Appendix 4E

Annual Report

For the financial year ended
30 June 2020

Appendix 4E

The following information sets out the requirements of the Appendix 4E of Megaport Limited ('the Company') with the stipulated information either provided here or cross referenced to the Annual Report for the financial year ended 30 June 2020.

This Appendix 4E covers the reporting period from 1 July 2019 to 30 June 2020. The previous corresponding period is 1 July 2018 to 30 June 2019.

Results for Announcement to the Market

Summary of Financial Information

	1 July 2019 to 30 June 2020	1 July 2018 to 30 June 2019	Change $	Change %
Revenue from ordinary activities	58,039,659	35,064,648	22,975,011	66%
Profit/(loss) from ordinary activities after tax attributable to members*	(47,650,065)	(33,564,095)	(14,085,970)	(42%)
Net profit/(loss) for the period attributable to members*	(47,650,065)	(33,564,095)	(14,085,970)	(42%)

* AASB 16 Leases became effective for the Group on 1 July 2019. AASB 16 establishes principles for the recognition and measurement of leasing arrangements. The profit/(loss) from ordinary activities and net profit/(loss) for the year ended 30 June 2020 include depreciation of the right-of-use assets and interest expense on lease liabilities relating to adopted AASB 16, which were accounted for as direct network costs and rent expenses (included in "other expenses") in the comparative period. The loss from ordinary activities and net loss for the year ended 30 June 2020 without AASB 16 impact were $47.4 million

Dividends

No dividend has been proposed or declared for the year ended 30 June 2020.

Commentary on the Results for the Period

Refer to Media Release – FY20 Full Year Results and Global Update – for the year ended 30 June 2020 and the Director's Report 'Review of Operations' section in the 30 June 2020 Annual Report for commentary on the results for the year and explanations to understand the Group's revenue and profit/(loss) from ordinary activities.

Financial Statements

Refer to the Financial Report in 30 June 2020 Annual Report for the following statements and the accompanying notes, including the specific disclosures:

- Consolidated Statement of Profit or Loss and Other Comprehensive Income
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows

Each statement includes note references to disclosures prepared in accordance with Megaport's Statement of Compliance (refer to Note 1(b) in the Financial Report in 30 June 2020 Annual Report).

Net Tangible Asset Backing

	30 June 2020 cents	30 June 2019 cents
Net tangible asset backing per ordinary share	129.95	74.02

The number of Megaport shares in issue at 30 June 2020 is 153,261,431 (2019: 134,703,635).

Details of entities where control has been gained or lost during the period

Name of Entity	Note	Country of incorporation	Date control obtained/lost	% of equity held by immediate parent
Megaport (France) SAS	Incorporation	France	22 July 2019	100%
Megaport (Deutschland) GmbH	De-registered	Germany	21 February 2020	100%

Details of Associates and Joint Ventures

There are no associates or joint ventures of the Company.

The information provided in the Appendix 4E is based on the 30 June 2020 Annual Report, which has been prepared in accordance with the Corporations Act 2001, and Australian Accounting Standards and Interpretations issued by the Australian Standards Board.

The 30 June 2020 Annual Report has been audited and is not subject to audit dispute or qualification.

Megaport

Annual Report 2020

ABOUT

Megaport is the global leading provider of Elastic Interconnection services. Using Software Defined Networking (SDN), the Company's global platform enables customers to rapidly connect their network to other services across the Megaport Network. Services can be directly controlled by customers via mobile devices, their computer, or our open API. Megaport connects more than 1,850 customers in over 700 enabled data centres globally. Megaport is an Alibaba Cloud Technology Partner, AWS Technology Partner, AWS Networking Competency Partner, Cloudflare Network Interconnect Partner, Google Cloud Interconnect Partner, IBM Direct Link Cloud Exchange provider, Microsoft Azure Express Route Partner, Nutanix Direct Connect Partner, Oracle Cloud Partner, Rackspace RackConnect Partner, Salesforce Express Connect Partner, and SAP PartnerEdge Open Ecosystem Partner.

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COMPANY HIGHLIGHTS

Monthly Recurring Revenue[1]

$3.6M → $5.7M

30 JUNE 2019 → **30 JUNE 2020**

Annualised Revenue[2]

$43.3M → $67.8M

30 JUNE 2019 → **30 JUNE 2020**

Total Number of Customers

1,490 → 1,842

30 JUNE 2019 → **30 JUNE 2020**

1. Monthly Recurring Revenue (MRR) is revenue (excluding one-off and non-recurring revenue) for the month of June.
2. Annualised Revenue is MRR for the month of June multiplied by 12

Total Number of Services[3]

11,561 → **16,712**

30 JUNE 2019 | **30 JUNE 2020**

Total Number of Ports

4,069 → **5,767**

30 JUNE 2019 | **30 JUNE 2020**

Total Installed Data Centres[4]

300 → **366**

30 JUNE 2019 | **30 JUNE 2020**

3. Total Services comprises of Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), and Internet Exchange (IX)
4. Installed Data Centres are Data centres in which Megaport has a Point of Presence with physical networking hardware. This definition is consistent with the data centre count reported previously.

CHAIRMAN'S LETTER

Dear Valued Shareholders,

I am honoured to present you with the Fiscal Year 2020 Chairman's Report for Megaport Limited.

It is incredible to see how Megaport, over the past seven years, has become a fundamental part of how businesses operate in the cloud economy the world over. Today we count over 1800 customers, from small and medium enterprises to Fortune 500 companies.

The vision for Megaport has always been clear: to provide a platform that makes it easy for businesses to connect to the digital services they need. We pioneered the as-a-service model for networking and the benefits of that model, along with our global ecosystem, have never been more apparent than in this current climate.

As COVID-19 fundamentally changed the way we live and how businesses operate, Megaport has been there to support our customers and the people that rely on their services. We helped enable many consumer and commercial networks to deal with the massive surge in traffic they experienced as large parts of the world rapidly switched to a distributed work and education model. I was immensely proud of our team's commitment to our customers during this incredibly difficult period.

Looking forward, our customer focused innovation doesn't let up, and a lot of the time and investment we made in FY20 will bear fruit in future years as we move beyond the data centre and out to the edge under the "Megaport Connected Edge" strategy. I was delighted with the recent announcement of Megaport Virtual Edge (MVE), which will allow customers to extend the edge of their networks closer to their branches and on demand. Our recently announced collaboration with Cisco will enable Cisco SD-WAN as the first MVE use case and empower end-to-end control of branch, cloud, and service connectivity through a single pane of glass. This is the first of many technology partners that will integrate with our platform to broaden our reach and drive greater end-to-end automation and service orchestration.

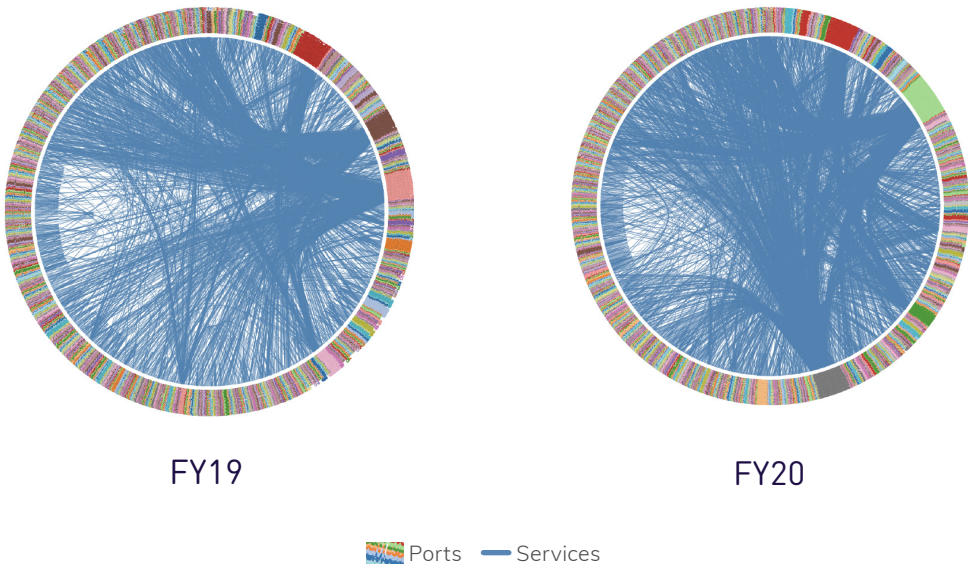
I am very proud of the Megaport team for their continued drive to innovate our platform and deliver value to our customers and shareholders. Megaport's inclusion in the benchmark S&P/ASX200 index on June 22, 2020 is a testament to our shareholders' confidence in our vision and our performance. I would like to take this opportunity to thank the Megaport team, and you, our valued shareholders, for your continued support as we transform the way the world does business in the cloud economy.

Bevan Slattery
Chairman and Executive Director
19 August 2020

> *Looking forward, our customer focused innovation doesn't let up, and a lot of the time and investment we made in FY20 will bear fruit in future years as we move beyond the data centre and out to the edge under the "Megaport Connected Edge" strategy.*

The Network Effect

Megaport Service Connections



COMPANY HIGHLIGHTS

Leading Cloud Partnerships

With addition of:

rackspace technology

aws

Microsoft Azure

ORACLE Cloud

Google Cloud

IBM Cloud

salesforce

Alibaba Cloud

SAP

NUTANIX

Total Enabled Data Centres[1]

→

669

ENABLED[1]

1. Enabled Data Centres is the total of Installed Data Centres plus Extended Data Centres.
Extended Data Centres are data centres that can be connected directly to Megaport networking hardware within Installed Data Centres by means of interconnection services offered directly by the data centre campus / facility operator of an Installed Data Centre.

Cloud Onramps

65 NEW | 197 TOTAL

Cloud Regions

36 NEW | 109 TOTAL

Megaport Marketplace

360+

Service providers on Megaport's self-service Marketplace

LETTER FROM THE CEO

Fiscal Year 2020 proved another year of significant growth for Megaport.

Fiscal Year 2020 proved another year of significant growth for Megaport. Not only did we achieve record revenue growth, we also expanded to several new countries including France, Denmark, Spain, and Japan – one of the top five countries consuming cloud according to IDC. Today, our platform reaches 128 cities in 24 countries where enterprise consumption of cloud services keeps growing.

As we grew our service footprint to many more data centres underserved by cloud connectivity, we also increased the breadth of our ecosystem at an unrivaled pace. As of today we have more than 200 cloud onramps connected on the Megaport Software Defined Network; our customers have never had more choice in how they enable their IT architectures. Our service provider ecosystem, combined with our more than 700 enabled data centres across 105 data centre operators, puts Megaport in a unique position to drive the connectivity model that will scale the future of IT services.

Our innovation roadmap continues to keep Megaport out in front. With the development of Megaport Virtual Edge, we have a roadmap for the integration of many additional technology partners to enable even more ways to take advantage of Megaport's platform to rapidly interconnect with locations and services. Broadening our ecosystem with leading technology companies like Cisco, who we are collaborating with on SD-WAN, bolsters our ability to service the market and unlocks new go to market capabilities.

The investments we have made in our network, technology, and global organisation are aligned to capturing the opportunity of increased demand for cloud connectivity. Megaport is positioned on a path to profitability. A key priority in Fiscal Year 2021 is driving the business to achieve EBITDA breakeven on an exit run rate basis in FY21. In fact, this year we were able to measurably improve our EBITDA while also expanding our installed data centre footprint by 22%.

Megaport is well-funded and we have excellent operating leverage in our model. Our teams are prepared to drive greater service uptake on the Megaport platform through direct and channel go to market initiatives. As our teams stay focused on customer experience, usability, and value generation through growing our ecosystem and service capabilities, customers consume more services across the Megaport network. This, in turn, drives more value to our partners, ecosystem, customers, and to our shareholders.

We are continually optimising our commercial capabilities. Recently, our teams participated in comprehensive sales training to better drive our revenue pipeline and provide the overall experience our customers deserve.

Our team is now 200 people strong and spans many countries around the world. We have a history of getting the job done in a highly distributed, remote working environment by the very nature of our global business. With this flexibility and efficiency built into

> *Broadening our ecosystem with leading technology companies like Cisco, who we are collaborating with on SD-WAN, bolsters our ability to service the market and unlocks new go to market capabilities.*

our DNA, it is no surprise that our team's productivity has not been impacted by the change to a complete work from home dynamic to ensure our team's safety.

Though seven years have passed since the founding of Megaport, we have maintained our start-up sensibility when it comes to being nimble and responsive to the market. At the same time, we have matured as an organisation. Our systems and operational discipline allow us to service some of the biggest companies in the world, many of them shaping the technology of today and tomorrow. By building a bench of experienced subject matter experts across various IT and networking technologies, Megaport has become a trusted partner. We're committed to empowering businesses with an agile networking methodology through our platform.

I would like to thank the entire team for another hugely successful year. Without each team member driving our customer solutions and executing on the wider global strategy with passion and enthusiasm, Megaport could not report the massive achievements we have had so far. On behalf of the team, I sincerely thank you for your investment in Megaport.

