business and enterprise & government growing strongly albeit from a smaller base.

a. Residential

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

Directors' Report for the year ended 30 June 2016 (continued)

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

The residential DSL subscriber base declined slightly to 13,504 services in operation, and the VoIP base fell slightly overall to 91,369 services in operation. The decline in DSL services is due to migration towards the NBN and MNF being sub-scale in terms of NBN reach and market voice. The business is looking at improving NBN reach by being certified across all access types, and putting in place backhaul agreements to be able to reach all 121 Points-of-Interconnect (POI). Total residential subscriptions across all brands totals 109,000.

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

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

b. Small Business

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

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

The Virtual PBX and SIP trunk products in service grew by 11% to 3,245 services in operation, and overall business voice services fell slightly to 8,466 services in operation. The decline in business voice services is all under the CallStream brand and due to a reclassification of active services in operation – the revenue and margin from this business has not been affected and remains steady. Business data services fell slightly to 2,017 services in operation, mainly due to reclassification of some older Connexus services to residential.

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

c. Enterprise & Government

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

The company has adopted a long-term strategy to pursue domestic government business as VoIP technology increases its foothold in all levels of government. The Enterprise & Government sector is generally more conservative than small business, and the migration to next generation telephony has been lagging that of small business. However recently

Directors' Report for the year ended 30 June 2016 (continued)

the sector has been more focussed on cost reduction and efficiency, resulting in the increased rate of migration into centralised private cloud telephony services, and the need for data centre based high capacity centralised SIP trunks. This is the same model adopted by the Tasmanian Government in 2012 which was a pioneer in this space.

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

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

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

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

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

Domestic Wholesale Segment

This segment is based on the original Symbio Networks brand, and now includes the iBoss software platform. The segment is focussed on selling to Australian & New Zealand domestic carriers, carriage service providers (CSP), cloud providers and application providers. This segment is strategic to the group and is currently the fastest organically growing segment with gross margin contribution growing 49% on the PCP to \$12.5M.

It should be noted that certain Symbio customers are now included in the Global Wholesale segment as result of the new segmentation following the acquisition of the TNZI voice business. Revenue, margin and relative growth have been adjusted for this fact to make comparisons meaningful.

The key products sold into this market are:

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

These products leverage the extensive fully interconnected national voice network that is also used to carry the group's retail and globally originated traffic, in addition to an extensive amount of proprietary intellectual property that has been developed by the company over the last 14 years.

The domestic wholesale business is currently hosting over 238 unique service provider customers, an increase of 13% on the previous year. Each customer generally purchases one or more products from the above suite of products. In addition

Directors' Report for the year ended 30 June 2016 (continued)

to the increase in service provider customers, the customers themselves are generally growing organically, providing a compounding growth effect – hence the strong margin growth for this segment.

Services provided in this segment continue to experience strong growth, with Local Number Portability (LNP) growing 16% to 502,000 inbound ported numbers, and the total volume of hosted Direct-In-Dial (DID) numbers growing 10% to 2.7 million numbers. Wholesale aggregation subscriptions (iBoss) increased to 3,000, up 50% on the prior year.

Global Wholesale Segment

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

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

This has been the first full year of ownership of the TNZI business. The integration of the TNZI business has been going well with all major milestones for the first 12 months being completed. These include – staff integration, staff resource expansion, Wellington office relocation, IT systems separation, customer novations, and US licensing & transaction completion. The acquisition of TNZI was a large and complex transaction, and completing the integration has been an onerous task for management over the last 12 months.

The global network expansion and upgrade program is also well underway. The expansion of the UK (London) Point of Presence (PoP) was finalised earlier this year, and the US (Los Angeles) PoP upgrade has been completed recently in July 2016. After some logistics delays the Hong Kong PoP is due to be fully operational by September 2016. Additionally, the NZ (Auckland) and Singapore PoPs are due to be upgraded and expanded in FY17.

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

The international wholesale network is currently hosting over 209 service provider customers, most of which are major global Tier 1 service providers. Due to the cost and complexity of managing a global customer base, the focus for TNZI is large service providers with significant positive margin contribution, so smaller nonperforming customers are regularly disconnected to save network and operational resources. The Group is investing in additional global marketing of the TNZI brand, and is deploying additional Business Development resources in the UK, USA and New Zealand in order to capture an increase in market share for both traditional and next generation products.

Significant changes in the state of affairs

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

After balance date events

Dividends proposed

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

Options Exercised

60,000 options with an exercise price at \$3.00 were exercised subsequent to year end.

Directors' Report for the year ended 30 June 2016 (continued)

Future developments

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

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

Environmental issues

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

Dividends paid or recommended

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

	\$000	Franking
Dividends paid during the year:		
2015 Final dividend of 3.25 cents per share paid on 29 September 2015	2,170	100%
2016 Interim dividend of 3.50 cents per share paid on 30 March 2016	2,342	100%
Dividends recommended (subsequent to year end):		
2016 Final dividend of 3.50 cents per share recommended on 16 August 2016	2,363	100%

The 2016 final dividend is to be paid on 29 September 2016 to shareholders registered as at 5 September 2016.

Options

Shares under option or issued on exercise of options

No options have been granted since the end of the 2015 financial year.

Below are the details of shares issued to directors throughout the 2016 financial year as a result of the exercise of options.

Director	Date of expiry	Exercise price	Number of options
Terry Cuthbertson	31 August 2016	\$3.00	100,000
Michael Boorne	31 August 2016	\$3.00	100,000
Andy Fung	31 August 2016	\$3.00	100,000
Rene Sugo	31 August 2016	\$3.00	150,000
			450,000

Below are the details of shares issued to executives and staff throughout the 2016 financial year as a result of the exercise of options.

	Date of expiry	Exercise price	Number of options
Executives and Staff	31 December 2015	\$1.70	10,000
Executives and Staff	31 August 2016	\$3.00	85,000
			95,000

At the date of this report, the unissued ordinary shares of MNF Group Limited under options which were granted in previous financial years is as follows:

Grant date	Date of expiry	Exercise price	Number of options
1 July 2014	31 August 2016	\$3.00	355,000

Directors' Report for the year ended 30 June 2016 (continued)

Remuneration Report *Audited*

This Remuneration Report for the year ended 30 June 2016 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308 (3C) of the Act.

Introduction

The Remuneration Report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent.