Vincent English
CEO – Megaport Limited
19 August 2020

Global Revenue

FY20 Performance

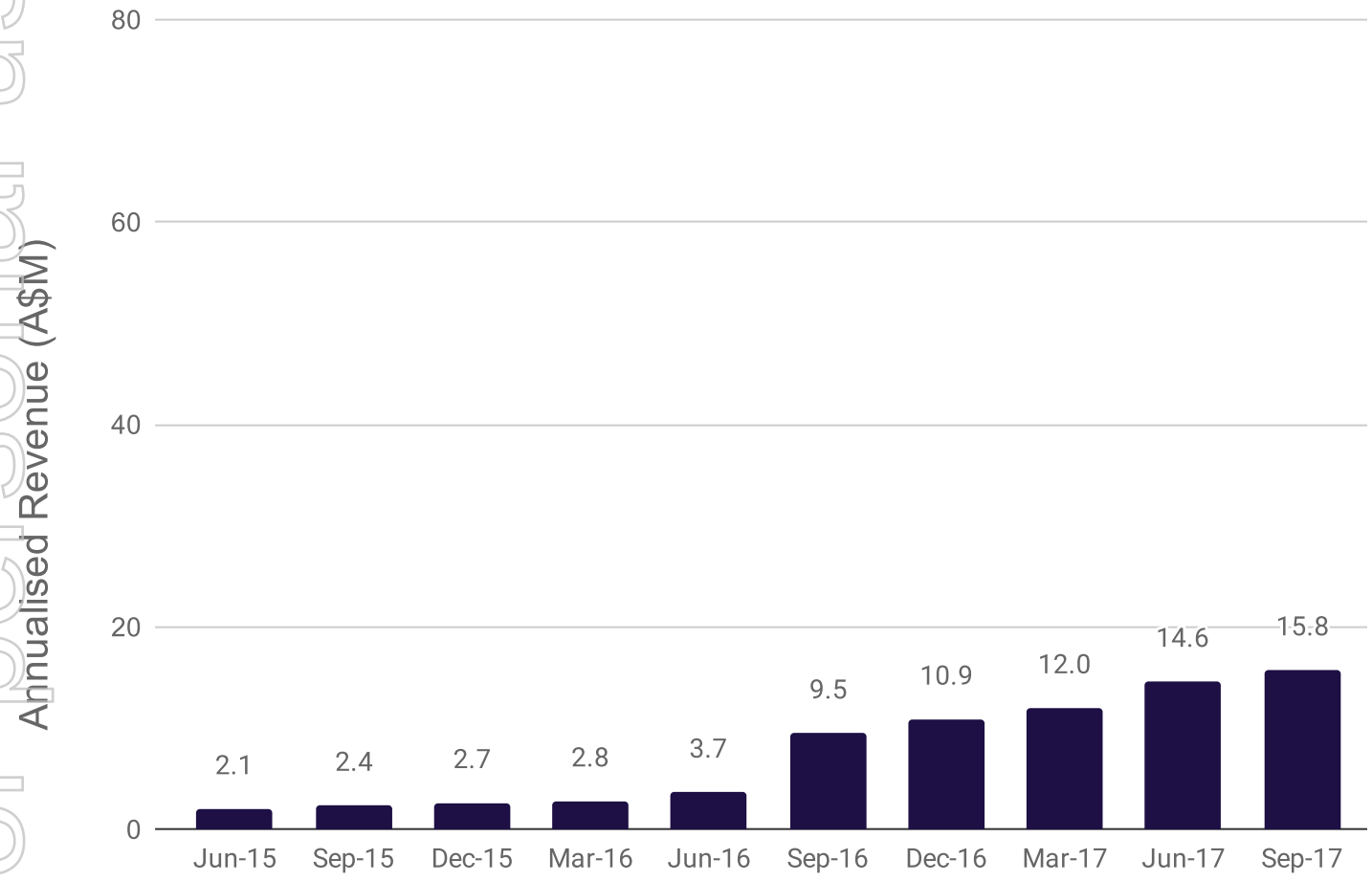
$58.0M

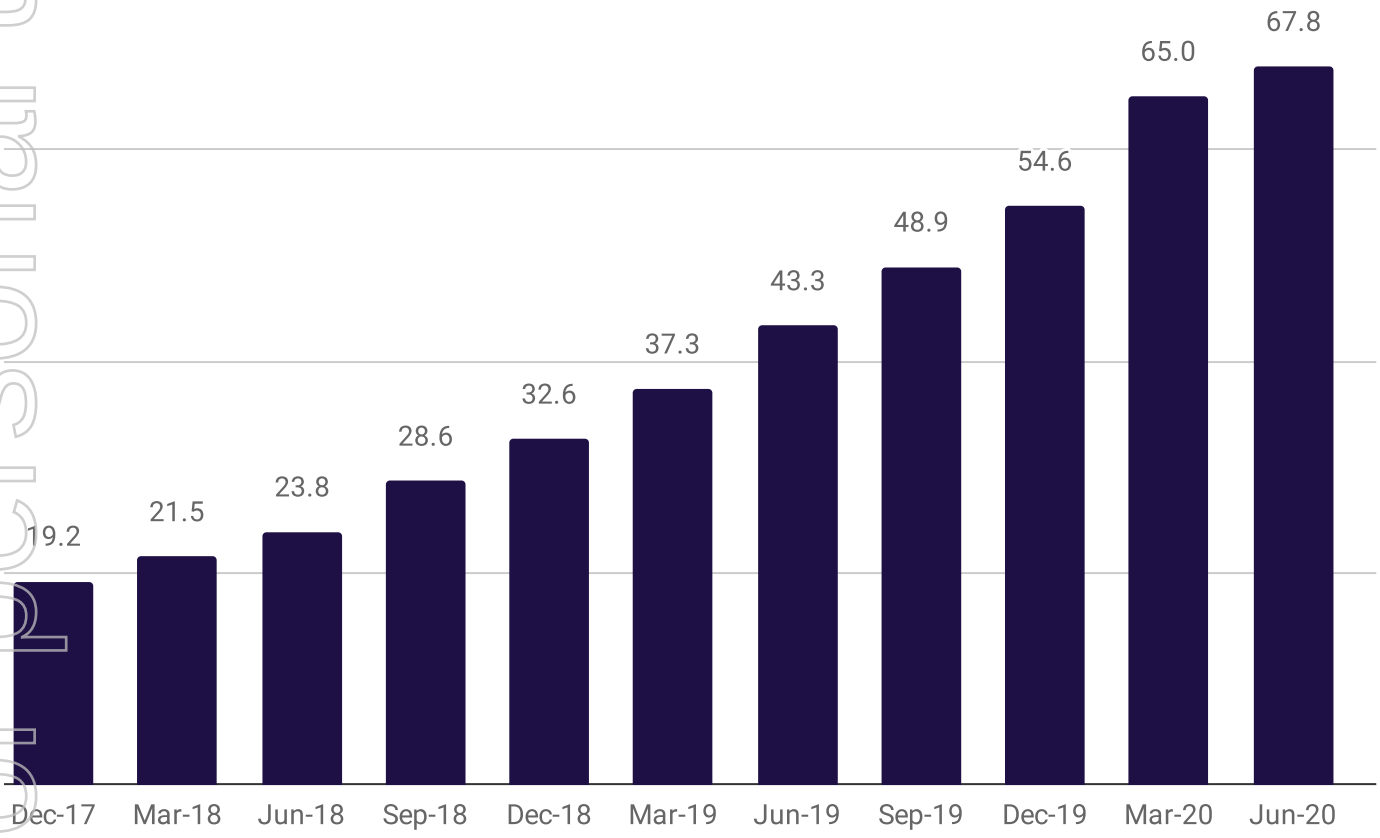
↑22.9M | 66%

FY19 $35.1M

ANNUALISED REVENUE

Consistent growth in customers, ports, and services has enabled Megaport to grow annualised revenues every quarter for the past 5 years.





Annualised Revenue is Monthly Recurring Revenue for the last month of the quarter multiplied by 12

PEOPLE + CULTURE

Culture and Values

Megaport was founded on the ideals that transparency, neutrality, flexibility, immediacy, and transformation were needed in the global connectivity industry to unlock the value of cloud adoption.

The Megaport Values (Accelerate, Collaborate, Innovate, and Celebrate) are derived directly from these ideals and are built into the core of the Company; from ongoing relationships with customers and partners, to daily interactions with team members.

To measure staff engagement and to determine business needs, Megaport regularly surveys employees and conduct on-boarding, off-boarding, and pulse surveys for team development. The 2019 Employee Engagement Survey identified key themes including strategic communication, leadership development, workforce planning, and employee training and development.

Megaport is committed to ongoing touchpoints, including annual surveys, as a means of staying connected to team members' needs and providing a development path to grow capabilities.

Employee engagement is actively fostered through a variety of interactive forums including regular All Staff Briefings and Cultural Drop-in Sessions, which are designed to bring together remote and office-based employees. Regular communications from the CEO and Executive Team are also provided on how the Company is tracking on its goals.

Megaport offers a variety of organised social activities, including an Annual Awards evening recognising and rewarding employees for their commitment to company values.

All of the Company's functions have continually transformed to align to these goals. Commercial, Operations, and Engineering and Product functions have increased headcount in the last fiscal year by more than 30%. Megaport believes that people development strategies and the growth of the Company's teams will help to improve employee performance.

Megaport supports flexible working practices. Operating with an outcomes-based approach, the Company is constantly evolving its tools to facilitate better connectedness with each other.

At its core, Megaport is all about breaking down barriers, enabling agile, reliable, trusted resources, and connecting the world.

Diversity and Inclusion

Megaport believes that creating the future requires people with different backgrounds, experiences, and ways of thinking – today, and tomorrow.

The Company continually strives to increase diversity among its employees, at all levels, and in every respect. Megaport has active programs in place to achieve this. In FY21, the Company will focus on gender diversity as a core objective through a variety of programs and initiatives.

These include supporting recruitment campaign adaptation, increasing Megaport's profile, and a specific focus on addressing gender disparity. Further to this, the Company will hold diversity 'think tank' sessions to generate internal awareness and stimulate action.

As part of Megaport's commitment to achieving diversity objectives, the Board and the Remuneration and Nomination Committee will perform regular reviews of changes in diversity throughout the organisation. There will be particular focus on the following:

- Women
- Board members
- Under-represented minorities
- Cultural diversity

Megaport continues to expand its diversity and inclusion programs to ensure they adequately represent the global nature of the business. The Company is committed to breaking down barriers to a more diverse and more inclusive workforce at all levels of the organisation.

Gender equality

The balance between men and women across headcount, compensation, and conditions is key to business profitability and sustainability. While 28% of Megaport staff are female – compared to 23% of employees at Google, Apple and Facebook (Source: Statista) – the Company seeks to further increase gender diversity by implementing policies to attract and retain women.

As an example, Megaport tripled the value of paid parental leave to twelve weeks in January 2020. This paid leave was provided globally, for both primary and secondary carers. Ten employees benefited from this new parental leave scheme, with four being female and six being male.

Gender equality is further promoted by ensuring employees on unpaid parental leave are not disadvantaged on superannuation. Megaport continues employee superannuation contributions while team members are on unpaid parental leave for a period of up to 12 months.

The percentage of women in the Company's Engineering and Product department has doubled over the last financial year (from 8.3% to 16.7%).

With gender forming part of Megaport's diversity 'think tank' session, Board and the Remuneration and Nomination Committee reviews, and recruitment campaigns, the Company is striving to continuously improve and promote gender equality at all levels.

Social Responsibility

The past financial year has included a number of tumultuous experiences for our society on a global scale. There has never been a more important time to put plans into action to support Megaport's communities.

In FY20 Megaport participated in the annual Christmas charity drive to raise donations of toys and books for disadvantaged children as part of the Smith Family Toy and Book Appeal.

To raise funds for the Australian bushfires, Megaport held a bake sale in the Brisbane head office in January 2020. The Company received amazing support from teams across all regions, raising $4,500 from employee donations, which Megaport then matched dollar for dollar. $4,500 of funds raised went to WIRES and $4,500 to the Red Cross.

In FY21 the Company plans to deliver a formal Corporate Social Responsibility (CSR) program to provide greater opportunities for team members to contribute towards our society.

CSR is integral to the success of Megaport, providing meaningful action in ways that maximise positive impacts on the world. Megaport is a future-focused organisation and is committed to investing in long-term solutions by taking purposeful steps in the near-term.

People Development

Providing the resources for Megaport employees to grow personally and professionally prepares them for surviving adverse and unpredictable work conditions.

Megaport recently won three LearnX awards in Best Compliance Training Project, Best Custom/Bespoke Learning Model, and Best Online Learning Model, partnering with Norton Rose Fulbright.

The Company also launched a new employee benefits package, including a study and training allowance of up to $5,000 (in local currency) for eligible employees.

Further to this, the Company rolled out a global training program for the Commercial team, to support their career development and sales skill competencies.

In early FY21, Megaport is launching Leadership Essentials training for all Megaport managers, where participants will make up 21% of the workforce.

Compensation and Benefits

Megaport's people are the most valuable assets of the business. One of the key business strategies for employee retention and engagement is based on compensation and benefits that truly reward employees.

The Company has a strategy in place that benchmarks compensation and benefits offerings to ensure they remain competitive within the industry. Among the benefits already covered, Megaport has also offered:

- Five days of paid Emergency and Special Circumstances Leave per year for personal emergencies.
- Global Mobility Assignment Program – work between six months and two years in another Megaport office
- Leave Purchase Program – up to four weeks of additional annual leave.
- Career Break Leave – twelve months unpaid leave with guaranteed employment on return.

As the business matures, Megaport aspires to develop a robust workforce that pioneers bringing its strategic direction to life.

Employee Benefits

Flexible Work Enviroments

Purchased annual leave scheme

Generous study and training allowance

Birthday leave

Share scheme for all employees

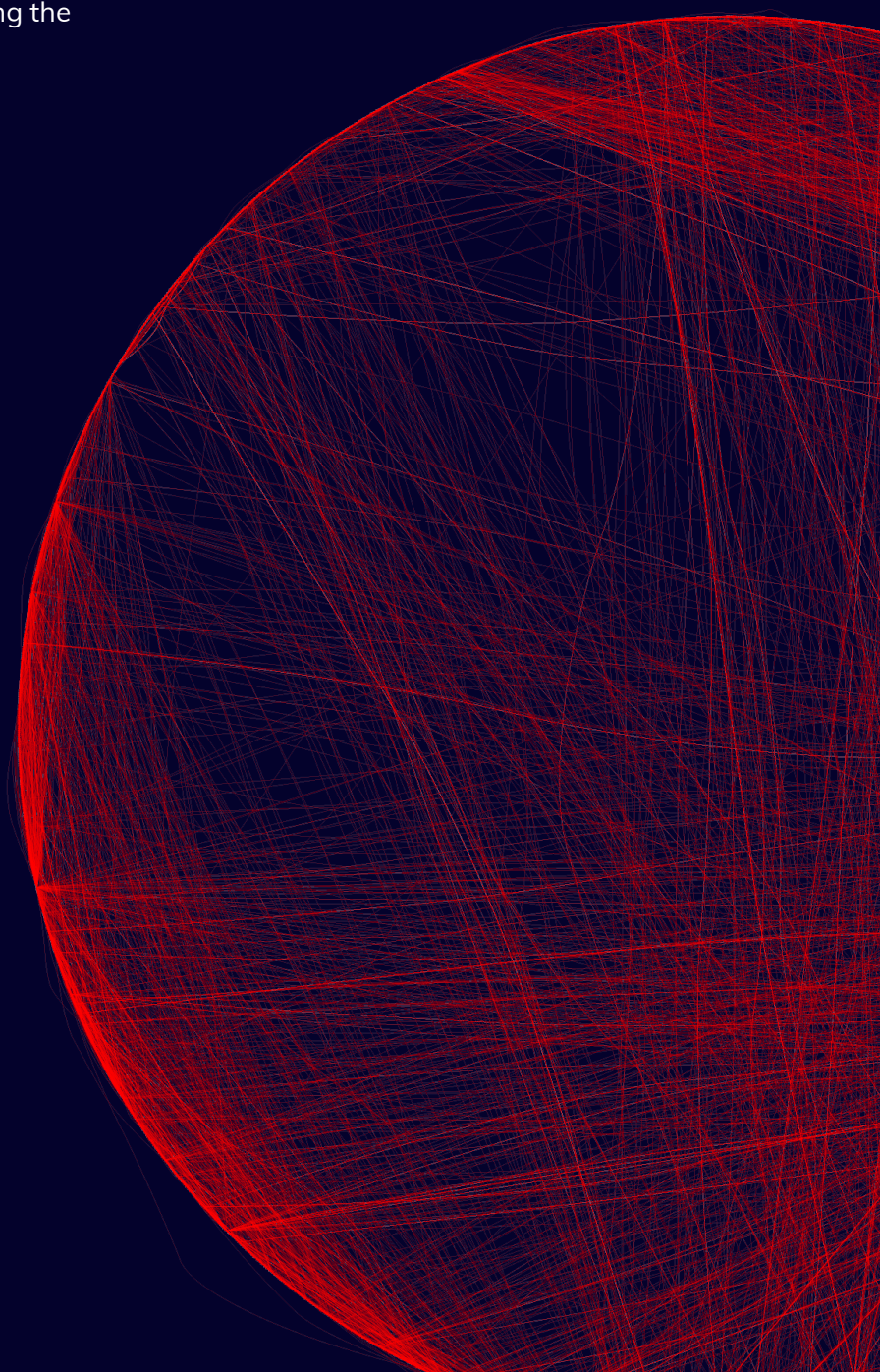
Retirement funds contribution

Equal parental leave for primary and seondary carers

Casual Dress Code

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Megaport Limited (referred to as 'the Company' or 'Megaport') and the entities it controlled (referred to as 'the Group' or 'the consolidated entity') at the end of, or during the year ended, 30 June 2020.



Directors and company secretary

The following persons were directors of Megaport during the whole or part of the financial year and up to the date of this report:

- **Bevan Slattery**
- **Vincent English**
- **Simon Moore (Resigned 23 September 2019)**
- **Jay Adelson**
- **Naomi Seddon**

The Company Secretary is Celia Pheasant.

Principal activities

During the year, the Group engaged in its principal activities, being:

- the provisioning of on-demand elastic interconnection services;
- the provisioning of internet exchange services;
- the addition and integration of new service providers into the Ecosystem; and
- continuing to expand the geographic footprint of its Network and Marketplace.

Dividends

Dividends were neither paid nor declared during the year.

Review of operations

Group overview

Megaport's vision is to revolutionise global connectivity. The Group's mission is to be the global leading Network as a Service (NaaS) provider and enable customers with an agile networking methodology through the Megaport Connected Edge Strategy.

Megaport's platform uses Software Defined Networking to enable customers to rapidly connect to more than 360 leading service providers in a flexible, on-demand, and cost-effective way. The first of its kind and the leader in the market, the Group's neutral platform has changed the way businesses consume connectivity services by creating a model that mirrors cloud-buying capabilities and is therefore more intuitive and customer-centric than the offerings from traditional telecommunications companies.

In order to align its services closely with cloud compute and storage consumption models, the Group provides a self-serve environment for interconnection. Megaport enables customers to rapidly and flexibly connect to its partner data centres, cloud service providers, network service providers, and managed service providers, collectively known as the Ecosystem.

Customers connect to the Ecosystem by acquiring 'Megaports' (Ports) and building Virtual Cross Connects (VXCs) to their chosen destinations or services across the Megaport Network. Connectivity services can be directly controlled by customers via mobile devices and desktop environments through Megaport's portal, and its open Application Programming Interface (API).

Megaport Cloud Router (MCR), launched in January 2018, enables customers to instantly provision and control virtual routers through Megaport's web-based portal. Enterprises and service providers can unlock powerful use cases such as cloud-to-cloud networking and deploy Virtual Points of Presence (VPoPs) without the need to purchase or maintain physical routing equipment. MCR enables customers to rapidly deploy services, granularly control traffic, and reduce total cost of ownership. Throughout the Fiscal Year 2020, the Company expanded MCR service availability to 32 metros to drive further adoption of cloud connectivity services. Leading cloud service providers advocate MCR as a reference service for enabling connectivity between their cloud solutions and third party cloud platforms.

Megaport is an Alibaba Cloud Technology Partner, AWS Technology Partner, AWS Networking Competency Partner, Google Cloud Interconnect Partner, IBM Direct Link Cloud Exchange provider, Microsoft Azure Express Route Partner, Nutanix Direct Connect Partner, Oracle Cloud Partner, Rackspace RackConnect Partner, Salesforce Express Connect Partner, and SAP PartnerEdge Open Ecosystem Partner.

The Group's extensive and scalable global footprint across North America, Asia Pacific and Europe offers customers a neutral platform that spanned its 669 Enabled Data Centres in key global locations.

Key Performance metrics

	Half-Yearly Performance				Yearly Performance		
	Dec-18	Jun-19	Dec-19	**Jun-20**	FY19	**FY20**	**YoY % Change**
Enabled Data Centres[1]	386	528	552	**669**	528	**669**	**27%**
Installed Data Centres[2]	245	300	317	**366**	300	**366**	**22%**
Cloud On-Ramps	115	132	156	**197**	132	**197**	**49%**
Customers	1,277	1,490	1,679	**1,842**	1,490	**1,842**	**24%**
Ports	3,344	4,069	4,863	**5,767**	4,069	**5,767**	**42%**
MCR	99	175	228	**307**	175	**307**	**75%**
Total Services[3]	8,735	11,561	13,914	**16,712**	11,561	**16,712**	**45%**
Monthly Recurring Revenue ("MRR")	$2.7M	$3.6M	$4.6M	**$5.7M**	$3.6M	**$5.7M**	**57%**
Revenue	$15.18M	$19.88M	$25.85M	**$32.19M**	$35.06M	**$58.04M**	**66%**

[1] Enabled Data Centres is the total of Installed Data Centres plus Extended Data Centres. Extended Data Centres are data centres that can be connected directly to Megaport networking hardware within Installed Data Centres by means of interconnection services offered directlyby the data centre campus / facility operator of an Installed Data Centre.

[2] Installed Data Centres are data centres in which Megaport has a Point of Presence with physical infrastructure.

[3] Total Services comprise Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), and Internet Exchange (IX).

In June 2020, Megaport reached 1,842 customers across 669 Enabled Data Centres in 128 cities (2019: 98 cities) and generated MRR of $5.7M. Of these data centres, 114 were located in Asia Pacific; 374 in North America, and 181 in Europe.

The total Ports on the Group's Network at 30 June 2020 was 5,767, up 42% compared to a year earlier.

During the fiscal year:

- Megaport continued to expand its Network footprint to new cities while deepening its reach within existing metros, reaching a milestone of 366 installed locations and 669 enabled locations globally;
- The Company expanded partnerships with CyrusOne and EdgeConnex in Europe and the expansion of the Megaport Cloud Router (MCR) service footprint to 32 metros to enable greater reach and control of cloud-to-cloud traffic and virtual routing capabilities;
- The Company expanded its reach with existing data centre partners including an announcement with QTS Realty Trust in North America and new data centre partnership with Sabey Data Centers, Tech Vault, 1623 Farnam, Green Mountain and Tampnet;
- Megaport launched its services in Japan in November 2019, and has a footprint in Tokyo and Osaka with leading data centre locations and integration with leading cloud providers;
- Megaport established a presence in France, Denmark and Spain, bringing the Megaport platform to 23 countries and 128 cities globally:

- The Company furthered its leadership position in cloud networking by enabling sixty-five new cloud on-ramps globally. Megaport's expanded footprint in Japan saw rapid onboarding of onramps with AWS, Azure, Google, Oracle, IBM, and Salesforce to address the growing demand of cloud services in the market. Additionally, cloud service providers leveraged Megaport's extensive European footprint to enable connections to their EU-based onramps in the period. Megaport added 11 Rackspace RackConnect onramps.
- The Company continued to invest in sales and marketing resources where the Company is focused on driving increased service adoption.

Impact of COVID-19

In March 2020, the World Health Organisation declared a global pandemic related to the rapidly growing outbreak of a novel strain of coronavirus known as COVID-19. This has led to disruptions in global supply chains, affecting workforces, production and sales across the world and potentially leading to a long term downturn in the major markets in which we operate.

On 16 March 2020, Megaport announced to ASX the anticipated impact of the COVID-19 on the business. The actual impact on Megaport's operational and financial performance to date has not been significant, and is outlined below:

- Team Wellbeing - Megaport's people are our greatest assets and their health and wellbeing is our highest priority. In early February 2020, Megaport initiated working from home protocols for all staff, together with the suspension of all domestic and international travel. As Megaport was "born in the cloud" and many of our staff in the US, Europe and Asia have always worked from home, these initiatives have had minimal impact on our business. Travel restrictions resulted in reduced travel expenditure in the second half of FY20.
- Business Operations - Following the lockdowns implemented in many of our global markets, the Company experienced an increase in data traffic on our network, as well as changes to the daily usage patterns as remote workers increased their utilisation of videoconferencing and other applications used whilst working from home. In Q3 2020 quarter we saw existing customers take additional services for resiliency and redundancy purposes. We did not suffer any supply chain delays for key components of our electronics consumables or equipment suppliers, although experienced some minor delays when commissioning new third party connectivity for new data centres.

  In Q4 2020 quarter, Megaport saw a reduction in services with, and requests for deferred payment from, customers in industries hardest hit by the pandemic e.g. travel, airlines and entertainment. Megaport also saw a lengthening in the time to sign up new customers, which reduced the number of new customers added in Q4 FY20. This appears to be due to a reluctance of customers to commit to new expenditure following the general downturn in the economy.

  This notwithstanding, Megaport has seen encouraging growth in recurring revenues, with June 2020 MRR in local currencies up 15% in North America, up 15% in Europe and up 9% in Asia Pacific compared to March 2020. The Company continues to benefit from the trend of enterprises shifting workloads to the Cloud, and increasingly utilising multiple applications hosted in the cloud. This is reflected in a solid pipeline of customer opportunities as Megaport commence the new fiscal year.
- Financial Position - Megaport is in a strong financial position, with $166.9 million in cash on hand at 30 June 2020, and no external debt other than a vendor finance facility outstanding amount of $8.8 million. The downturn in the economy is not having a significant impact on outstanding receivables, with a record $20.0 million collected from customers in Q4 FY20, an increase of $6.1 million or 44% compared to Q3 FY20.

  Megaport will continue to monitor the COVID-19 global pandemic and its impact on its business, and will take further steps to protect the safety and wellbeing of its team, and limit and/or mitigate any other adverse impacts, to the extent appropriate and practicable.

Financial performance

	2020 $'000	2019 $'000	Change
Revenue	**58,040**	35,065	**66%**
Profit after direct network costs [4]	**29,518**	11,948	**147%**
Normalised EBITDA[5]	**(19,926)**	(24,695)	**19%**
Net loss for the year [6]	**(47,650)**	(33,564)	**(42%)**

[4] Direct network costs comprise data centre power and space costs, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance fees, and channel commissions, which are directly related to generating the service revenue of the Group.

[5] Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding equity-settled employee costs, foreign exchange gains and non-operating expenses. Including these amounts, EBITDA would be ($30,605,000) in FY20 and ($25,406,000) in FY19. Refer note 3 in the financial statements for the reconciliation from Normalised EBITDA to the net loss for the year.

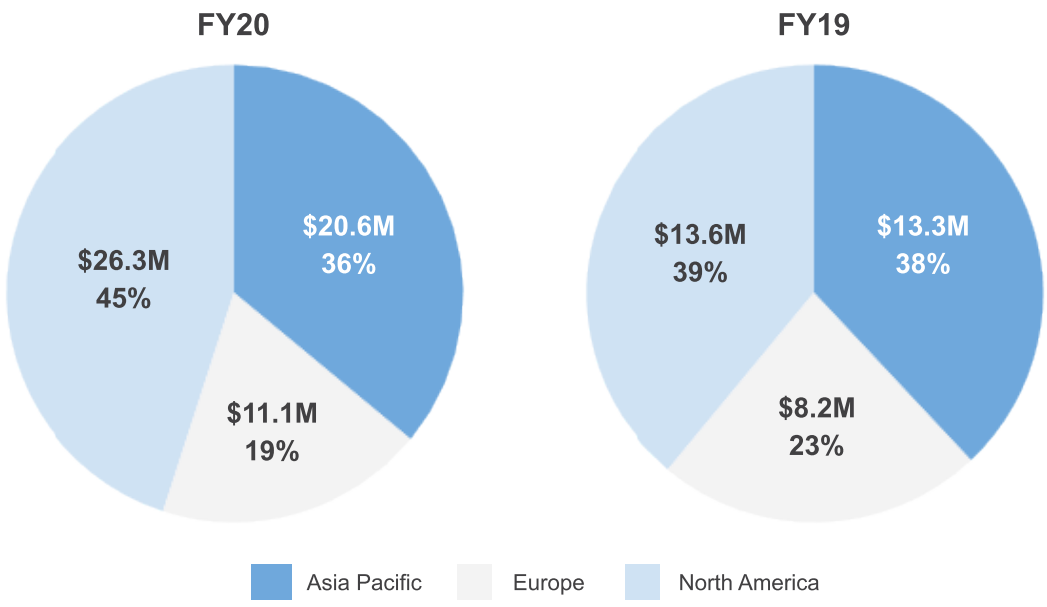
[6] AASB 16 Leases became effective for the Group on 1 July 2019. AASB 16 establishes principles for the recognition and measurement of leasing arrangements. The net loss for the year ended 30 June 2020 include adjustments for the right-of-use assets and lease liabilities under AASB 16, which were accounted for as operating lease expenses in the prior comparative period. Excluding AASB 16 impact, the profit after direct network costs would have been $24,907,000 normalised EBITDA (25,338,000) and net loss for the year (47,382,000).

During the year, Megaport experienced a significant growth in the number of Installed Data Centres, Customers, Ports, Services, and MRR. The Group's revenue for the year was $58.0 million, up 66% compared to the corresponding previous year of $35.1 million. This increase was driven by North America which grew by 94% compared to the previous year, followed by Asia Pacific which grew by 54%, and Europe by 36%.

Profit after direct network costs was $29.5 million, up 147% compared to the corresponding previous year of $11.9 million.

The Group's net loss for the year amounted to $47.7 million (2019: $33.6 million).

Reported revenue by operating segment for the year ended 30 June 2020 ("FY20") and 30 June 2019 ("FY19") is set out below:



Financial position

	2020 $'000	2019 $'000
Net assets	**212,030**	110,590
Closing cash and bank balances	**166,877**	74,879

Megaport continues to maintain a strong financial position with net current assets of $156.3 million (2019: $70.9 million), cash and bank balances of $166.9 million (2019: $74.9 million) and total equity of $212.0 million (2019: $110.6 million).

Strategy and future performance

The Group continues to focus on its key strategic drivers, which are to:

- Connect to new locations, partners, and enterprises;
- Accelerate partner enablement to maximise sales opportunities; and
- Strengthen its position as the leading innovator in global Network as a Service.

Business Risks

The material business risks faced by the Group that could have an adverse impact on the operating and financial performance and prospects of Megaport include:

- COVID-19: In addition to the tragic health consequences, the COVID-19 global pandemic has seen major disruption to operations in some businesses and sectors, and resulted in significant volatility in financial markets. The nature and extent of the impacts have varied, with some businesses interrupting or suspending operations for prolonged periods. There is also continued uncertainty as to the impact of a global economic recession of uncertain duration and severity, and the ability of government responses to mitigate the impacts on business.
- Breach of information security: Megaport is exposed to the risk of a material breach of information security that could result in reputational damage, lost customers and revenue, fines, other sanctions that could materially adversely affect Megaport's future financial performance and financial position and require the business to incur additional compliance costs e.g. unauthorised access to Megaport's systems, processes and/or infrastructure that compromises the accuracy and availability of production and/or customer data and systems or disclosure of confidential information. This could result in loss of control (integrity) or availability of Megaport's network service (product) or supporting infrastructure/ systems, or inadvertent disclosure of sensitive or personally identifiable information.
- Competitive landscape and action of others: Megaport operates in a competitive landscape alongside a number of other service providers with competing technologies, network reach and capabilities, product and service offerings, and geographic presence. Megaport currently enjoys early mover advantage in many of its deployed markets. Megaport may face increased competition from existing telcos and data centre operators, and new entrants to the network-as-a-service and elastic interconnection markets who may have significant advantages including greater name recognition, longer operating history, existing market presence in similar or adjacent markets, lower operating costs, pre-existing relationships with current or potential customers, an ability to bundle with existing products and services, and greater financial, marketing and other resources.
- Risk that Megaport's SDN-driven connectivity solution is disrupted: Risk of the development of new technology, innovation or a connectivity solution that supercedes or disrupts Megaport's SDN solution or erodes Megaport's first mover advantage e.g. usage of 5G technology, SD-WAN over Internet or the provision of direct connectivity by CSPs.

- Protection of intellectual property: Megaport's ability to leverage the value of Network as a Service and SDN technology depends on its ability to secure ownership of and protect its intellectual property including any improvements to existing intellectual property.
- Reputational damage: The reputation of Megaport could be adversely impacted by a number of factors including failure to provide customers with the quality of service they expect, significant network issues, a significant privacy or information security breach, disputes or litigation with third parties such as customers, employees, or suppliers or adverse media coverage. Such a significant reputational event would likely have an adverse effect on Megaport (e.g. on the existing customer base and revenues, ability to sign up new customers, ability to secure reasonable credit terms, etc.) and its future financial performance and position.
- Funding and capital: Megaport's business relies on the development of new markets, new locations, customer acquisition, sale of ports and additional services to existing and new customers, customer retention, and ongoing maintenance of existing infrastructure and software platforms. Megaport requires continued access to sufficient capital to fund this expenditure.
- Risk of Major Global Economic Downturn: Risk of a major global economic downturn (e.g. as a result of coronavirus) could lead to slower sales of ports and services, pressure on pricing and/or increased customer churn resulting in a slowdown in revenue growth and delays in reaching EBITDA / free cash flow breakeven, and downgrades to Megaport's earnings outlook.
- Ability to attract and retain employees: Megaport depends on the skills and experience of its staff and employees, particularly in certain key positions. With a relatively small number of geographically dispersed employees for a global company, it is essential that appropriately skilled staff be available in sufficient numbers to support the Company's business. Megaport requires staff to have a variety of skills and expertise, some of which may be considered niche specialties in which there are limited practitioners available for recruitment. The loss of staff in key positions, especially to a competitor, may have a negative impact on Megaport.
- Short operating record: Megaport was established in 2013 and has a relatively short operational track record. The execution of Megaport's business plan may take longer to achieve than planned, and the costs of doing so may be higher than budgeted.
- Interruptions to operations, including infrastructure, and technology failure: Megaport could be exposed to short, medium or long-term interruptions to its operations as it relies on infrastructure and technology, some of which is supplied by third parties, to provide its services. Megaport may be unable deliver a service as a result of numerous factors, including human error, power loss, improper maintenance by entities not related to Megaport, physical or electronic security breaches, fire, earthquake, hurricane, flood, pandemic and other natural disasters, water damage, intentional damage to the networks from vandalism, accidental damage to the networks from civil works, war, terrorism and any related conflicts or similar events worldwide, sabotage and vandalism.
- Exchange rate movements: Megaport's global operations, sales in an expanding list of countries and markets, purchases of network equipment from overseas suppliers, and provision of services in international jurisdictions means that it is exposed to potentially adverse movements in exchange rates (particularly the A$/US$ and A$/EUR).
- Doing business outside of Australia: Megaport currently has operations in Australia, Singapore, Hong Kong, New Zealand, Japan, USA, Canada, UK, Ireland, Germany, France, Spain, Netherlands, Belgium, Switzerland, Sweden, Norway, Finland, Denmark, Poland, Austria, Bulgaria, and Dubai, and has plans to expand to several more countries over the next 12 to 18 months. Accordingly, the Group is exposed to a range of multi-jurisdictional risks such as risks relating to licensing requirements, labour practices, environmental matters, difficulty in enforcing contracts, and changes to or uncertainty in the relevant legal and regulatory regime (including in relation to taxation and foreign investment and practices of government and regulatory authorities).
- Counterparty obligations: Megaport currently has operations in 23 countries, and has plans to expand to more countries over the next 12-18

months. Megaport relies on third parties, such as customers, suppliers, landlords, contractors, financial institutions, intellectual property licensors, technology alliance partners, resellers (strategic partners), joint venture partners, and other counterparties to operate its business. Megaport is exposed to counterparty risks in respect of its relationships with each of these parties.