For the purposes of this report, the term "executive" includes the Chief Executive Officer (CEO), executive directors and other senior executives of the Company or the Group.

Non-executive directors

Terry Cuthbertson	Chairman
Michael Boorne	Director
Andy Fung	Director

Executive director

Rene Sugo	Chief Executive Officer
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Other KMPs

Matthew Gepp	Chief Financial Officer
Catherine Ly	Company Secretary & Treasurer

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

Remuneration governance

Remuneration Committee

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

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

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

Directors' Report for the year ended 30 June 2016 (continued)

Remuneration Report (continued)

Use of remuneration consultants

The Company does not currently engage remuneration consultants. The Board may consider the use of remuneration consultants in the future as the company grows.

Remuneration report approval at the 2015 AGM

The 2015 remuneration report received positive shareholder support at the 2015 AGM with a vote of **97.97%** in favour. (2014: 94.8%)

Executive remuneration arrangements

Remuneration principles and strategy

The Board has established salary arrangements for the directors that are comparable with other companies in the sector of similar revenue, market capital and earnings levels. The Board has established salary arrangements for the key executives that are commensurate with their level of experience. The Board will continually review its approach to setting remuneration levels by balancing short and long term benefits and linking remuneration to performance.

Details of short term incentive (STI) plans

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 clearly defined objectives.

Non-executive directors are not eligible for an STI.

STIs for the previous and current financial years are based on meeting agreed net profit after tax targets as set by the Board and are subject to Board approval.

STI amounts paid in FY16 are in relation to the FY15 company performance and targets.

Details of long term incentives (LTI) plans

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

Shareholders returns

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

	2016	2015	2014	2013	2012
Revenue ('000)	\$161,217	\$85,675	\$59,306	\$46,209	\$38,292
NPAT ('000)	\$8,990	\$7,184	\$5,778	\$4,141	\$3,069
Basic EPS (cents)	13.45	11.49	9.26	6.98	5.55
Dividends paid ('000)	\$4,512	\$3,128	\$2,498	\$1,770	\$862
Dividends per share (cents)	7.00	5.75	4.50	3.50	2.30
Share price (as at 30 June)	\$4.00	\$3.82	\$2.42	\$1.20	\$0.56
Change in share price	\$0.18	\$1.40	\$1.22	\$0.64	\$0.38
Market capitalisation	\$270M	\$240M	\$151M	\$74M	\$31M

Directors' Report for the year ended 30 June 2016 (continued)

Remuneration Report (continued)

Remuneration details of key management personnel for the year ended 30 June 2016

Details of the nature and amount of benefits and payments for each director and KMP of the Company for the 2015 and 2016 financial years are as follows:

		Short term benefits		Post employment benefits	Share based payments	Total
		Cash salary & fees	STI/Bonus	Superannuation	Options	
		\$	\$	\$	\$	\$
Non-executive directors:						
Mr T Cuthbertson	2016	109,000	-	10,355	-	119,355
	2015	94,784	-	9,004	22,000	125,788
Mr M Boorne	2016	83,000	-	7,885	-	90,885
	2015	72,312	-	6,870	22,000	101,182
Mr A Fung	2016	71,000	-	6,745	-	77,745
	2015	61,812	-	5,872	22,000	89,684
Executive director:						
Mr R Sugo	2016	410,779	43,900	43,195	-	497,874
	2015	298,550	66,350	34,666	33,000	432,566
Other KMPs:						
Mr M Gepp	2016	246,667	57,500	28,896	-	333,063
	2015	225,000	40,000	25,175	11,000	301,175
Ms C Ly	2016	154,250	-	14,654	-	168,904
	2015	146,742	-	13,940	4,400	165,082
Total	2016	1,074,696	101,400	111,730	-	1,287,826
	2015	899,200	106,350	95,527	114,400	1,215,477

Key terms of employment agreements

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

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

Directors' Report for the year ended 30 June 2016 (continued)

Remuneration Report (continued)

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

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

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

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

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

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

Name of Director	Share holding	Options
Mr Andy Fung	13,969,216	-
Mr Rene Sugo	13,160,576	-
Mr Terry Cuthbertson	920,000	-
Mr Michael Boorne	705,067	-
Total	28,754,859	-

This concludes the remuneration report, which has been audited.

Directors' Report for the year ended 30 June 2016 (continued)

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

During the year, the Group confirmed 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 Group

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 (2015: \$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 69 of the financial report.

Rounding off

The Group is of a kind referred to in ASIC Class order 98/100 report 10 July 1988 and in accordance with that Class Order, amounts in the consolidated financial statements and Director's have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Terry Cuthbertson
Chairman



Rene Sugo
Director

Sydney, 16 August 2016



Financial Statements 2016

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June	Notes	Consolidated group	
		2016	2015
		\$'000	\$'000
Continuing operations			
Revenue	4a	161,217	85,675
Cost of sales		(112,576)	(53,891)
Gross profit		48,641	31,784
Finance revenue	4a	249	88
Employee benefits expense	4b	(21,223)	(13,840)
Depreciation and amortisation	4c	(4,709)	(1,983)
Other expenses	4d	(9,872)	(5,846)
Costs related to acquisition		(200)	(332)
Financing costs	4e	(1,061)	(225)
Profit before income tax		11,825	9,646
Income tax expense	5	(2,835)	(2,462)
Profit from continuing operations		8,990	7,184
Net profit for the year		8,990	7,184
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(484)	155
Changes in fair value of cash flow hedges		(582)	(23)
		(1,066)	132
Total comprehensive income for the year		7,924	7,316
Earnings per share from continuing operations			
- Basic earnings per share (cents)	26	13.45	11.49
- Diluted earnings per share (cents)	26	13.38	11.32

The accompanying notes form part of these consolidated financial statements

Consolidated statement of financial position

As at:	Notes	Consolidated group	
		30 June 2016	30 June 2015
		\$000	\$000
Assets			
Current assets			
Cash and cash equivalents	6a	52,889	6,287
Trade and other receivables	7	29,067	29,706
Income tax receivable		195	-
Inventories		305	185
Other financial assets	8	-	323
Total current assets		82,456	36,501
Non-current assets			
Property, plant and equipment	9	12,011	7,797
Deferred income tax asset	5c	735	527
Goodwill and other intangibles	23	30,802	29,308
Consideration paid in advance	25	-	4,420
Total non-current assets		43,548	42,052
Total assets		126,004	78,553
Liabilities			
Current liabilities			
Trade and other payables	10	66,550	29,304
Loans and borrowings	11	2,500	2,500
Deferred revenue	13	1,668	1,843
Income tax payable		-	1,201
Finance lease liability	15	-	16
Financial Instruments	12	2,812	-
Provisions	14	1,300	1,169
Total current liabilities		74,830	36,033
Non-current liabilities			
Loans and borrowings	11	11,190	22,790
Financial instruments	12	282	23
Provisions	14	734	659
Total non-current liabilities		12,206	23,472
Total liabilities		87,036	59,505
Net assets		38,968	19,048
Equity			
Issued capital	16a	26,440	9,932
Reserves		419	1,485
Retained earnings		12,109	7,631
Total equity		38,968	19,048

The accompanying notes form part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 30 June	Notes	Consolidated group	
		2016	2015
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		173,115	81,694
Payments to suppliers and employees		(157,611)	(69,010)
Receipt on supplier novations		41,464	-
Interest received		144	88
Interest paid		(873)	(225)
Income tax paid		(4,415)	(3,001)
Net cash from operating activities	6b	51,824	9,546
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,958)	(3,811)
Decrease/(increase) in other financial assets		323	(25)
Receipt/(payment) for business acquisitions		182	(24,128)
Payment in advance for business acquisition		-	(4,420)
Software development costs		(150)	(817)
Net cash (used in) investing activities		(5,603)	(33,201)
Cash flows from financing activities			
Proceeds from share placement and options exercised		16,508	425
Dividends paid		(4,511)	(3,129)
Proceeds from borrowings		-	26,790
Repayment of borrowings		(11,600)	(1,588)
Repayment of finance lease liability		(16)	-
Net Cash from financing activities		381	22,498
Net increase/(decrease) in cash and cash equivalents		46,602	(1,157)
Cash and cash equivalents at 1 July		6,287	7,444
Cash and cash equivalents at 30 June	6a	52,889	6,287

The accompanying notes form part of these consolidated financial statements

Consolidated statement of changes in equity

Attributable to owners of the company

For the year ended 30 June 2016	Ordinary share capital	Share- based payment reserve	Trans- lation reserve	Hedging reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 30 June 2014	9,507	1,157	-	-	3,576	14,240
Profit for the period	-	-	-	-	7,184	7,184
Other comprehensive income	-	-	155	(23)	-	132
Dividends paid	-	-	-	-	(3,129)	(3,129)
Share options exercised	425	-	-	-	-	425
Share-based payment transactions	-	196	-	-	-	196
Balance at 30 June 2015	9,932	1,353	155	(23)	7,631	19,048
Profit for the period	-	-	-	-	8,990	8,990
Other comprehensive income	-	-	(484)	(582)	-	(1,066)
Dividends paid	-	-	-	-	(4,512)	(4,512)
Share options exercised	1,607	-	-	-	-	1,607
Share placement	14,449	-	-	-	-	14,449
Shares issued - DRP	452	-	-	-	-	452
Balance at 30 June 2016	26,440	1,353	(329)	(605)	12,109	38,968

The accompanying notes form part of these consolidated financial statements



Notes to the Consolidated Financial Statements

Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1. Corporate Information

These consolidated financial statements and notes represent those of MNF Group Limited and controlled entities (the "Company" or the "Group") for the year ended 30 June 2016.

At the 2015 AGM, shareholders approved a resolution to change the company name from My Net Fone Limited to MNF Group Limited. This name change is representative of the fact that the company is now a large and sophisticated group, trading under multiple brand names, in a global market.

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

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

The financial statements were authorised for issue on **16 August 2016** by the directors of the Company.

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

2. Significant accounting policies

a. Basis of preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in the financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the 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. Fair Value which is level 3 "unobservable inputs" is determined primarily from inputs reflective of management expectations.

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

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

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

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

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

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

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

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

c. Principles of consolidation

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

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

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 22 to the financial statements.

d. Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.

Consideration transferred for the acquisition comprises the fair value of the assets transferred, liability incurred and the equity interests issued by the acquirer. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate. Acquisition related costs are expensed as incurred.

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

Notes to the consolidated financial statements (continued)

e. Going concern

The financial report has been prepared on a going concern basis. This presumes that funds will be available to finance future operations and the realisation of assets and settlement of liabilities will occur in the normal course of business.

For the year ended 30 June 2016 the Group generated profit after tax of \$9.0m (2015: \$7.2m), as at the balance date the Group's total assets exceeded total liabilities by \$39.0m (2015: \$19.0m).

The Directors believe that the going concern basis of accounting is appropriate due to the expected cash flows to be generated by the Group over the next twelve months. The Directors closely monitor cash flows as the Group grows and if revenues do not increase as expected, the directors will look to contain costs. The Directors believe that these actions, if required, will be sufficient to ensure that the company will be able to pay its debts as and when they fall due for the next twelve months.

Notwithstanding the above, the directors acknowledge that there are a number of risk factors that could materially affect the Group's future profitability and cash flows, which include, but are not limited to:

(i) Competition

There can be no assurance given in respect of the Group's ability to continue to compete profitably in the competitive markets in which the Group operates. The potential exists for change in the competitive environment in which the Group operates.

(ii) Management of growth

The Group achieved a profit during the year, however, there is always an inherent risk the Group may have insufficient working capital to meet its business requirements and the expansion of the Group will depend upon the ability of management to implement and successfully manage the Group's growth strategy.

(iii) Reliance on key management

The responsibility of overseeing the day-to-day operations and strategic management of the Group is substantially dependent upon its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Group if one, or a number of, these employees cease their employment.

(iv) New products and technological developments

The Group's current core business of broadband telecommunications is highly competitive and is subject to the introduction of new and improved products and services into the market on a regular basis.

(v) Broadband access arrangements

The Group currently has certain access to the Internet backbone network. Terms of the supply of broadband are negotiated regularly. There is no guarantee that future access arrangements will be able to be negotiated on commercially acceptable terms.

(vi) Distribution channels and device suppliers

The Group benefits from its good working relationship with its distribution channels to promote its products and services and with its device suppliers to provide its VoIP adaptors. There is no guarantee that these relationships will continue in the future.