- Regulatory compliance: Megaport is required to comply with the laws governing telecommunications and related sectors in each jurisdiction in which it operates, which may require Megaport to hold certain licences or submit a notification to the relevant regulator. Megaport must comply with a complex range of laws and regulations across each jurisdiction in which it operates. Regulatory areas which are of particular significance to Megaport include laws governing telecommunications and related sectors, information security, data protection, privacy, employment, occupational health and safety, property and environmental, customs and international trade, competition and taxation.
- Loss of revenue due to churn: Megaport's business model is to offer flexible connectivity arrangements without a requirement for customers to sign up to long (or medium) term contracts, which could see customers decommission services in large numbers at short notice or disconnect altogether without penalty. This is a particular risk should Megaport suffer a material increase in network outages or impact to its reputation, raising doubt about its reliability as a service provider.
- Major Network Hardware or Software Failure: Risk that Megaport suffers a major outage or service interruption resulting from a network hardware or software failure.
- Credit risk of customers / counterparties: Risk of a significant credit event / insolvency of one or a group of Megaport's major customers / counterparties that results in financial losses / unrecoverable debts.
- Reliance on renewal of key contracts: There is a risk that Megaport is unable to negotiate / re-negotiate / extend key contracts due to expire in the next 12 to 24 months. Megaport has some data centre operator co-location leases which are due for renewal in the next 12 months. This is normal practice as some contracts are less than 3 years and others are greater than 3 years. Each data centre operator has different terms and conditions in each jurisdiction, and almost all data centres operate a "carrier neutral" policy.
- Taxation and accounting risks: Tax and accounting laws and other regulations are complex and subject to regular change. A change to the Australian Accounting Standards or the current taxation regime in Australia or in overseas jurisdictions in which Megaport operates may affect Megaport and its shareholders. Megaport's growing global presence and the complex nature of the tax environments in which it operates could result in a tax investigation and / or adverse tax finding / assessment that could materially adversely affect Megaport's future financial performance and position.
- Privacy breach: Risk that Megaport's failure to comply with global privacy regulatory requirements results in reputational damage, lost customers and revenue, fines, other sanctions that could materially adversely affect Megaport's future financial performance and position and require the business to incur additional compliance costs.

Information Security and Privacy

Megaport is committed to safeguarding its information technology assets and personal data, having invested considerable time and resources addressing privacy and information security.

Megaport's Information Security Risk Committee ("ISRC") operates at an executive level, being accountable for key decisions and driving continuous improvements in these areas. The ISRC is currently overseeing a project aimed at achieving compliance with the ISO 27001 standard in 2020.

Megaport has qualified and experienced Information Security and Privacy Teams, dedicated to developing processes and procedures to ensure that Megaport's information and techology assets are kept private and secure. The Information Security Team is responsible for the Megaport Information Security Policy and associated policies, processes, procedures and standards within the policy framework, and regularly reports to the ISRC. Megaport intends to expand the Information Security Team over the next fiscal

year, with the annual spend on Information Security expected to exceed A$1 million in FY21. The Privacy Team is responsible for Megaport's Privacy Programme, including internal Personal Data Protection Policy and related processes, similarly advising the Information Security Team and ISRC on security requirements specific to personal data.

Megaport employees are trained in their responsibilities regarding Information Security, Privacy and Legal Compliance upon hire as well as undertaking compulsory annual refresher training.

The Board has approved an Information Security Policy, and Megaport's Information Security and Privacy Statement can be found on our website at https://www.megaport.com/investor/leadership-governance/

Significant changes in the state of affairs

Megaport significantly strengthened its financial position during the fiscal year by raising $142m (net of issue costs), which is driven by:

- On 6 December 2019, Megaport announced the successful completion of its fully underwritten share placement to institutional, sophisticated, and professional investors to raise approximately $62 million. Megaport issued 7.1 million shares under the placement. The issue price of $8.70 per share represented a discount of 4.8% to the closing price of Megaport shares on 4 December 2019. Proceeds raised from the placement will be used to accelerate expansion to new locations and new markets, undertake capacity upgrades, fund innovation and development of new technology, and fund operating costs and general working capital requirements.
- On 7 April 2020, Megaport announced it would raise $50 million in new equity via a fully underwritten placement to institutional, experienced, sophisticated, and professional investors (Placement) and a further $15 million via a Share Purchase Plan (SPP). The issue price of $9.50 per share represented a discount of 8.9% the closing price of Megaport shares on 7 April 2020. UBS AG, Australia Branch and Royal Bank of Canada acted as Joint Lead Managers and Underwriters to the Placement. Megaport issued 5,263,158 shares under the Placement on 15 April 2020.
- On 7 May 2020, based on the extremely strong demand from retail shareholders, an assessment of its capital requirements and feedback from Megaport's retail shareholders, the Board of Megaport determined to increase the equity raised under the SPP by 50% to $22.5 million (2,367,948 fully paid ordinary shares), with applicants to be scaled back on a pro-rata basis. The issue of shares under the SPP was completed on 12 May 2020.

  Proceeds raised from the Placement and the SPP will be used to accelerate sales, product development and platform expansion opportunities in the near and medium term. Additionally, it will give the company some funding capacity for future strategic opportunities.
- Megaport raised $10.6 million from the issue of 3,802,666 shares on the exercise of options by employees under the Megaport Employee Share Option Plan (ESOP General).

  As at 30 June 2020, Megaport has 5,344,001 options on issue options granted under the Megaport Employee Share Option Plan (ESOP General), which will become exercisable up to January 2024 (refer note 21 to the financial statements).

Events since the end of the financial year

The COVID-19 pandemic is ongoing, and whilst the actual impact on Megaport's operational and financial performance to 30 June 2020 has not been significant, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Megaport announced the development of Megaport Virtual Edge (MVE) on 17 August 2020. MVE is a product innovation that will enable customers to host virtual networking devices, including SD-WAN controllers, directly on Megaport's platform. This allows customers to connect branch locations and campuses to Megaport's interconnection platform to simplify end-to-end network provisioning and management.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

The 2020 financial year saw strong uptake in Megaport services, with the total number of services connected at 30 June 2020 reaching 16,712, up 45% compared with 12 months earlier. This was driven by demand for cloud and interconnection services, a trend that is expected to see continued demand for services provided by the Group.

Environmental regulation

The Group does not undertake activities that are expected to expose it to significant environmental risks. As a service-based organisation, Megaport's environmental footprint is relatively small and primarily comprises the energy used by its offices and third-party data centres and the typical consumables of an office-based business.

Rounding off of amounts

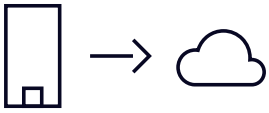
The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016 (Corporations Instrument). In accordance with the Corporations Instrument, amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars ($'000), unless otherwise indicated.

Introducing

MEGAPORT VIRTUAL EDGE

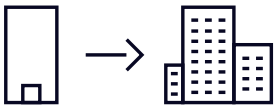
Megaport Virtual Edge (MVE) will integrate Megaport's Platform with various networking technologies including SD-WAN. MVE will enable businesses to achieve global network connectivity by securely connecting users, branch locations, data centres, and XaaS - in a matter of minutes. Megaport has partnered with Cisco to enable SD-WAN as the first use case on MVE. MVE is scheduled for delivery in Q2 FY21.

Use Cases



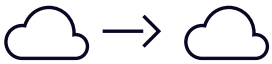
Branch to Cloud

Extend the enterprise branch network to one or many cloud resources for one seamless network.



Branch to Data Centre

Connect the enterprise branch network to the enterprise data centre footprint covering more than 700 Megaport enabled global data centre locations.



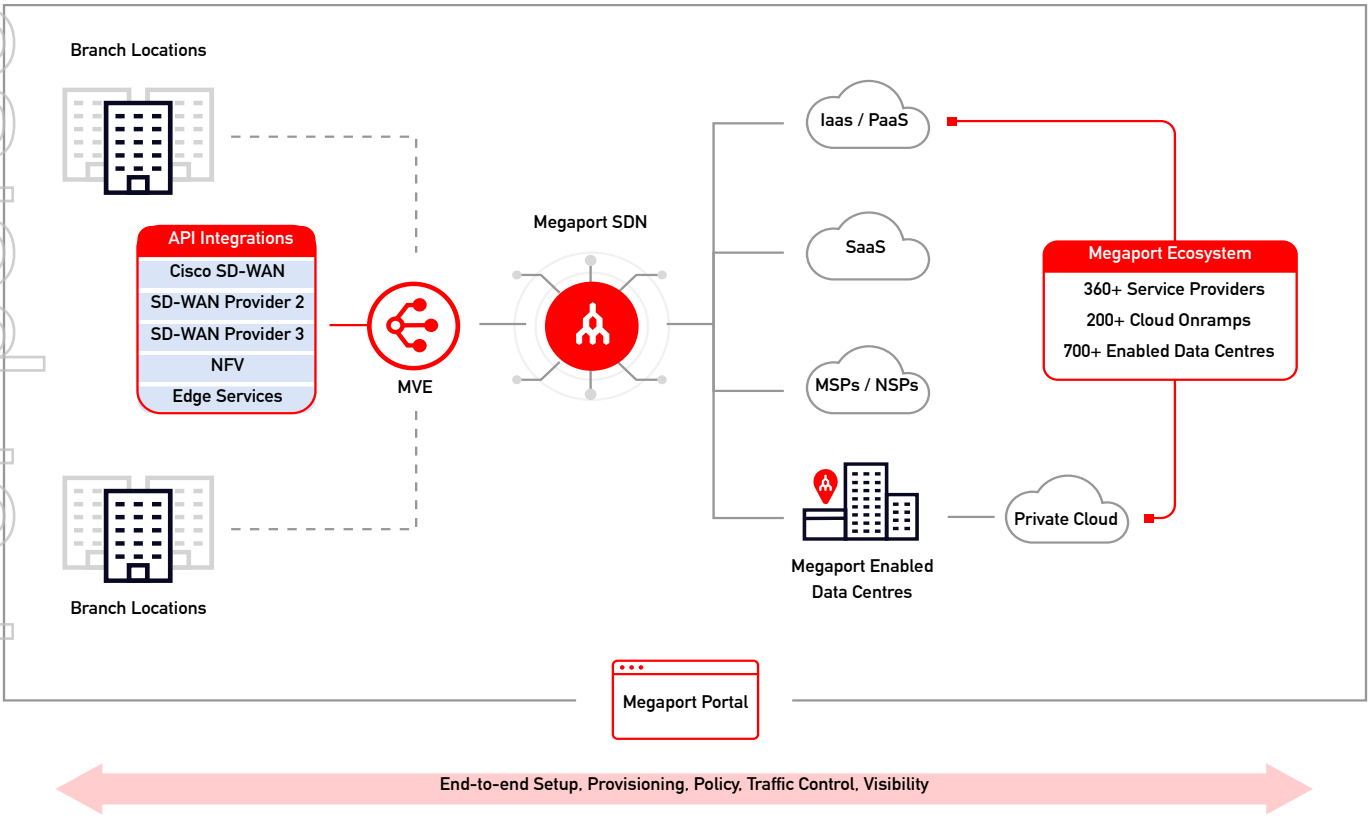
Cloud to Cloud

Neutrally connect multiple cloud regions, providers or accounts for network interoperation, privately.

Branch to Branch:

Utilise Megaport's private network to reduce reliance on the internet and connect enterprise branch locations as required.

MVE Overview



INFORMATION ON DIRECTORS + COMPANY SECRETARY

The following information is current as at the date of this report.

Bevan Slattery

Chairman & Non-Executive Director

Bevan Slattery, one of Australia's leading entrepreneurs, has founded some of the nation's biggest technology success stories. Starting as a co-founder of PIPE Networks, Australia's largest Internet Exchange and third largest metropolitan fibre network provider, Slattery sold the company to TPG in 2010.

Subsequently, he founded NEXTDC, Australia's largest data centre operator; Megaport, the global leading elastic interconnection provider; Cloudscene, the world's largest platform for searching cloud and connectivity services; Biopixel, Australia's leading production service provider for natural history and animal behavioural sequences; Superloop, a Pan-Asian infrastructure-based telecommunications provider; SubPartners, a submarine cable operator and Indigo Cable investor; and SUB.CO, an independent specialist submarine cable development group constructing the new Oman Australia Cable (OAC).

Slattery's entrepreneurial success is highlighted in having listed a record five companies on the Australian Securities Exchange and received many industry awards including EY Champion of Entrepreneurs Award in 2016, National Charles Todd Medal, and the Pearcy Foundations Benson Award as well as being recently inducted into the Commsday Hall Of Fame.

Other current ASX directorships:

Superloop Limited (ASX:SLC) (director since 2014)

Former ASX directorships in last 3 years:

None

Special responsibilities:

- Chairman
- Member of the Innovation Committee

Interests in shares and options:

- 13,037,607* fully paid ordinary shares (held directly) and 115,000 fully paid ordinary shares (held indirectly)
- 100,000 options over ordinary shares (held directly)

*Includes 3,000,000 shares beneficially held by Bevan Slattery that have been pledged as security under a structured option and loan facility

Vincent English

Chief Executive Officer & Executive Director

Vincent English is the Chief Executive Officer of Megaport and is also an Executive Director. Vincent joined Megaport in June 2015, in the early growth phase and has held multiple roles as Chief Financial Officer, Chief Operating Officer and currently Chief Executive Officer.

Vincent has a background in telecommunications and manufacturing industries with over 20 years combined international expertise in Finance and Operations. His diversified experience deploys best practice on cost-efficient start-ups, growth-focused and profitable operations.

Vincent has been a Chief Financial Officer for 10 years with Digicel Group, a multi-national telecommunications company. In 2005 as Chief Financial Officer, Vincent assumed responsibilities during an aggressive growth time in the Company's evolution, with nine country mobile phone network launches, integrating operations, establishing cohesive financial processes, rolling out processes companywide and devising synergies and cost savings.

As well as managing the financial operations in multiple markets, Vincent managed several acquisitions in mobile businesses, TV operations and financial services.

Prior to Digicel, Vincent worked in the manufacturing industry for Alcoa and Gillette in financial operations roles.

Vincent is a member of ACMA, CPA Australia, and the Australian Institute of Company Directors.

Other current ASX directorships:

None

Former ASX directorships in last 3 years:

None

Special responsibilities:

Member of the Innovation Committee

Interests in shares and options:

- 1,084,149 fully paid ordinary shares (held directly) and 23,908 fully paid ordinary shares (held indirectly)
- 1,000,000 options over ordinary shares (held directly)

Simon Moore

Non-Executive Director (Resigned 23 September 2019)

Simon Moore is Senior Partner at Colinton Capital Partners, an Australian mid-market private equity fund manager.

From 2005 until December 2016, Simon was a Managing Director and a Global Partner of The Carlyle Group. Prior to joining The Carlyle Group, Simon was a Managing Director and Investment Committee Member of Investcorp International, Inc., based in New York. Prior to that, Simon worked in private equity investments and investment banking at J.P. Morgan & Co. in New York, Hong Kong and Melbourne.

Simon holds a Bachelor of Commerce (Hons) and a Bachelor of Law (Hons) from the University of Queensland.

Other current ASX directorships:

- Palla Pharma Limited (ASX:PAL, formerly TPI Enterprises Limited) (appointed 1 June 2016)
- AMA Group Limited (ASX:AMA) (appointed 28 November 2018)
- Alexium International Limited (ASX:AJX) (appointed 1 February 2020)

Former ASX directorships in last 3 years:

FirstWave Cloud Technologies Limited (ASX:FCT) (resigned 30 August 2019)

Special responsibilities:

- Lead Independent Director
- Chair of the Audit & Risk Committee
- Member of the Remuneration & Nomination Committee

Interests in shares and options:

- None

Naomi Seddon

Non-Executive Director

Naomi Seddon is an Australian, US and NZ qualified lawyer and is a partner with the global law firm, Littler Mendelson.

With a focus on providing international legal solutions to companies that are looking at market entry, Naomi has extensive experience assisting companies to enter and grow in new markets including advising on global migration, local employment, data protection and privacy, pay equity and equal employment opportunity issues.

In 2016 Naomi was named one of the top 500 attorneys in the United States for legal advice by Legal 500.

Naomi is also a regular presenter at conferences around the world on issues that impact women in the workplace and is frequently called upon to assist companies to implement innovative programs in this space. In addition to her professional legal work, Naomi is a passionate advocate for international surrogacy rights and is on the board of Surrogacy Australia. She is also the board chair of United Stages and on the advisory board of Global Village

Other current ASX directorships:

None

Former ASX directorships in last 3 years:

None

Special responsibilities:

- Lead Independent Director (appointed 12 February 2020)
- Member of the Audit & Risk Committee
- Chair of the Remuneration & Nomination Committee

Interests in shares and options:

100,000 options over ordinary shares (held directly)

Jay Adelson

Non-Executive Director

Jay Adelson has over 25 years of experience in technology and internet businesses globally. Jay co-founded Equinix (NASDAQ:EQIX) in 1998, and was responsible for the original and sustaining business model that grew it into one of the largest data centre companies in the world.

Jay also was instrumental in the establishment and operation of the original Palo Alto Internet Exchange for Digital Equipment Corporation in 1996.

In 2005, he founded the first internet television network, Revision3, which was acquired by Discovery Communications in 2012.

As CEO of Digg, Jay launched and grew the internet media company to tens of millions of users, and billions of impressions, a month.

Jay has also founded and served as CEO for other successful companies across the technology and internet infrastructure spaces.

Other current ASX directorships:

None

Former ASX directorships in last 3 years:

None

Special responsibilities:

- Acting Chair of the Audit & Risk Committee (appointed 17 December 2019)
- Member of the Remuneration & Nomination Committee
- Chair of the Innovation Committee

Interests in shares and options:

100,000 options over ordinary shares (held directly)

Celia Pheasant

Company Secretary

Celia Pheasant is an experienced in-house information and communications technology (ICT) lawyer with more than 20 years' legal experience. Celia is General Counsel for technology start-up incubation company, Capital B, and has provided company secretarial support to Megaport since 2015.

Celia commenced her career in private practice at Freehills before continuing with in-house roles with Hutchison Whampoa and AAPT.

Celia holds a Bachelor of Laws and Bachelor of Arts (Jurisprudence) from the University of Adelaide and a Master of Law and Management from the University of New South Wales.

Meeting of Directors

The number of meetings of the Company's board of directors and each board committee held during the year ended 30 June 2020, and the numbers of meetings attended by each director were:

	Directors' meeting		Meetings of Committees					
			Audit & Risk		Remuneration & Nomination		Innovation	
	A	B	A	B	A	B	A	B
Bevan Slattery	13	13	*	*	*	*	5	5
Vincent English	11	13	*	*	*	*	5	5
Simon Moore~	2	2	1	1	1	1	*	*
Jay Adelson	13	13	4	4	7	7	5	5
Naomi Seddon	9	13	4	4	7	7	*	*

A = Number of meetings attended

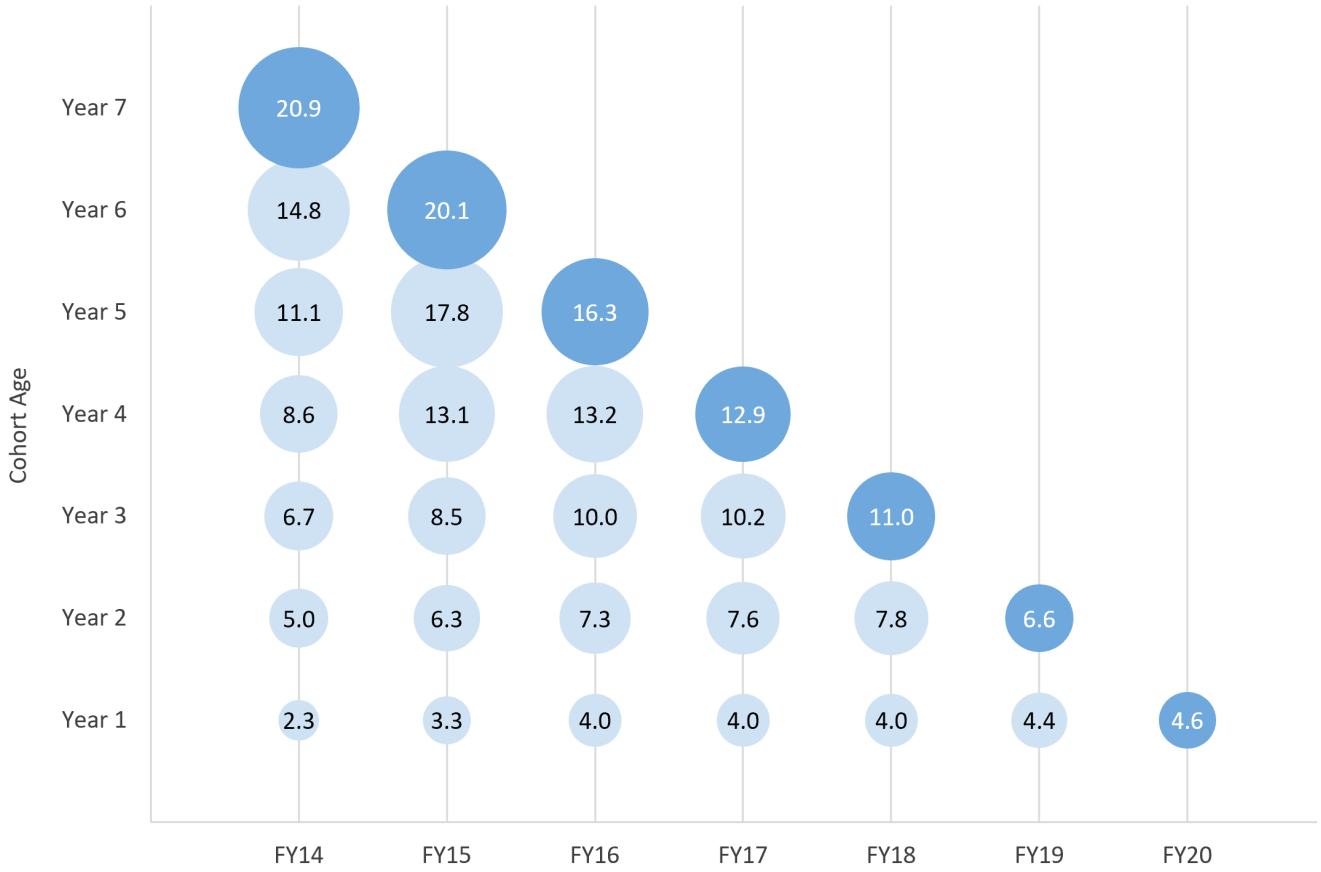
B = Number of meetings held during the time the director held office or was a member of the committee during the period

* = Not a member of the relevant committee

~= Resigned on 23 September 2019

CUSTOMER COHORT TRENDS

Customer spend increases over time as a result of service uptake and adoption.



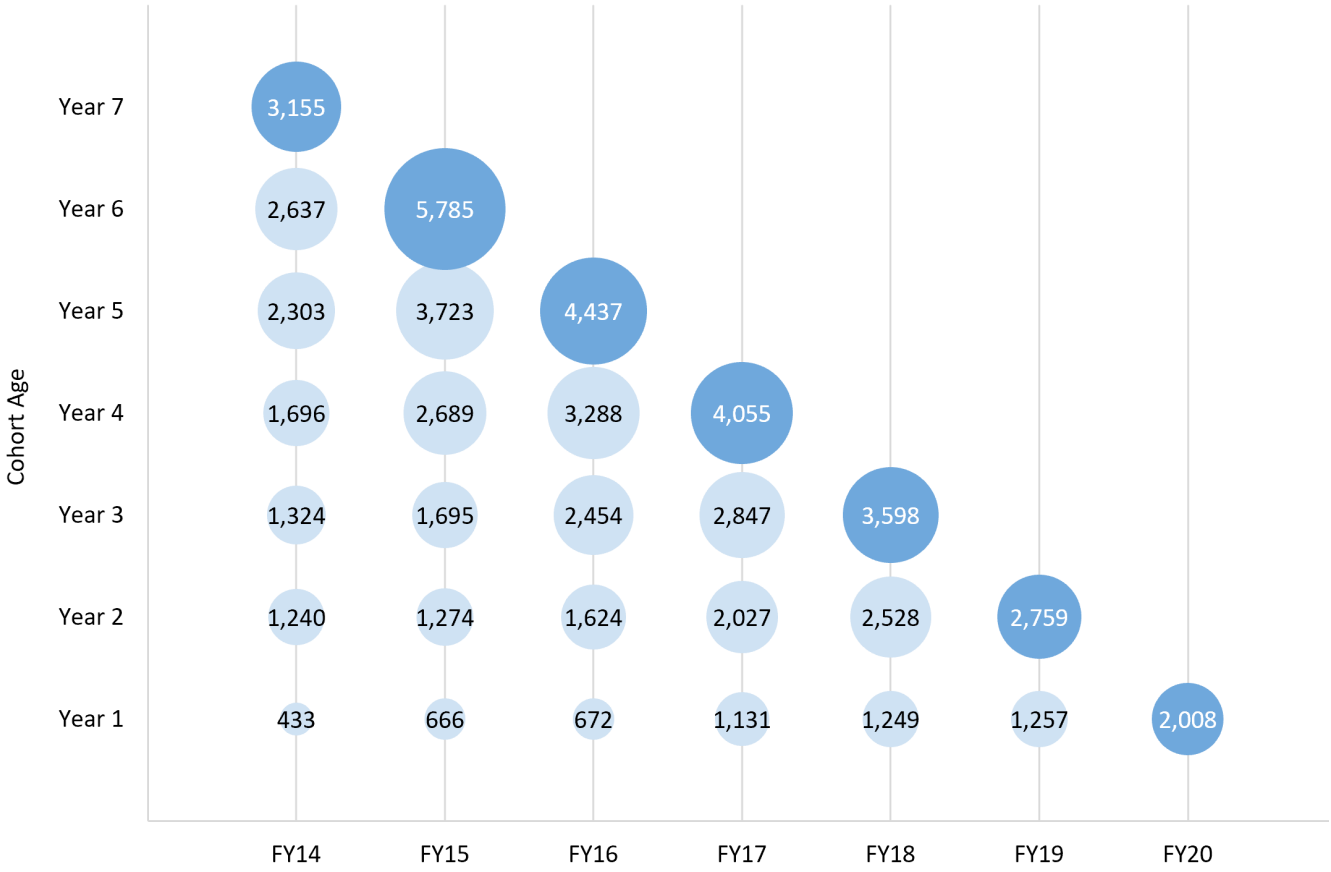
	FY14	FY15	FY16	FY17	FY18	FY19
CAGR	44%	43%	42%	48%	66%	50%

Average Services Per Customer **9.1** **+17%**

Note: Yearly cohorts are customers acquired in a given reporting year

1. Compound average growth rate for each customer cohort is calculated for the period from end of Year 1 to 30 June 2020.

CUSTOMER COHORT TRENDS



	FY14	FY15	FY16	FY17	FY18	FY19
CAGR	39%	54%	60%	53%	70%	119%

Average Monthly Revenue Per Customer ($)

$3,068

+27%

2. At 30 June 2020; percentage represents growth compared to 12 months earlier
3. Represents June 2020 MRR divided by total customers at 30 June 2020; percentage represents movement compared to 12 months earlier.

REMUNERATION REPORT

Remuneration Report

This Remuneration Report, which forms part of the Directors Report, sets out information about the remuneration of Megaport Limited's key management personnel for the financial year ended 30 June 2020 and is prepared in accordance with section 300A of the *Corporations Act 2001* (Corporations Act).

The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

The information in this report has been audited as required by section 308(3C) of the Corporations Act.

Key management personnel ("KMP")

The directors and other key management personnel of the consolidated entity during or since the end of the financial year were:

Non-Executive and Executive Directors[7]

Name	Position
Bevan Slattery	Chairman and Non-Executive Director
Vincent English	Executive Director and Chief Executive Officer
Simon Moore	Non-Executive Director (Resigned 23 September 2019)
Jay Adelson	Non-Executive Director
Naomi Seddon	Non-Executive Director

Other key management personnel

Name	Position
Steve Loxton	Chief Financial Officer (Stepped down effective 1 March 2020)
Peter Hase	Chief Commercial Officer (Resigned 13 July 2020)
Sean Cassidy	Chief Financial Officer (Appointed 1 July 2020)
Joshua Munro	Interim Chief Commercial Officer (Appointed 13 July 2020)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

7 See the section "Information on directors and company secretary" for details about each director

Overview of Remuneration Governance Framework

Role of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee is a Committee of the Board. The purpose of this committee is to assist the Board and make recommendations to it about the appointment of new Directors (both Executive and Non-Executive), senior management and on remuneration and related policies and practices (including remuneration of senior management and Non-Executive Directors) as well as recommendations regarding employee benefits and other people and team management issues within the organisation.

The committee's functions include:

- developing suitable criteria (about experience, expertise, skills, qualifications, contacts or other qualities) for Board candidates;
- identifying suitable candidates for appointment to the Board or any management position;
- reviewing processes for succession planning for the Board, CEO and other senior executives;
- recommending to the Chair procedures for the proper supervision of the Board and senior management;
- ensuring appropriate induction and continuing professional development programs are implemented for Directors;
- ensuring that the performance of each Director, and of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board;
- ensuring that any diversity profile identified by the Board is a factor that is taken into account in the selection and appointment of qualified employees, senior executives and Board candidates;
- reporting to the Board annually on the diversity profile of employees of the Company;
- regularly formally assessing the appropriate balance of skills, experience and diversity required on the Board and the extent to which they are represented on the Board;
- reviewing and evaluating of market practices and trends on remuneration matters relevant to the Company;
- reviewing and making recommendations to the Board about the Company's remuneration policies and procedures;
- overseeing the performance of senior executives and non-executive Directors;
- reviewing and making recommendations to the Board about remuneration of senior executives and non-executive Directors;
- reviewing the Company's reporting and disclosure practices in relation to the remuneration of Directors and senior executives;
- analysing market trends in employee benefits and compensation;
- reviewing employee benefits and workplace policies and practices and making recommendations to the Board on policy and benefits changes; and
- reviewing and making recommendations to the Board on remuneration against gender, ethnicity, disability and other diversity benchmarks and assessing whether there is any inappropriate bias in remuneration for Directors, senior executives or other employees.

Meetings are held at least five times a year and more often as required.

A copy of the Committee's charter, which forms part of the Corporate Governance Charter, is available on Megaport's website at megaport.com/investor/#Corporate-Governance. The Committee's charter has been updated to incorporate the Corporate Governance Principles and Recommendations (Fourth Edition) published by the ASX Corporate Governance Council.

Megaport's Corporate Governance Statement provides further information on the role of this Committee.

Securities Trading Policy

A securities trading policy ('Trading Policy') has been adopted by the Board to provide guidance to Directors, employees of Megaport, and other parties who may have access to price sensitive information, where they are contemplating dealing in Megaport's securities or the securities of entities with whom Megaport may have dealings. The Trading Policy is designed to ensure that any trading in Megaport's securities is in accordance with the law. Any non-compliance with the Trading Policy will be regarded as an act of serious misconduct. The Trading Policy is available on Megaport's website at megaport.com/investor/#Corporate-Governance.