(vii) Legislation, regulation and policies

Any material adverse changes in government or other regulatory organisation policies or legislation which impacts on the telecommunications industry, may affect the viability and profitability of the Group.

(viii) Internet access

The use of VoIP technology is dependent on quality and speed of access to the Internet. The market growth of VoIP may be limited by the take up rate of broadband and other fast Internet access or by the quality of such access.

f. Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assure a reasonable expectation of future events and are

Notes to the consolidated financial statements (continued)

based on current trends and economic data, obtained both externally and within the Group. Key estimates that have a significant risk of causing adjustments to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Share based payment transactions

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

(ii) Useful lives of property, plant and equipment

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

(iii) Utilisation of tax losses

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

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

When calculating the income tax provision for the year, there is an operating assumption that the Research & Development tax concession for 2016 will be materially the same as for 2015. 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.

g. Revenue recognition

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

(i) Rendering of services

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

(ii) Interest income / Finance revenue

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

h. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

i. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Notes to the consolidated financial statements (continued)

j. Trade and other receivables

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

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

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

k. Foreign currency transactions and balances

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group Companies

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

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

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

l. Income tax

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

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

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

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

Tax consolidation:

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

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

m. 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.

n. Inventories

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

o. Property, plant and equipment

Plant and equipment are measured on the cost basis.

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

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

Notes to the consolidated financial statements (continued)

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

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

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

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

p. 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.

Notes to the consolidated financial statements (continued)

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.

q. Intangible assets and goodwill (impairment testing)

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

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

Recognition and measurement:

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

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their residual values using the straightline 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 5-20 years
- Software and Software development costs 5-10 years
- Customer relationships 3-5 years

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

r. 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.

s. Provisions

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

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

Notes to the consolidated financial statements (continued)

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.

t. 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.

u. 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.

v. 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.

w. 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.

x. Share-based payment transactions

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

3. Segment note

Operating Segments

The Group operates in one business segment being telecommunications. Prior to the acquisition of the TNZI voice business in April 2015 the Group operated primarily out of one geographic segment, Australia, and in one business segment, Telecommunications.

During the 2016 year the Group has re-structured its business and the segmentation reporting and now identifies three core segments.

Segment comparatives reflect the organisational changes that have occurred since the 2015 reporting period in order to present a like-for-like comparison.

Australian Domestic Retail

- The core MyNetFone brand, services residential, SMB (small to medium business), Enterprise and Government customers in Australia.
- Other brands in this segment include, Connexus, callstream, PennyTel and theBuzz.
- Key products in this segment include:
 - o VoIP, Internet, Virtual PBX and SIP trunking
 - o Conferencing, toll free numbers and number porting.

Australia/New Zealand Domestic Wholesale

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

Global Wholesale

- The TNZI Brand services the global wholesale market
- During the year international customers supplied under the Symbio brand have transitioned over to being serviced by the TNZI Global team.
- TollShield and OCA (Open CA) also operate under the Global Wholesale segment
- Key products include:
 - o Voice carriage and International toll free services (ITFS)
 - o Toll Fraud prevention
 - o Class 4 Softswitch and billing

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

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

	Australia Domestic Retail	Australia/New Zealand Domestic Wholesale	Global Wholesale	Total
	\$000	\$000	\$000	\$000
2016				
External revenue	28,917	23,445	108,855	161,217
Inter-segment revenue	-	6,582	1,420	8,002
Segment revenue	28,917	30,027	110,275	169,219
Segment margin	15,078	12,479	21,084	48,641
2015				
External revenue	29,253	20,991	35,431	85,675
Inter-segment revenue	-	810	-	810
Segment revenue	29,253	21,801	35,431	86,485
Segment margin	15,150	8,363	8,271	31,784

Notes to the consolidated financial statements (continued)

For the year ended 30 June	2016	2015
	\$000	\$000
4. Revenue and expenses		
a. Revenue		
Rendering of services	161,217	85,675
Finance revenue consists of:		
Interest on bank deposits	249	88
b. Employee benefits expense		
Wages and salaries	18,527	11,940
Superannuation	1,295	1,068
Shared based payments expense	-	196
Other employee benefits expense	1,401	636
	21,223	13,840
c. Depreciation and amortisation		
Depreciation of fixed assets	3,244	1,474
Amortisation of intangibles	1,465	509
	4,709	1,983
d. Other expenses		
Marketing	1,401	1,145
Property	1,068	793
Technology & support	2,248	969
Distribution	307	218
Accounting and audit	358	196
Legal and consulting	544	88
Bank and transaction costs	379	362
Other administrative expenses	3,567	2,075
	9,872	5,846
e. Financing costs		
Finance charges payable under finance lease	-	8
Finance charges related to hedge instrument	107	-
Finance charges payable on bank loan	954	217
	1,061	225

Notes to the consolidated financial statements (continued)

For the year ended 30 June

2016	2015
\$000	\$000

5. Income tax

a. Income tax expense

The major components of income tax expense are as follows:

Current tax	2,951	2,475
Adjustment in respect of prior year tax	34	(26)
Origination and reversal of temporary differences	(150)	13
Total	2,835	2,462

b. Reconciliation between tax expense and the accounting profit

Profit before income tax	11,825	9,646
At the Group's statutory rate of 30% (2015: 30%)	3,548	2,894
Tax incentives	(250)	(222)
Effect of tax rates in foreign jurisdictions	(64)	(50)
Non-temporary differences	(433)	156
Change in recognised deductible temporary differences	-	(290)
Adjustment in respect of prior year	34	(26)
Total	2,835	2,462

c. Deferred tax asset

Recognised in the accounts:

Relating to temporary differences	735	527
	735	527

The total value of temporary differences not brought to account in the current year is \$118k (2015: Nil).

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June	2016	2015
	\$000	\$000
6. Statement of cash flows reconciliation		
a. Cash and cash equivalents		
Cash and cash equivalents balance comprises:		
Cash at bank	52,889	6,287
b. Reconciliation of net profit after tax to net cash flows from operating activities:		
Profit for the year	8,990	7,184
Adjustments for:		
Depreciation and amortisation	4,709	1,983
Share based payments expense	-	196
Tax expense	2,835	2,462
Changes in assets and liabilities, net of the effects of acquisitions:		
Change in trade and other receivables	639	(8,770)
Change in inventories	(120)	65
Change in trade and other payables	39,155	9,075
Change in deferred revenue	(175)	117
Change in provisions and employee benefits	206	235
Cash generated from operating activities	56,239	12,547
Tax paid	(4,415)	(3,001)
Net cash flow from operating activities	51,824	9,546
7. Trade and other receivables		
Trade receivables	28,307	29,224
Doubtful debts provision	(1,001)	(768)
Provision for credit notes	(300)	(250)
Other receivables	2,061	1,500
	29,067	29,706
8. Other financial assets		
Term deposits	-	323

Term deposits relate to cash on deposit securing bank guarantees and are not available for immediate use. Short term deposits are made for fixed terms and earn interest at the prevailing short term rates.