Director remuneration

Non-Executive Director remuneration policy

Megaport's Director remuneration policy is to provide fair remuneration that is sufficient to attract and retain Non-Executive Directors with experience, knowledge, skills and judgment.

Each Director is entitled to remuneration for their services as decided by the Directors. Under the ASX Listing Rules, the total amount provided to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by Megaport which was approved by shareholders at the 2016 AGM. This amount is currently $1,000,000. Actual remuneration to Non-Executive Directors for the financial year 2020 totaled $736,492 (2019: $291,823).

To preserve independence and impartiality, Non-Executive Directors do not receive incentive or performance based remuneration. Nor are there any retirement benefit schemes other than statutory superannuation contributions.

The Non-Executive Directors fall under the same long-term incentive ('LTI') policy as the Executive team. Refer below for details of the Megaport LTI policy and procedure.

Non-Executive Directors may be paid additional remuneration where they perform extra work or services beyond that expected of a Non-Executive Director or outside the scope of their role as a Non-Executive Director.

Non-Executive Directors are entitled to be reimbursed for travel and other expenses incurred while carrying out their duties as a Director.

Non-executive Director arrangements

Non-executive Directors receive a board fee and fees for chairing board committees, see table below. Actual amounts received by Non-Executive Directors are provided later in this report.

	2020 $	2019 $
Base fees		
Chairman	80,000	80,000
Other non-executive directors	80,000	80,000
Additional fees		
Audit & Risk Committee ("ARC") – Chair	10,000	10,000
Remuneration & Nomination Committee ("NRC") – Chair	10,000	10,000
Innovation Committee ("IC") – Chair	60,000	60,000

All Non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of Director.

Executive remuneration

Senior executive remuneration policy

The senior executive remuneration policy is designed to strengthen the alignment between performance related remuneration and shareholder returns, ensuring that remuneration outcomes for senior executives are directly linked to performance (both Company and individual) in a manner that is ultimately aligned to shareholder interest. Megaport's remuneration framework aims to be transparent, competitive and reasonable, and consists of three key components:

- fixed remuneration;
- short term incentives; and
- long term incentives.

Regular reviews are conducted by the Committee (and recommendations made to the Board) to assess global company performance, team performance, individual contribution as well as market remuneration based on the executive's position within the organisation.

Fixed remuneration and benefits

Base remuneration and benefits are structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' reasonable discretion.

Executives are offered a competitive base remuneration package that comprises the fixed component of remuneration and rewards. Base remuneration for executives is reviewed annually, to ensure the executive's remuneration is competitive with the market and appropriate based on the executive's position and responsibilities within the organisation. An executive's remuneration is also reviewed on promotion in the same manner.

There is no guaranteed base remuneration increase included in any executive's contract. Executives may receive benefits, including health insurance benefits as part of the fixed remuneration package. Company benefits programs are also reviewed by the Committee throughout the year with recommendations made to the Board and updates to policy, practice and employee benefits as appropriate.

Superannuation contributions are paid in accordance with relevant Government legislation, to employee nominated defined contribution superannuation funds.

Short term incentive policy and procedure

Senior executives may be eligible for a short-term incentive ('STI'), subject to targets set by the Remuneration and Nomination Committee. The targets are set with the objective of ensuring variable reward is only available when value has been created for shareholders.

An executive's targets typically relate to the individual accountabilities of the role, and the financial performance of the Group and relevant business unit.

Each year, the Remuneration and Nomination Committee considers the appropriate targets, and sets minimum levels of performance to trigger the payment of an STI. The Remuneration and Nomination Committee is responsible for assessing whether the STI targets are met. For the year ended 30 June 2020, the STI targets were based on Group financial performance targets (being Total Revenue, Normalised EBITDA and Cash balance).

Long term incentive policy and procedure

The objectives of the long-term incentive plans are to:

- establish a method by which eligible participants can participate in the future growth and profitability of the Company;
- provide an incentive and reward to recognise eligible participants for their contributions to the Company; and
- attract and retain a high standard of managerial and technical personnel for the benefit of the Company.

The Group currently has one long term incentive plan: the Megaport Limited Employee Share Option Plan ("ESOP"). The following terms apply to the ESOP General:

- the ESOP is open to eligible participants (including full-time and part-time employees, executives, Directors and consultants) of Megaport or any of its subsidiaries who the Board designates as being eligible;
- all options must be offered to participants for no consideration under both plans. The offer must be in writing and specify, amongst other things, the number of options for which the participants must apply, the period within which the options may be exercised and any conditions to be satisfied before exercise, the option expiry date (as determined by the Board) and the exercise period for the options;
- the options may be exercised, subject to any exercise conditions, by the participant giving a notice to Megaport and paying the exercise price in full (which must be equal to or greater than the market value of Megaport shares on the date on which the options are granted);
- the options lapse upon the earlier of the date specified by the Board or events contained in the ESOP rules, including termination of employment or resignation, redundancy, death or disablement; and
- once Shares are allotted upon exercise of the options, the participant will hold the shares free of restrictions. The shares will rank for dividends declared on or after the date of issue but will carry no right to receive any dividend before the date of issue.

The ESOP is administered by the Board which has an absolute discretion to determine appropriate procedures for its administration and resolve questions of fact or interpretation and formulate special terms and conditions (subject to the Listing Rules) in addition to those set out in the plan.

At 30 June 2020, Megaport had 5,344,001 options on issue to eligible employees, including Directors and other KMP under the ESOP. At 6 August 2020, the number of options on issue under the ESOP had increased to 5,430,000.

The Company's Securities Trading Policy prohibits executives from entering into transactions which limit the economic risk related to equity-based remuneration schemes without written clearance.

Chief Executive Officer Remuneration

Vincent English is an Executive Director of the Board of Megaport and Chief Executive Officer ('CEO') of the Megaport Group. Vincent commenced the role of CEO in the Group on 1 April 2017. The detail below outlines the CEO's remuneration package.

The CEO's remuneration package seeks to align the CEO's performance with the Group's strategic objectives. The CEO's remuneration is structured to include a mix of fixed base salary, short term incentive and long term incentive.

The CEO's fixed base salary of $547,950 was determined by the Board with reference to market data based on other similar global companies. The Remuneration and Nomination Committee considered the following factors in arriving at this outcome:

- the need to ensure remuneration is competitive with the Group's relative peer group;
- the responsibilities of the CEO relative to the breadth of the Group's global operations;
- the CEO's individual performance and the Group's performance; and
- the need to ensure remuneration is reflective of the size and scale of the business.

The CEO may be eligible for a STI of up to $200,000, subject to targets set by the Remuneration and Nomination Committee at the commencement of the financial year. The targets for the year ended 30 June 2020 relate directly to Megaport's financial performance and position. Details of the STI payable to the CEO in respect of 2020 financial year are outlined later in this report.

No new options were issued to the CEO during the year ended 30 June 2020 (2019: 2,000,000). The amounts listed for the CEO's LTI for the financial year consists of options issued in previous years under Megaport's ESOP plans, details of which appear later in this report. As at 30 June 2020, Vincent holds 1,000,000 outstanding options (2019: 2,533,333 options).

Other key management personnel remuneration

Variable remuneration for KMPs (other than the CEO) is structured on similar principles to those adopted for the CEO. Although the mix of fixed and variable remuneration varies between senior executives, and is determined based on the extent to which they are in a position to directly influence Group's performance, the remuneration philosophy is to allocate a material part of executive remuneration to be derived from an "at risk" element in the form of an STI and an LTI based on length of service, to ensure longevity in the Group's KMP.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of the key terms of these agreements are as follows:

Key term	CEO	CCO	CFO
Duration of agreement:	No fixed term	No fixed term	No fixed term
Period of notice required to terminate agreement (by the relevant KMP):	Twelve weeks' notice	Twelve weeks' notice	Twelve weeks' notice
Period of notice required to terminate agreement (by Company):	Twelve weeks' notice, or immediately without notice for serious misconduct or other specific circumstances warranting summary dismissal	Twelve weeks' notice, or immediately without notice for serious misconduct or other specific circumstances warranting summary dismissal	Twelve weeks' notice, or immediately without notice for serious misconduct or other specific circumstances warranting summary dismissal
Potential Termination benefits:	Termination by Megaport without cause entitles the CEO to a severance payment equal to six months Base Salary. No severance benefits are payable if the CEO's employment is terminated by Megaport for serious misconduct or other specific circumstances warranting summary dismissal or if the CEO resigns.	Payment in lieu of notice period	Payment in lieu of notice period
Remuneration:	As disclosed in the relevant section		

Remuneration of KMP

The following tables show details of the remuneration expense recognised for the Group's KMP for the current and previous financial years measured in accordance with the requirements of the accounting standards. The amounts reflect remuneration for the period the person is recognised as a KMP, as outlined at the start of this Remuneration Report.

	Short-term benefits			Post-employment benefits	Long-term benefits	Equity-settled benefit and rights		
2020	**Salary and fees[8] $**	**Short-term incentive $**	**Non-monetary benefits $**	**Super-annuation / Pension contribution $**	**Long service leave $**	**Shares $**	**Options[9] $**	**Total $**
Non-Executive Directors								
Bevan Slattery	73,060	-	-	6,940	-	-	97,771	177,771
Simon Moore^	20,547	-	-	1,953	-	-	-	22,500
Jay Adelson	147,531	-	-	-	-	-	149,345	296,876
Naomi Seddon	90,000	-	-	-	-	-	149,345	239,345
	331,138	**-**	**-**	**8,893**	**-**	**-**	**396,461**	**736,492**
Executive Director								
Vincent English	**604,932**	**82,193**	**6,132**	**21,003**	**15,879**	**-**	**664,314**	**1,394,453**
Other KMP								
Peter Hase	481,570	-	-	13,206	-	1,000	71,173	566,949
Steve Loxton*	195,127	-	-	15,093	759	-	30,758	241,737
	676,697	**-**	**-**	**28,299**	**759**	**1,000**	**101,931**	**808,686**
Total Remuneration	**1,612,767**	**82,193**	**6,132**	**58,195**	**16,638**	**1,000**	**1,162,706**	**2,939,631**

^ Resigned on 23 September 2019

* Stepped down as CFO effective 1 March 2020. The remuneration included in the table represents eight month ending 28 February 2020

8 Annual leave, included under "Salary and fees" and Long service leave represents the movement in the leave provision balances. The accounting value may be negative, for example, when an Executive's leave balance decreases as a result of taking more than the entitlement accrued during the year

9 The value of options is calculated using a Black-Scholes valuation model at grant date. This value is allocated to remuneration of KMP on a straight-line basis to profit or loss over the period from grant date to vesting date. This value represents the share-based payment accounting expense for the options for the financial year or the period that person was a KMP within the year

	Short-term benefits			Post-employment benefits	Long-term benefits	Equity-settled benefit and rights		
2019	**Salary and fees $**	**Short-term incentive $**	**Non-monetary benefits $**	**Super-annuation / Pension contribution $**	**Long service leave $**	**Shares $**	**Options $**	**Total $**
Non-Executive Directors								
Bevan Slattery*	58,600	-	-	5,567	-	-	-	64,167
Drew Kelton~	67,500	-	-	-	-	-	-	67,500
Simon Moore	68,492	-	-	6,508	-	-	-	75,000
Peter Hase^	43,500	-	-	-	-	-	-	43,500
Jay Adelson	34,156	-	-	-	-	-	-	34,156
Naomi Seddon	7,500	-	-	-	-	-	-	7,500
	279,748	**-**	**-**	**12,075**	**-**	**-**	**-**	**291,823**
Executive Directors								
Bevan Slattery*	29,681	-	-	2,820	-	-	-	32,501
Vincent English	401,462	200,000	5,809	38,000	8,062	1,000	1,410,696	2,065,029
	431,143	**200,000**	**5,809**	**40,820**	**8,062**	**1,000**	**1,410,696**	**2,097,530**
Other KMP								
Peter Hase^	326,214	94,694	-	17,796	-	1,000	-	439,704
Belle Lajoie#	244,613	-	-	18,809	(7,758)	-	-	255,664
Steve Loxton	302,712	81,200	-	20,531	440	1,000	663,807	1,069,690
	873,539	**175,894**	**-**	**57,136**	**(7,318)**	**2,000**	**663,807**	**1,765,058**
Total Remuneration	**1,584,430**	**375,894**	**5,809**	**110,031**	**744**	**3,000**	**2,074,503**	**4,154,411**

* Resigned as Executive Director effective 1 September 2018 and appointed as non-executive director from 1 September 2018

~ Resigned on 1 June 2019

^ Resigned as Non-Executive Director effective 10 May 2019 and appointed as CCO on 12 February 2019. Peter also provided temporary CCO consultancy support services from 27 August 2018

Employment ceased on 28 April 2019

Directors and KMP of the Group are included in this disclosure for the period they held the applicable roles.

No KMP appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

The relative proportions of remuneration of KMP that are linked to performance are as follows:

	Fixed salary and/or fees		Short term incentive - at risk		Long term incentive[10]	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Non-Executive Directors						
Bevan Slattery	45%	100%	-	-	55%	-
Simon Moore	100%	100%	-	-	-	-
Jay Adelson	50%	100%	-	-	50%	-
Naomi Seddon	38%	100%	-	-	62%	-
Executive Directors						
Bevan Slattery	-	100%	-	-	-	-
Vincent English	45%	21%	6%	10%	49%	69%
Other KMP						
Peter Hase	87%	78%	-	22%	13%	-
Steve Loxton	87%	30%	-	8%	13%	62%

10 The LTI above refers to share-based payments not at risk and subject to service conditions

The proportion of the STI cash bonus paid/payable is as follows:

	Cash bonus paid/payable		Cash bonus forfeited	
	2020	**2019**	**2020**	**2019**
Executive Directors				
Vincent English	41%	100%	59%	-
Other KMP				
Peter Hase	-	100%	100%	-
Steve Loxton	-	70%	100%	30%

The STI amounts that were paid or are payable were determined by the Remuneration and Nomination Committee following an assessment of performance against targets. These include targets related to Megaport's strategic business objectives and financial targets including Total Revenue, Normalised EBITDA and Cash balance and personal performances (except CEO).

Equity-Based Compensation

Employee share option plans

Currently, the Group has an equity-based compensation plan via Employee Share Option Plan (ESOP). Refer to the Long Term Incentive Policy and Procedure section above for details on the ESOP.

The plans are designed to focus executives on delivering long-term shareholder returns and attracting and retaining key employees for the long-term. For some employees, the options will vest if they meet specific performance targets within the employee's business unit; for all other employees, the options will vest if the employee meets a length of service requirement.

Participation in the plans is at the Board's absolute discretion and no individual has a contractual right to participate in the plans. Once vested, a participant will have a set period of time to exercise the options, specific to their individual ESOP. The options are granted for no consideration, however there is consideration payable by the participant upon exercising vested options. Upon exercising the options, the options convert into fully paid ordinary shares.

Employee share option plans (Continued)

Terms and conditions of outstanding share options affecting remuneration of KMP in the current financial year or future financial years:

Options series	Outstanding options	Grant date	Grant date fair value $	Exercise price $	Vesting date	Expiry date
ESOP – series 2019 – 7	1,000,000	29-Nov-18	1.299	3.60	29-Nov-20	29-Nov-21
ESOP – series 2020 – 7	100,000	22-Nov-19	2.330 - 3.291	8.43	22-Nov-20 to 22-Nov-22	22-Nov-21 to 22-Nov-23
ESOP – series 2020 – 8	200,000	23-Nov-19	3.168 - 3.596	6.96	23-Nov-20 to 23-Nov-21	23-Nov-21 to 23-Nov-22
ESOP – series 2020 – 10	200,000	01-Apr-20	2.017	8.49	01-Sep-20	01-Sep-21

There has been no alteration of the terms and conditions of the above share options since the grant date.