Notes to the consolidated financial statements (continued)

9. Property, plant and equipment

a. Reconciliation of carrying amount

	Office furniture & equipment	Leasehold improvements	Network infrastructure & equipment	Total
Consolidated	\$000	\$000	\$000	\$000
Cost:				
At 1 July 2014	886	-	4,038	4,924
Acquisitions	441	-	12,749	13,190
Additions	297	237	3,277	3,811
Disposals	-	-	(44)	(44)
Reclassify asset category	-	50	(50)	-
Effect of movement in exchange rates	26	-	487	513
At 30 June 2015	1,650	287	20,457	22,394
At 1 July 2015	1,650	287	20,457	22,394
Acquisitions	-	-	974	974
Additions	1,171	502	4,719	6,392
Disposals (c)	(389)	-	(3,327)	(3,716)
Reclassify asset category	-	-	-	-
Effect of movement in exchange rates	(9)	-	(617)	(626)
At 30 June 2016	2,423	789	22,206	25,418
Accumulated depreciation:				
At 1 July 2014	(580)	-	(2,627)	(3,207)
Acquisitions	(421)	-	(9,037)	(9,458)
Depreciation expense	(158)	(54)	(1,262)	(1,474)
Disposals	-	-	44	44
Reclassify asset category	-	(35)	35	-
Effect of movement in exchange rates	(24)	-	(478)	(502)
At 30 June 2015	(1,183)	(89)	(13,325)	(14,597)
At 1 July 2015	(1,183)	(89)	(13,325)	(14,597)
Acquisitions	-	-	-	-
Depreciation expense	(316)	(465)	(2,463)	(3,244)
Disposals (c)	389	-	3,327	3,716
Reclassify asset category	-	-	-	-
Effect of movement in exchange rate	8	-	710	718
At 30 June 2016	(1,102)	(554)	(11,751)	(13,407)
Net book value:				
At 30 June 2015	467	198	7,132	7,797
At 30 June 2016	1,321	235	10,455	12,011

b. Property, plant and equipment work in progress

Included in leasehold improvements is \$86k of WIP (work in progress) that is expected to complete in August 2016.

c. Disposals

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June

2016	2015
\$000	\$000

10. Trade and other payables

Trade payables	52,608	8,787
Other creditors and accruals	13,895	20,477
Security deposits held	47	40
	66,550	29,304

11. Loans and borrowings**Current liabilities:**

Secured bank loan	2,500	2,500
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Non-current liabilities:

Secured bank loan	11,190	22,790
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13,690	25,290
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The Group's bank facility (the "Facility") consists of a \$27,000,000 revolving acquisition facility and an \$850,000 (2015: \$500,000) revolving multi-option credit facility. The Facility has a maturity date of 20 April 2020.

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

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

12. Financial liabilities**Current liabilities**

Forward foreign exchange contract - fair value hedge	2,812	-
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Non-current liabilities

Interest rate swap contract - cash flow hedge	282	23
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3,094	23
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The Group's bank facility is a variable interest rate facility. It is the Groups policy to protect a portion of the bank facility from exposure to fluctuations in interest rates. Accordingly on 23 April 2015 the Group entered into an interest rate swap agreement to protect the loan facility from exposure to increasing interest rates. A hedge relationship was designated on this date. Under this interest rate swap, the Group is obliged to receive interest at a variable rate and pay interest at a fixed rate of 2.64% per annum. The swap covers 89% (2015: 52%) 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.

Notes to the consolidated financial statements (continued)

Forward foreign exchange contract - fair value hedge

There are significant creditor balances derived in foreign currencies, including Euro, Japanese Yen, Pound Sterling, and U.S. Dollar. These exposures on creditor balances are largely offset by debtor balances in corresponding currencies. Where this is not the case it is the Groups policy to protect these liabilities from exposure to fluctuations in foreign exchange rates. Accordingly, on 31 May 2016 the Group entered into a forward foreign exchange contract to protect the exposed creditor balances from increasing foreign exchange rates. A hedge relationship was designated on this date. During the year ended 30 June 2016 the Group recognised a \$2,368k foreign exchange loss on the fair value hedge excluding transaction costs and a \$2,102k gain on the hedged items. There has been no material ineffectiveness on the fair value hedge relationship during the year.

For the year ended 30 June	2016	2015
	\$000	\$000
Foreign exchange hedge effectiveness		
Foreign exchange movement		
Foreign currency term deposits	1,969	-
Foreign currency liabilities	133	-
Gain in foreign currency valuations	2,102	-
Fair value of hedging contract	2,812	-
Less transaction costs of hedging contract	(444)	-
Loss in valuation of hedge	2,368	-
Hedge effectiveness	89%	-

13. Deferred revenue

Pre-paid calling credits	1,668	1,843
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Deferred revenue relates to cash received in advance from customers with respect to pre-paid calling credits, The balance represents the unused call credits as at balance date.

14. Provisions

	Annual leave	Long service leave	Total
	\$000	\$000	\$000
As at 1 July 2015	1,169	659	1,828
Arising during the year	1,096	103	1,199
Acquired during the year	63	-	63
Utilised during the year	(1,028)	(28)	(1,056)
As at 30 June 2016	1,300	734	2,034
Current	1,300	-	1,300
Non-current	-	734	734

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June

2016	2015
\$000	\$000

15. Finance lease liability

Finance lease liability: Current

- 16

Finance lease liability: Non-current

- -

Refer to note 18 (b) for the terms and conditions relating to the finance lease obligations.

16. Issued capital

a. Ordinary shares

Issued capital

26,440 9,932

Movements in ordinary shares on issue:

	2016		2015	
	Number of shares	\$000	Number of shares	\$000
At 1 July	62,710,215	9,932	62,460,215	9,507
Exercise of share options (i)	10,000	15	250,000	425
Exercise of share options (ii)	535,000	1,592	-	-
Issued for cash (iii)	4,054,054	14,449	-	-
Issued from DRP participation (iv)	145,068	452	-	-
At 30 June	67,454,337	26,440	62,710,215	9,932

(i) 10,000 options were exercised with an exercise price of \$1.70.

(ii) 535,000 options were exercised with an exercise price of \$3.00.

(iii) 4,054,054 shares were issued at a price of \$3.70.

(iv) 145,068 shares were issued as a result of participation in the MNF Group dividend reinvestment plan (at an issue price of \$3.17 and \$3.11).

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.

Notes to the consolidated financial statements (continued)

b. Share options

Movements in share options on issue:	2016		2015	
	Number	WAEP \$	Number	WAEP \$
Outstanding at 1 July	910,000	2.97	270,000	1.70
Granted during the year	-	-	890,000	3.00
Exercised during the year	(10,000)	1.70	(250,000)	1.70
Exercised during the year	(535,000)	3.00	-	-
Expired during the year	(10,000)	1.70	-	-
Outstanding at 30 June	355,000	3.00	910,000	2.97
Exercisable	355,000	3.00	910,000	2.97

The outstanding options balance as at 30 June 2016, issued under the share based payment option scheme to directors, executives and employees is represented by 355,000 options with an exercise price of \$3.00 and an expiry date of 31 August 2016.

17. Share based payments

Outstanding options as at year end:	2016	2015
	Number	Number
Employee option plan	355,000	460,000
Option granted to directors	-	450,000
Total	355,000	910,000

a. Employee option plan (EOP)

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

An option may also be exercised in special circumstances, that is, at any time within 6 months after the employee's death, total and permanent disablement, or retrenchment. An option lapses upon the termination of the employee's employment by the Company and, unless the terms of the offer of the option specify otherwise, lapses three years after the date upon which it was granted. The exercise price per share for an option will be the average closing market price of the Company's share over the five trading days before their issue.

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 the directors

No options were granted to Directors during the year. The following table illustrates the number and weighted average exercise prices (WAEP) of and movements of share options held by directors during the year:

	2016		2015	
	Number	WAEP \$	Number	WAEP \$
Outstanding at 1 July	450,000	3.00	-	-
Granted during the year	-	-	450,000	3.00
Exercised during the year	450,000	3.00	-	-
Outstanding as at 30 June	-	-	450,000	3.00

Notes to the consolidated financial statements (continued)

18. Commitments and contingencies

a. Operating lease commitments

Operating leases relate to premises with lease terms remaining between 3 and 6 years. The consolidated entity does not have an option to purchase the leased assets at the expiry of the lease terms.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2016 are as follows:

	2016	2015
	\$000	\$000
Within one year	1,105	771
After one year, not more than five years	4,195	526
More than five years	230	-
	5,530	1,297

b. Finance lease commitments

The Group has used finance leases to acquire Network infrastructure and equipment. Future minimum lease payments under purchase contracts together with the present value of the net minimum lease payments are as follows:

	2016	2015
	\$000	\$000
Within one year	-	16
After one year, not more than five years	-	-
More than five years	-	-
Total minimum lease payments	-	16
Less amounts representing finance charges	-	-
Present value of minimum lease payments	-	16
Included in the financial statements as:		
Finance lease liability: Current	-	16
Finance lease liability: Non-current	-	-
Total	-	16

The finance lease obligations consisted of one finance lease with a maturity date of August 2015. The finance lease liabilities were secured against the assets to which they relate.

19. Events after reporting date

a. Dividends

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

b. Share Options

Subsequent to year end 60,000 options with an exercise price of \$3.00 were exercised by employees.

Since the reporting date, there have been no other significant events, other than those mentioned above, which would impact on the financial position of the Company as disclosed in the Statement of Financial Position as at 30 June 2016, and on the cash flow of the Company for the year ended on that date.

20. Auditors remuneration

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

	2016	2015
	\$000	\$000
Auditors of the company:		
Amounts received or due and receivable by MNSA Pty Ltd Chartered Accountants for:		
Audit and review of the annual report of the entity	255	112
Non-audit services	-	-
Other Auditors:		
Audit and review of financial statements	57	36
	312	148

Notes to the consolidated financial statements (continued)

21. Director and executive disclosures

a. Details of Key Management Personnel (KMP)

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 Key Management Personnel

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

c. Shareholdings of Key Management Personnel

	Year	Balance at the beginning of period	Traded during the year	Options exercised	Balance at end of period
Directors:					
Mr Terry Cuthbertson	2016	1,000,000	(180,000)	100,000	920,000
	2015	1,125,000	(125,000)	-	1,000,000
Mr Michael Boorne	2016	682,500	(77,433)	100,000	705,067
	2015	1,019,749	(337,249)	-	682,500
Mr Andy Fung	2016	14,448,955	(579,739)	100,000	13,969,216
	2015	14,488,955	(40,000)	-	14,448,955
Mr Rene Sugo	2016	13,488,955	(478,379)	150,000	13,160,576
	2015	13,488,955	-	-	13,488,955
Executives:					
Mr Matthew Gepp	2016	50,000	(50,000)	-	-
	2015	-	-	50,000	50,000
Ms Catherine Ly	2016	260,000	2,665	20,000	282,665
	2015	210,000	-	50,000	260,000

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

d. Share options of Key Management Personnel

	Year	Balance at the beginning of period	Granted	Options exercised	Balance at end of period
Directors:					
Mr Terry Cuthbertson	2016	100,000	-	(100,000)	-
	2015	-	100,000	-	100,000
Mr Michael Boorne	2016	100,000	-	(100,000)	-
	2015	-	100,000	-	100,000
Mr Andy Fung	2016	100,000	-	(100,000)	-
	2015	-	100,000	-	100,000
Mr Rene Sugo	2016	150,000	-	(150,000)	-
	2015	-	150,000	-	150,000
Executives:					
Mr Matthew Gepp	2016	50,000	-	-	50,000
	2015	50,000	50,000	(50,000)	50,000
Ms Catherine Ly	2016	20,000	-	(20,000)	-
	2015	50,000	20,000	(50,000)	20,000

Notes to the consolidated financial statements (continued)