The total fair value of outstanding share options granted as compensation to KMP at reporting date includes:

	Opening balance 1 July 2019		Granted during the year[11]		Exercised/settled during the year		Forfeited/cessation as KMP during the year		Closing balance 30 June 2020	
Name	Number	$	Number	$	Number	$	Number	$	Number	$
Bevan Slattery	-	-	100,000	282,472	-	-	-	-	100,000	282,472
Jay Adelson	-	-	100,000	338,245	-	-	-	-	100,000	338,245
Naomi Seddon	-	-	100,000	338,245	-	-	-	-	100,000	338,245
Peter Hase	100,000	84,174	200,000	120,994	(100,000)	(84,174)			200,000	120,994
Vincent English	2,533,333	2,632,277	-	-	(1,533,333)	(1,332,946)			1,000,000	1,299,331
Steve Loxton*	1,000,000	1,057,576	-	-	(200,000)	(197,295)	(800,000)	(860,281)	-	-

* Stepped down as CFO effective 1 March 2020

11 The value of options is calculated as at the grant date using a Black-Scholes valuation model. This grant date value is allocated to remuneration of KMP on a straight-line basis over the period from grant date to vesting date

Employee share option plans (Continued)

In addition, the following share options were granted to the Company secretary.

Name of Officer	Date Granted	Grant date fair value ($)	Exercise price ($)	Number of options granted
Celia Pheasant	20-Aug-19	2.531 – 3.197	5.90	100,000

All share options issued to KMP were made in accordance with the provisions of the employee share option plans.

Further details of the employee share option plans and of share options granted during the 2020 financial year is contained in note 21 to the financial statements.

Additional disclosures relating to KMP

KMP equity holdings

The movement in number of ordinary shares of Megaport Limited[12] to KMP is as follow:

Name	Balance at 01 July 2019	Purchased	Disposed	Appointment or cessation as KMP	Net other changes during the year	Balance at 30 June 2020	Balance held nominally
Non-Executive Directors							
Bevan Slattery	18,330,285	-	(5,177,678)	-	-	13,152,607~	13,037,607~
Simon Moore^	1,122,274	-	-	(1,122,274)	-	-	-
Executive Director							
Vincent English	137,521	1,533,333	(543,333)	-	168	1,127,689	1,084,149
Other KMP							
Peter Hase	1,000	100,000	(90,000)	-	168	11,168	11,168
Steve Loxton*	3,546	-	-	(3,546)	-	-	-

~ Includes 3,000,000 shares beneficially held by Bevan Slattery that have been pledged as security under a structured option and loan facility

^ Resigned on 23 September 2019

* Stepped down as CFO effective 1 March 2020

12 The table above includes all ordinary shares held directly, indirectly and beneficially by (a) key management personnel, (b) a close member of the family of (a), and (c) an entity over which (a) or (b) has, either directly or indirectly, control, joint control or significant influence.

Loans to KMP

No loans were made to Directors of Megaport Limited and other KMP of the Group, including their close family members and entities related to them, for the financial year ended 30 June 2020 (2019: Nil).

Other transactions and balances with KMP of the Group

Information on other transactions and balances with Directors, other KMP and parties related to directors and other KMP are set out in note 27 of the financial statements.

Directors of the Group hold other directorships in public corporations, as detailed in the Directors' Report. Where any of these related entities are customers or suppliers of the Group, these arrangements are on arm's length terms i.e. similar terms to other customers or suppliers.

Voting of shareholders at last year's annual general meeting ("AGM")

Megaport Limited received more than 77% of "yes" votes on its Remuneration Report for the 2019 financial year. The Company did not receive any specific feedback from shareholders at the AGM or throughout the year on its remuneration practices.

Indemnification and Insurance of Directors and Officers

The Group has entered into standard deeds of indemnity and insurance with each of the Directors. Pursuant to those deeds, the Group has undertaken, consistent with the Corporations Act, to indemnify each Director in certain circumstances and to maintain Directors and Officers insurance cover in favour of the Director for seven years after the Director has ceased to be a Director. During the financial year, the Group paid a premium for such insurance coverage. The contract of insurance prohibits disclosure of the nature of the liability or of the amount of the premium.

The Group has further undertaken with each Director to maintain a complete set of the Group's board papers and to make them available to the Director for seven years after the Director has ceased to be a Director.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group against a liability incurred as such an officer or auditor.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Group may decide to employ the auditor on assignments in addition to its statutory audit duties, where the auditor's expertise and experience with the Company and/or Group are important.

No non-audit services were provided by Deloitte Touche Tohmatsu Australia and its network firms during the year.

As there was no provision of non-audit services by the auditor, the Directors are of the opinion that the independence requirements of the Corporations Act 2001 were not compromised.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the next page.

The Directors' Report is signed in accordance with a resolution of Directors made pursuant to s298(2) of the *Corporations Act 2001.*

Corporate Governance Statement

Megaport Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. As an early adopter, Megaport Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (Fourth Edition) published by the ASX Corporate Governance Council. While Megaport Limited is not required to comply with the Fourth Edition until FY21, the Board fully supports the intent of the changes made by the ASX Corporate Governance Council and welcomes the opportunity to measure the Company's governance practices against the recommendations in the Fourth Edition.

A description of the Group's current corporate governance practices is set out in the Group's Investor Centre, which can be viewed at https://www.megaport.com/investor/.

On behalf of the Board of Directors

Vincent English
Executive Director and Chief Executive Officer
Brisbane
19 August 2020

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Megaport Limited
Level 3
825 Ann Street
Fortitude Valley QLD 4006

19 August 2020

Dear Board Members

Auditor's Independence Declaration to Megaport Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Megaport Limited.

As lead audit partner for the audit of the financial report of Megaport Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. D. Wanstall

Richard Wanstall
Partner
Chartered Accountants

FINANCIAL REPORT

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Continuing operations			
Revenue	4	58,040	35,065
Direct network costs	5	(28,522)	(23,117)
Profit after direct network costs		**29,518**	**11,948**
Other income		1,070	1,128
Employee expenses		(36,164)	(25,769)
Professional fees		(4,897)	(2,984)
Marketing expenses		(1,760)	(1,631)
Travel expenses		(2,179)	(2,417)
Equity-settled employee costs	7	(6,911)	(4,966)
Depreciation and amortisation expense	7	(17,365)	(9,051)
Finance costs		(1,233)	(226)
Foreign exchange (losses) / gains	7	(3,768)	4,263
Other expenses		(4,444)	(3,850)
Loss before income tax		**(48,133)**	**(33,555)**
Income tax benefit / (expense)	6(a)	483	(9)
Net loss for the year		**(47,650)**	**(33,564)**
Other comprehensive income / (loss), net of tax			
Items that may be reclassified subsequent to profit or loss:			
Exchange differences arising on the translation of foreign operations		378	(3,555)
Total other comprehensive income / (loss), net of income tax		**378**	**(3,555)**
Total comprehensive loss for the year		**(47,272)**	**(37,119)**
Loss attributable to:			
Owners of Megaport Limited		**(47,650)**	**(33,564)**
Total comprehensive loss attributable to:			
Owners of Megaport Limited		**(47,272)**	**(37,119)**
Loss per share		**$**	**$**
Basic and diluted loss per share	8	(0.33)	(0.27)

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	2020 $'000	2019 $'000
Assets			
Current assets			
Cash and cash equivalents	9	166,877	74,879
Trade and other receivables	10	11,476	7,910
Current tax assets	6(b)	107	43
Other assets	11	1,875	2,302
Total current assets		**180,335**	**85,134**
Non-current assets			
Property, plant and equipment	12	49,822	26,810
Intangible assets	13	12,863	10,879
Deferred tax assets	6(c)	4,226	2,770
Other assets	11	910	1,352
Total non-current assets		**67,821**	**41,811**
Total assets		**248,156**	**126,945**
Liabilities			
Current liabilities			
Trade and other payables	15	14,111	12,977
Borrowings	16	9,485	836
Current tax liabilities	6(b)	206	247
Other liabilities		231	176
Total current liabilities		**24,033**	**14,236**
Non-current liabilities			
Borrowings	16	11,758	1,744
Deferred tax liabilities	6(c)	172	287
Other liabilities		163	88
Total non-current liabilities		**12,093**	**2,119**
Total liabilities		**36,126**	**16,355**
Net assets		**212,030**	**110,590**
Equity			
Issued capital	18	371,524	229,521
Reserves	19	9,377	2,290
Other equity		(11,914)	(11,914)
Accumulated losses	20	(156,957)	(109,307)
Total equity		**212,030**	**110,590**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Notes	Issued capital $'000	Reserves $'000	Other equity^ $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018		166,840	1,021	(11,914)	(75,743)	80,204
Loss for the year		-	-	-	(33,564)	(33,564)
Other comprehensive loss		-	(3,555)	-	-	(3,555)
Total comprehensive loss for the year		**-**	**(3,555)**	**-**	**(33,564)**	**(37,119)**
Transactions with owners in their capacity as owners:						
Issue of ordinary share capital		64,244	-	-	-	64,244
Employee share option expense		-	4,824	-	-	4,824
Share issue costs, net of tax	18	(1,563)	-	-	-	(1,563)
Balance at 30 June 2019		**229,521**	**2,290**	**(11,914)**	**(109,307)**	**110,590**
Balance at 1 July 2019		229,521	2,290	(11,914)	(109,307)	110,590
Loss for the year		-	-	-	(47,650)	(47,650)
Other comprehensive income		-	378	-	-	378
Total comprehensive loss for the year		**-**	**378**	**-**	**(47,650)**	**(47,272)**
Transactions with owners in their capacity as owners:						
Issue of ordinary share capital		144,965	-	-	-	144,965
Employee share option expense		-	6,709	-	-	6,709
Share issue costs, net of tax	18	(2,962)	-	-	-	(2,962)
Balance at 30 June 2020		**371,524**	**9,377**	**(11,914)**	**(156,957)**	**212,030**

^ Represents adjustment arising from common-control transactions (refer to note 1(e) in the financial statements)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		59,203	33,113
Payments to suppliers and employees		(78,649)	(60,961)
Income taxes received / (paid)		109	(31)
Finance costs		(1,233)	(226)
Net cash flows used in operating activities	9	**(20,570)**	**(28,105)**
Cash flows from investing activities			
Interest received		1,345	957
Proceeds from financial assets		-	509
Payment for property, plant and equipment		(24,723)	(14,099)
Payment for intangible assets		(4,603)	(4,020)
Receipts of government grants		612	-
Proceeds from disposal of property, plant and equipment		5	2
Contingent consideration payment		-	(1,008)
Net cash flows used in investing activities		**(27,364)**	**(17,659)**
Cash flows from financing activities			
Proceeds from issue of new shares		144,823	64,133
Share issue transaction costs		(4,232)	(2,232)
Proceeds from borrowings	16(c)	9,243	2,900
Repayment of borrowings	16(c)	(2,227)	(89)
Payment of lease liabilities	16(c)	(4,773)	(59)
Net cash flows from financing activities		**142,834**	**64,653**
Net increase in cash and cash equivalents held		94,900	18,889
Effects of exchange rate changes on cash and cash equivalents		(2,902)	229
Cash and cash equivalents at beginning of the year		74,879	55,761
Cash and cash equivalents at end of the year	9	**166,877**	**74,879**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

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1 Significant accounting policies

(a) General information

Megaport Limited ("parent entity" or "the Company") is a listed public company, incorporated and domiciled in Australia. Megaport Limited shares are listed on the Australian Securities Exchange (ASX).

Megaport's registered office and principal place of business is:

Level 3
825 Ann Street
Fortitude Valley QLD 4006

The principal activities of the Company and its subsidiaries (together referred to as "the Group", "Megaport" or "consolidated entity") are described in the Director's Report.

All press releases, financial reports and other information are available at Megaport's Investor Centre at the following website address: www.megaport.com/investor.

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the periods presented, unless otherwise stated. The consolidated financial statements are for the Group for the financial year ended 30 June 2020.

The consolidated financial statements were authorised for issue by the Directors on the date of the Directors' Declaration. The Directors have the power to amend and reissue the consolidated financial statements.

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. Comparative figures have been adjusted to conform to the current year's presentation. Reclassifications have been made within employee costs, professional fees, marketing expenses and other expenses in the Consolidated Statement of Profit or Loss and other Comprehensive Income.

(b) Basis of preparation

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Standards Board, and comply with other requirements of the law. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars ($'000), unless otherwise indicated.

All amounts are presented in Australian dollars, unless otherwise noted.

Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Going concern

Determining whether the Group is a going concern has been evaluated through detailed budgets and cash flow forecasts which include key assumptions around future cash flows (including consideration of COVID-19), and forecast results and margins from operations. The Group has significant cash reserves obtained through capital raising and monitors the reserves through these detailed budgets and cash flow forecasts to ensure there are sufficient available funds for its operations and any planned expansion. As a result, the Directors are satisfied that the Group is able to maintain sufficient resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements.

(b) Basis of preparation (Continued)

Historical cost convention
The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting date, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability at the measurement date.

Critical accounting estimates
The preparation of the financial statements requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

New and amended standards adopted by the Group
The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to their operations and effective for the year ended 30 June 2020. New and revised Standards and Amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

AASB 16 *Leases*
The Group has adopted AASB 16, Leases ("AASB 16") as of its effective date 1 July 2019 under the modified retrospective approach and has not restated comparative amounts for the period prior to first adoption. The new standard brings contracts that satisfy the definition of a "Lease" onto the statement of financial position, eliminating the distinction between operating and finance leases. AASB 16 supersedes AASB 117, Leases and related interpretations.

(i) Change in accounting policies for leases under AASB 16 effective 1 July 2019

The Group as lessee:

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these short-term and low value leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

(b) Basis of preparation (Continued)

- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as "borrowings" in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as "property, plant and equipment" in the Consolidated Statement of Financial Position.

The Group applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment accounting policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

The Group has elected not to allocate contract consideration between lease and non-lease components, but rather account for each lease and non-lease component as a single lease component, on a lease-by-lease basis.

(b) Basis of preparation (Continued)

The Group has applied critical judgments in the application of AASB 16, including: i) identifying whether a contract (or part of a contract) includes a lease; and ii) determining whether it is reasonably certain that lease extension or termination options will be exercised in determining lease terms. The Group also uses critical estimates in the application of AASB 16, including the estimation of lease term and determination of the appropriate rate to discount the lease payments.

(ii) Key features of AASB 16 and the change in accounting for the Group

The key features of the new standard are:

- Distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Classification of leases as either operating or finance leases for a lessee are removed and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.
- The recognition of lease assets is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.
- Lease liabilities are initially measured at the present value of the future lease payments. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.
- Total lease payments will be split into a principal and interest portion in the Statement of Cash Flows, presented as financing and operating cash flows respectively.

Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements.

The standard primarily affected the accounting for the Group's operating leases, in particular rental of premises, rack space in data centres, and rental of cross connect and connectivity resources. Until the financial year ending 30 June 2019, the above operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(iii) Practical expedients applied

As part of the transition to AASB 16, the Group has elected to apply the following practical expedients permitted within the transitional guidance of the standard:

- The Group has elected not to apply AASB 16 to contracts that were not previously identified as containing a lease applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a lease*;
- The Group has elected to use a single discount rate to measure lease liabilities for each identified lease contract with similar lease terms. The average discount rate is 6.0% based on lease terms;
- The Group elected to exclude the initial direct costs (such as legal and other costs of obtaining a lease) from the measurement of the right of use asset at the date of initial application;
- The Group has elected to use hindsight where applicable when determining lease term and inclusions of options to extend or terminate the lease; and
- On a lease by lease basis the Group has determined whether to apply the practical expedient in relation to not measuring the lease liability for leases with a lease term that will end within 12 months of the date of initial application.

(b) Basis of preparation (Continued)

(iv) Adjustments recognised on adoption of AASB 16

As at 1 July 2019, the Group's lease commitments total $8.9 million, including $0.9 million for short-term leases and leases of low-value assets. The Group has recognised a right-of-use asset and corresponding lease liability of $7.4 million at the date of transition, being the present value of the $8.0 million in total lease commitments. The table below summarises the operating lease commitments disclosed in the annual financial report as at 30 June 2019 and the lease liability recognised on transition as at 1 July 2019.

	$'000
Operating lease commitments disclosed as at 30 June 2019	8,946
Short-term leases and low value leases recognised on a straight-line basis as expense	(912)
Discounting impact at the date of initial application	(599)
Lease liability recognised as at 1 July 2019	**7,435**

On 1 July 2019, the recognised right-of-use assets relate to the following types of assets:

	$'000
Network equipment*	6,942
Properties	493
Right-of-use assets recognised as at 1 July 2019	**7,435**

* Represents lease contracts on rack space in data centres, and rental of cross connect and connectivity resources

The change in accounting policy affected the following items in the Consolidated Statement of Financial Position on 1 July 2019:

- Property, plant and equipment – increase by $7,435,000
- Borrowings – increase by $7,435,000
- Accumulated losses - no impact

Whilst total assets and total liabilities have increased at the date of initial application of AASB 16, net assets of the Group remained unchanged at the date of transition.