22. 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	
		2016	2015
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%
Numbering Services Australia Pty Limited	Australia	100%	100%
Symbio Wholesale (Singapore) Pte Limited	Singapore	100%	100%
Symbio Wholesale International Pty Limited (i)	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 (ii)	New Zealand	100%	-

(i) On 28 June 2016 the board resolved to change the name of Symbio Wholesale International Pty Limited to TNZI International Pty Limited

(ii) Symbio Wholesale NZ Pty Limited was registered on 19 January 2016

Notes to the consolidated financial statements (continued)

23. Goodwill and other intangible assets

Consolidated	Goodwill	Brands	Customer contracts	Software development costs	Software and other assets [#]	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance at 1 July 2014	11,951	-	-	-	-	11,951
Acquisition of iBoss	-	-	-	-	1,580	1,580
Acquisition of OpenCA	-	-	-	-	500	500
Acquisition of TNZI	2,666	1,811	1,377	-	9,115	14,969
Additions	-	-	-	817	-	817
Balance at 1 July 2015	14,617	1,811	1,377	817	11,195	29,817
Adjustment to fair value from provisional accounts (TNZI)	2,710	12	56	-	31	2,809
Additions	-	-	-	150	-	150
Balance at 30 June 2016	17,327	1,823	1,433	967	11,226	32,776
Accumulated Amortisation						
Balance at 1 July 2014	-	-	-	-	-	-
Amortisation	-	-	(69)	-	(440)	(509)
Balance at 1 July 2015	-	-	(69)	-	(440)	(509)
Amortisation	-	-	(290)	-	(1,175)	(1,465)
Balance at 30 June 2016	-	-	(359)	-	(1,615)	(1,974)
Net Book Value						
At 30 June 2015	14,617	1,811	1,308	817	10,755	29,308
At 30 June 2016	17,327	1,823	1,074	967	9,611	30,802

[#] Acquired externally or purchased as part of a business combination.

Notes to the consolidated financial statements (continued)

24. Impairment testing

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

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

Goodwill	30 June 2016	30 June 2015
	\$000	\$000
CGUs		
Wholesale	6,086	6,086
Data	4,533	4,533
Retail	1,332	1,332
International	5,376	2,666
	17,327	14,617

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

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

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

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

Management considers that, as the wholesale, retail and data CGUs operate in the Telecommunications Industry in Australia servicing the same markets, the risks specific to each unit are comparable and therefore a discount rate of 9.6% (2015: 10.0%) 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% (2015: 2.5%). The International CGU has been assessed using a discount rate of 14.0% (2015: 14.6%) and a Terminal Value of 2.0% (2015: 2.0%)

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

Notes to the consolidated financial statements (continued)

25. Business combinations

On 1 April 2015 MNF Group Limited purchased the global wholesale voice business of Telecom New Zealand International (TNZI) from Spark New Zealand Limited for NZD 22.4m (A\$22.0m).

Completion of the US component of the acquisition took place on 31 May 2016. From that date the US assets and liabilities have been included in the consolidated balance sheet of the Group.

Following completion of the US component and after further assessment of the fair value of the identifiable assets and liabilities of the whole TNZI acquisition, including subsequent adjustments to the purchase price through the working capital adjustment, the final consolidated acquisition accounting is illustrated in the table below:

	2016 Consolidated final	2015 Consolidated provisional
	\$000	\$000
Purchase consideration paid	22,010	22,010
Plus working capital adjustment	4,502	4,684
Less US TNZI voice business component	-	(4,420)
Net cash paid for TNZI voice business	26,512	22,274
Less fair value of identifiable net assets	(21,136)	(19,608)
Goodwill	5,376	2,666
Identifiable net asset acquired:		
Trade receivables	20,216	14,985
Doubtful debts provision	(938)	(686)
Other Debtors	1,446	1,342
Deferred tax asset	78	78
Fixed assets	14,188	13,190
Accumulated depreciation	(9,459)	(9,459)
Customer contracts	1,433	1,377
Brand names	1,823	1,811
Software	9,146	9,115
Trade and other payables	(16,190)	(11,601)
Income tax payable	(292)	(292)
Provisions	(315)	(252)
Provisional fair value of identifiable net assets	21,136	19,608

The fair value of TNZI's intangible assets (brand name, customer bases and software assets) has been measured based on an independent valuation.

	Consolidated final	Consolidated provisional
Consideration paid in advance:		
For US TNZI voice business	-	4,420

With the acquisition of the US TNZI voice business complete, the consideration paid in advance for the US component has been accounted for in the acquisition accounting above.

Notes to the consolidated financial statements (continued)

26. Earnings per share

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

	2016	2015
	\$000	\$000
Net profit attributable to ordinary equity holders of the Company	8,990	7,184
Weighted average number of shares:	Number	Number
	\$000	\$000
Weighted average number of ordinary shares for basic earnings per share	66,851	62,538
Add effect of dilution:		
- Share options	355	910
Weighted average number of ordinary shares for diluted earnings per share	67,206	63,448

27. Dividends paid and proposed

	Cents per share	\$000	Date of payment
Recognised amounts:			
2015 fully franked final dividend declared and paid	3.25	2,170	29 September 2015
2016 fully franked interim dividend declared and paid	3.50	2,342	30 March 2016
Unrecognised amounts:			
2016 fully franked final dividend declared (i)	3.50	2,363	-

(i) The final dividend was declared on 16 August 2016. The amount has not been recognised as a liability in the 2016 financial year and will be brought to account in the 2017 financial year.

The proposed payment date of the 2016 final dividend is 29 September 2016.

The amount of franking credits available for future reporting periods is \$4,207,757 (2015: \$2,764,834).

The tax rate at which paid dividends have been franked is 30% (2015: 30%).

Dividends proposed will be franked at the rate of 30%.

Notes to the consolidated financial statements (continued)

28. Parent entity

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

	2016	2015
	\$000	\$000
Statement of profit or loss and other comprehensive income		
Profit/(loss) attributable to the owners of the company	23,120	(3,661)
Other comprehensive income	259	(23)
Total comprehensive income/(loss) attributable to the owners of the company	23,379	(3,684)
Statement of financial position		
Total current assets	6,582	3,781
Total non-current assets	44,485	43,968
Total current liabilities	(374)	(2,698)
Total non-current liabilities	(13,951)	(43,167)
Net assets	36,742	1,884
Issued Capital	31,255	14,747
Reserves	1,071	1,329
Retained earnings	4,416	(14,192)
Total equity	36,742	1,884

In 2014 MNF Group Limited issued a guarantee to Telstra Corporation Limited. This guarantee covers the primary obligations including any debts of its wholly owned subsidiary Symbio Wholesale Pty Limited. It does not impose any greater liability on MNF Group Limited than is already in place for Symbio Wholesale Pty Limited.

During the year MNF Group Limited has not entered into any material contractual commitments for the acquisition of property, plant and equipment.

29. Financial risk management objectives and policies

The Group's principal financial instruments as at year end comprise cash at bank, short term deposits and loan facility.

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

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 policy is to maintain at least 50% of its long term loan at fixed rates using interest rate swaps whereby the Group agree to exchange at defined periods the net difference between fixed and floating interest rates based on an agreed notional principal amount. This interest rate swap is designated into a hedge relationship and satisfies the requirements for hedge accounting.

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 transactions is in USD. The Groups policy to manage its foreign exchange risk against its functional currency is to hedge firm commitments and highly probable and material forecast transactions over varying time horizons using forward exchange contracts.

Notes to the consolidated financial statements (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and interest revenue through the use of current accounts and short term deposits.

Credit risk

The company has no significant exposure to credit risk. For credit sales the company 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. Moreover, the company considers it is appropriate to provide a provision for doubtful debts for the year ended 30 June 2016.

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.

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	11,259	11,259	5,870	5,870
Weighted average effective interest rate 0.1% (2015: 1.4%)				
Cash at call	41,630	41,630	417	417
Weighted average effective interest rate 3.2% (2015: 3.1%)				
Trade and other receivables	29,067	29,067	29,706	29,706
Other financial assets	-	-	323	323
Weighted average effective interest rate Nil% (2015: 3.1%)				
Financial liabilities				
<i>On statement of financial position</i>				
Trade payables	66,550	66,550	29,304	29,304
Loans and borrowings	13,690	13,690	25,290	25,290
Weighted average effective interest rate 4.87% (2015: 4.57 %)				
Forward foreign exchange contract - fair value hedge	2,812	2,812	-	-
Interest rate swap contract - cash flow hedge	282	282	23	23

30. Company details

The registered office and principal place of business of MNF Group Limited is:
Level 3, 580 George Street, Sydney, NSW, 2000, Australia (effective 8 August 2016)

Directors' Declaration

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

1. The financial statements and notes, as set out on pages 34 to 67, 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 2016 and of the performance for the year ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

On behalf of the Board



Terry Cuthbertson
Chairman



Rene Sugo
Director

Sydney, 16 August 2016



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 2016 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 16th day of August 2016



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 Financial Report

We have audited the accompanying financial report of MNF Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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



Independence

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

Auditor's Opinion

In our opinion:

- a. the financial report of MNF Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 32 of the directors' report for the year ended 30 June 2016. 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.

Auditor's Opinion

In our opinion the remuneration report of MNF Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

MNSA PTY LTD

MNSA PTY LTD

Mark Schiliro
Director

Sydney

Dated this 16th day of August 2016



ASX Additional Information

ASX Additional Information

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

The information is current as at 01 August 2016.

(a) Distribution of equity securities

(i) Ordinary share capital

67,504,337 fully paid ordinary shares are held by 2,693 individual shareholders.
All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

305,000 unlisted options are held by 15 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	716
1,001 – 5,000	1,095
5,001 – 10,000	414
10,001 – 100,000	439
100,001 and over	29
	2,693

The number of security investors holding less than a marketable parcel of ordinary shares is 80.

(b) Substantial shareholders

Ordinary shareholders	Fully Paid	
	Number	Percentage
Mr Andy Fung & Ms Monique Ly	13,969,216	20.69
Avondale Innovations Pty Ltd	12,138,955	17.98
Citicorp Nominees Pty Ltd	6,299,538	9.33
National Nominees Limited	6,072,765	9.00

ASX Additional Information

(c) Twenty largest holders of quoted equity securities

	Fully Paid	
	Number	Percentage
Mr Andy Fung & Ms Monique Ly	13,969,216	20.69
Avondale Innovations Pty Ltd	12,138,955	17.98
Citicorp Nominees Pty Ltd	6,299,538	9.33
National Nominees Limited	6,072,765	9.00
BNP Paribas Noms Pty Ltd	2,024,343	3.00
L & C Pty Ltd	1,997,315	2.96
RACS SMSF Pty Ltd	1,021,621	1.51
Kore Management Services Pty Ltd	920,000	1.36
Boorne Gregg Investments Pty Ltd	860,000	1.27
Boorne Superannuation Fund Pty Ltd	805,000	1.19
Lee Superfund Management Pty Ltd	550,000	0.81
JP Morgan Nominees Australia Limited	549,954	0.81
G & E Properties Pty Ltd	521,522	0.77
Mr Michael John Boorne	357,567	0.53
Earglow Pty Ltd	335,000	0.50
ABN AMRO Clearing Sydney Nominees Pty Ltd	321,087	0.48
Mr Christopher John Ayres	300,000	0.44
Endan Pty Ltd	288,294	0.43
Ms Catherine Ly	282,665	0.42
Mr Michael Karl Korber	246,500	0.37
	49,861,342	73.85

(d) On-market buy back

There is currently no on-market buy back.

Corporate Information

Directors

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

Company Secretary

Catherine Ly

Chief Financial Officer

Matthew Gepp

Registered Office

Level 3, 580 George Street
Sydney NSW 2000
Australia

Principal Place of Business

Level 3, 580 George Street
Sydney NSW 2000
Australia
Phone: 61 2 8008 8000

Share Register

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

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

The Group's functional and presentation currency is AUD (\$).

The company is listed on the Australian Securities Exchange under the code MNF.

The Annual General Meeting of MNF Group Limited will be held at Level 3, 580 George Street, Sydney at 11:00 on 25 October 2016.

Bankers

Westpac Banking Corporation
Westpac Place
Sydney NSW 2000
Australia

Auditors

MNSA Pty Ltd
Chartered Accountants
Level 2, 333 George Street
Sydney NSW 2000
Australia

Annual Report

Copies of the 2016 Annual Report with the Financial Statements can be downloaded from:

www.mnfgroup.limited/investors/annual-reports



mnf group

MNF Group Limited Annual Report 2016