(b) Basis of preparation (Continued)

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation was effective for annual periods beginning on or after 1 January 2019 and is therefore applicable to the Group effective 1 July 2019. The application of this interpretation has had no impact on the Group's consolidated financial statements as the Group has not experienced any uncertain tax treatments.

New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Amendments to Australian Accounting Standards – Definition of Material

These amendments are intended to address concerns that the wording in the definition of 'material' was different in the Conceptual Framework for Financial Reporting, AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments address these concerns by:

- Replacing the term 'could influence' with 'could reasonably be expected to influence';
- Including the concept of 'obscuring information' alongside the concepts of 'omitting' and 'misstating' information in the definition of material;
- Clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; and
- Aligning the definition of material across IFRS Standards and other publications.

Amendments to AASB 3 Business Combinations

These amendments to clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

(b) Basis of preparation (Continued)

AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
Amendments to various Accounting Standards and other pronouncements to support the issue of the revised Conceptual Framework for Financial Reporting. Some Accounting Standards and other pronouncements contain references to, or quotations from, the previous versions of the Conceptual Framework. This Standard updates some of these references and quotations so they refer to the Conceptual Framework issued by the AASB in June 2019, and also makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The directors do not expect that the adoption of amendments listed above will have a material impact on the financial statements of the Group in the future periods.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Megaport Limited ('the Company') and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred is measured as the fair value of the assets acquired, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed in the period the costs are incurred.

Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

At the acquisition date, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values, except that

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

The excess of the consideration transferred over the net fair value of the Group's share of the identifiable net assets acquired, is recognised as goodwill. If the consideration transferred for the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the profit and loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value, as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with AASB 9, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

(d) Business combinations (Continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is measured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that had previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as of that date.

(e) Common-control transactions

A business combination involving entities or businesses under common-control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that the control is not transitory.

Where an entity within the Group acquires an entity under common-control, the acquirer consolidates the book value of the acquired entity's assets and liabilities from the date of acquisition. The consolidated financial statements of the Group include the acquired entity's income and expenses from the date of acquisition onwards. Any difference between the fair value of the consideration paid/transferred by the acquirer and the net assets/(liabilities) of the acquired entity are taken to the common control reserve within other equity.

(f) Goodwill

Goodwill acquired on a business combination is initially measured at cost, being the excess of the consideration transferred for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit ("CGU") to which goodwill has been allocated is reviewed for impairment, annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Disposed goodwill in this circumstance is measured on the basis of the relative values of the disposed operation and the portion of the CGU retained.

(g) Segment reporting

AASB 8 Operating Segments requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM have been identified as the Board of Directors, who make strategic decisions on behalf of the Group.

Goodwill is allocated by management to groups of CGUs on a segment level.

(h) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of each group entity are expressed in Australian dollars ('$'), which is the functional currency of the Company and the presentation currency for the financial statements.

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(i) Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

(i) Revenue recognition (Continued)

The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services
Megaport derives income through the sale and provisioning of high-speed data services including network interconnectivity, facilitated through the Group's service delivery and connectivity platform. Revenue for data services is recognised when the performance obligation satisfied such as "the completion of provision of service". Revenue from services provided but unbilled is accrued at the end of each period and unearned revenue for services to be provided in future periods is deferred and recognised in the period that the performance obligation is satisfied. Revenue from rendering of services is billed monthly on a usage basis over time consistent with the individual performance obligations, with standard payment terms of 30 days.

Interest income
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(j) Taxation

Income tax expense/(benefit) represents the sum of the tax currently payable or receivable and deferred tax.

Current tax
The tax currently payable or receivable is based on taxable profit for the reporting period. Taxable profit differs from profit before tax as reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, the carry forward of tax losses and any unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(j) Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation - *Relevance of tax consolidation to the Group*
The parent entity and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 2 August 2015 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Megaport Limited. The members of the tax-consolidated group are identified in Note 26. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone separate taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Tax funding arrangements and tax sharing agreements
The entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement.

(k) Leases

On adoption of AASB 16, Leases, effective 1 July 2019, the Group's accounting policy has been updated accordingly. Refer to note 1 (b) AASB 16 Leases (i).

Prior to adoption of AASB 16, leases were classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee
Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

(k) Leases (Continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(m) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets (Trade and other receivables) which are measured at amortised cost. The loss allowance is recognised in profit or loss.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. The expected credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(n) Trade and other receivables (Continued)

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

(o) Property, plant and equipment

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

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and assets under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-to-use assets are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is calculated over PPE using the following estimated useful lives and methods:

PPE Category	Expected Useful Life	Method
Network equipment	4 years	Straight line
Furniture & office equipment	3 - 5 years	Straight line
Computer equipment	2 - 3 years	Straight line
Leasehold assets and improvements	Over the life of the lease	Straight line

An item of PPE is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Assets under construction
Assets under construction are shown at historical cost. Historical cost includes directly attributable expenditures on network infrastructure and data centres which at reporting date, have not yet been finalised and/or are ready for use. Assets under construction are not depreciated. Assets under construction are transferred to the relevant class of PPE upon successful testing and commissioning.

(p) Intangible assets

Intangible assets acquired separately
Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Indefeasible rights to use assets
Indefeasible rights to use ('IRUs') and long-term agreements of capacity are recognised at cost, being the present value of future cash flows payable for the right. Costs are deferred and amortised on a straight line basis over the life of the contract.

(p) Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

A summary of the amortisation policies applied to the Group's intangible assets is as follows:

Category	Method	Internally generated / acquired
Patents and trademarks	Straight line – the length of the approved application	Acquired
Software	Straight line – 3 years	Acquired / internally generated
Brand names	Straight line – 2 - 10 years	Acquired
Customer contracts & relationships	Straight line – 5 - 10 years	Acquired
Network rights	Straight line – 3 years	Acquired
IRU assets	Straight line – 10 years (the life of the contract)	Acquired

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

(q) Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, or whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(s) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(t) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(u) Employee benefits

Short-term obligations
Liabilities for wages and salaries including non-monetary benefits and annual leave, expected to be settled within 12 months of the reporting period, are recognised in other payables and accruals in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. The obligation for non-accumulated sick leave is recognised when the leave is taken and is measured at the rates paid or payable.

Long-term obligations
Liabilities in respect of long-term employee benefits are recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date, using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using high quality corporate bond rates at the reporting date with terms to maturity and currencies that match, as closely as possible, the estimated future cash flows.

The obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Retirement employment obligations
Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is applicable.

Bonus plans
The Group recognises a provision for future bonus payments where it is contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits
A liability for termination benefits is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs. Benefits falling due more than 12 months after reporting date are discounted to present value.

(v) Equity-settled employee benefit

Equity-settled employee benefit transactions and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled employee benefit transactions are set out in Note 21.

The fair value determined at the grant date of the equity-settled employee benefit transactions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled employee benefit transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably. In such cases they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled equity instruments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

(w) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group entity are recognised as proceeds received, net of direct issue costs.

(x) Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by
- The weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of associated other taxes, including goods & services tax (GST), value-added tax (VAT), and sales tax, except:

- Where the amount of other taxes incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of other taxes.

The net amount of other taxes recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The other taxes component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority is classified within operating cash flows.

Commitments and contingencies are disclosed net of the amount of other taxes recoverable from, or payable to, the taxation authority.

(z) Current and non-current classification

Assets and liabilities are presented in the Consolidated Statement of Financial Position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(aa) Derecognition of financial assets and liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(aa) Derecognition of financial assets and liabilities (Continued)

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss.

2 Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in Note 1, management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Useful lives of PPE and intangible assets

The economic life of PPE and intangible assets, which includes network infrastructure and internally generated software, is a critical accounting estimate. The useful economic life is the Board's and Management's best estimate based on historical experiences and industry knowledge. The Group reviews the estimated useful lives of PPE and intangible assets at the end of each annual reporting period. Should the actual lives of these component parts be significantly different this would impact the depreciation and amortisation expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(b) Value of internally generated intangible assets

The Group develops network software internally. To put a value to these assets, the Group estimates the reasonable time spent by key employees on the development of the software, then capitalises the labour cost of the estimated time spent developing the asset.

(c) Fair value measurements of equity-settled employee benefit

The Equity-settled employee benefit is measured at fair value for financial reporting purposes. In estimating the fair value of the equity-settled employee benefit, the Group uses market-observable data to the extent it is available. The expected life used in the fair value measurement has been adjusted based on management's best estimate for the effects of non-transferability and exercise restrictions (including the probability of meeting the vesting conditions attached to the option). Expected volatility is an estimate based on the historical share price volatility of similar companies within the industry.

(d) Income taxes

The Group is subject to income taxes in each jurisdiction that it operates. Estimation is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(e) Deferred taxation

Deferred tax assets are recognised where it is considered probable that they will be recovered in the future and, as such, are subjective. A significant portion of the available deferred tax assets relate to unused tax losses. Given the early stage of the Group operations and the magnitude of the tax losses, Megaport has not recognised any deferred tax assets relating to tax losses in the Consolidated Statement of Financial Position for any entities as at 30 June 2020.

(f) Impairment of assets

In accordance with the Group's accounting policy, impairment assessment has been undertaken as at 30 June 2020 for all CGUs with indefinite life intangible assets allocated or where there is an indication of impairment. The testing has been conducted using a value-in-use model.

The impairment assessment and value in use model requires management to make a number of assumptions, judgements and estimates throughout the process. Details of these key areas include the following:

- Management judgement is applied to establish the CGUs. The CGUs are smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
- The value-in-use model utilises a discounted cash flow analysis of five-year cashflows plus a terminal value. The five-year cash flows are based on the budget for the 12 months ending 30 June 2021 and a further four year projection based on management estimates of revenue, expenses, capital expenditure and cash flows for each CGU. Corporate expenses and corporate assets were allocated to the CGUs.
- Other key assumptions include the variables used to estimate the weighted average cost of capital and assumptions around factors such as credit margins, equity risk-premiums and terminal growth rates.

(g) Indefeasible rights to use and long-term agreements (IRUs)

In 2017 Megaport entered into long term IRUs agreements for dark fibre services with a lump-sum payment arrangement. Management has classified the IRUs as intangible assets in the form of IRU capacity assets under AASB 138 "Intangible Assets" as the provider has the right to substitute, modify or replace the fibre cores and pathways used by Megaport.

(h) Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, and geographic regions of the Group. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

(i) Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in Note 10, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

(j) Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

(k) Incremental borrowing rate

Where the interest rate implicit in a lease or borrowing cannot be readily determined, an incremental borrowing rate is estimated to discount future instalment payments to measure the present value of the lease liability or borrowing at the commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

3 Segment information

(a) Description of segments

The Group's Board of Directors examine the performance of the Group from a geographic perspective and have identified three operating segments. All operating segments are currently reportable. All operating segments generate revenue from the Group's principal activities. These segments are:

- **Asia-Pacific,** including Australia, New Zealand, Hong Kong, Singapore and Japan. As of 30 June 2020, 87 installed data centres operate across Asia-Pacific (2019: 71).
- **North America** established in April 2016, there are now 174 installed data centres across the United States of America and Canada (2019: 146).
- **Europe** established in 2016 and subsequently acquired Megaport (Bulgaria) EAD (formerly OMNIX Group AD) and Megaport (Deutschland) GmbH (formerly Peering GmbH) respectively. Megaport is present in 16 countries with 105 installed data centres across Europe (2019: 83).
- **Other** includes head office and group services, whose function is to support the operating segments and growth of the global business.

(b) Segment information provided to the Chief Operating Decision Makers

The CODM monitor the operating results of operating segments separately for the purpose of making decisions about resources to be allocated and assessing performance. Segment performance is evaluated based on Revenue, profit after direct network costs and Normalised EBITDA, each of which is measured the same way as these items in the consolidated financial statements.

The accounting policies of the reportable segments are the same as the Group's policies.

Segment assets are measured in the same way as in the consolidated financial statements. These assets are allocated based on the operations of the segment and in the case of PPE, the physical location of the assets.

(c) Segment performance and position

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2020 and 30 June 2019 is as follows:

2020	Asia-Pacific $'000	North America $'000	Europe $'000	Total operating segments $'000	Other[3] $'000	Total $'000
For the year ended 30 June 2020						
Revenue[1]	**20,575**	**26,334**	**11,131**	**58,040**	**-**	**58,040**
Profit after direct network costs	**14,327**	**8,650**	**6,541**	**29,518**	**-**	**29,518**
Normalised EBITDA[2]	**7,661**	**(4,413)**	**409**	**3,657**	**(23,583)**	**(19,926)**
Interest income	83	1	-	84	986	1,070
Depreciation and amortisation expense	(3,054)	(6,819)	(3,070)	(12,943)	(4,422)	(17,365)
Equity-settled employee costs	-	-	-	-	(6,911)	(6,911)
Finance costs	(469)	(259)	(101)	(829)	(404)	(1,233)
Foreign exchange (losses) / gains	(759)	574	(246)	(431)	(3,337)	(3,768)
Non-operating expenses	1	(5)	(3)	(7)	7	-
Income tax benefit / (expense)	(146)	(8)	431	277	206	483
Net profit / (loss) for the year	**3,317**	**(10,929)**	**(2,580)**	**(10,192)**	**(37,458)**	**(47,650)**
Additions to PPE and intangible assets[4]	12,054	18,577	7,771	38,402	4,327	42,729
As at 30 June 2020						
Segment assets	**35,227**	**34,029**	**20,257**	**89,513**	**158,643**	**248,156**

1. Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in current year
2. Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding the equity-settled employee costs, foreign exchange gains and non-operating expenses
3. "Other" represents head office and group services costs, whose function is to support the operating segments and growth of the global business
4. Additions to PPE and intangible assets include an amount of $7.4m relating to initial recognition of right-to-use assets

(c) Segment performance and position (Continued)

2019	Asia-Pacific $'000	North America $'000	Europe $'000	Total operating segments $'000	Other[3] $'000	Total $'000
For the year ended 30 June 2019						
Revenue[1]	**13,328**	**13,562**	**8,175**	**35,065**	**-**	**35,065**
Profit after direct network costs	**7,869**	**48**	**4,031**	**11,948**	**-**	**11,948**
Normalised EBITDA[2]	**2,311**	**(10,474)**	**(2,008)**	**(10,171)**	**(14,524)**	**(24,695)**
Interest income	38	1	-	39	1,089	1,128
Depreciation and amortisation expense	(1,901)	(3,760)	(2,116)	(7,777)	(1,274)	(9,051)
Equity-settled employee costs	-	-	-	-	(4,966)	(4,966)
Finance costs	(125)	(50)	(44)	(219)	(7)	(226)
Foreign exchange gains	641	3,297	368	4,306	(43)	4,263
Non-operating expenses[4]	4	-	(12)	(8)	-	(8)
Income tax benefit / (expense)	412	136	(76)	472	(481)	(9)
Net profit / (loss) for the year	**1,380**	**(10,850)**	**(3,888)**	**(13,358)**	**(20,206)**	**(33,564)**
Additions to PPE and intangible assets	7,447	4,361	2,287	14,095	2,701	16,796
As at 30 June 2019						
Segment assets	**25,577**	**18,902**	**14,012**	**58,491**	**68,454**	**126,945**

1. Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in current year
2. Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding the equity-settled employee costs, foreign exchange gains and non-operating expenses
3. "Other" represents head office and group services costs, whose function is to support the operating segments and growth of the global business
4. Non- operating expenses represent loss on disposal of PPE

The amount of the Group's revenue from external customers broken down by major countries is as follows:

	2020		2019	
Location	**$'000**	**%**	**$'000**	**%**
United States of America	25,534	44.0	13,228	37.7
Australia	13,978	24.1	9,619	27.4
Germany	6,328	10.9	5,953	17.0
Other countries	12,200	21.0	6,265	17.9
Total	**58,040**	**100.0**	**35,065**	**100.0**

(c) Segment performance and position (Continued)

No single customer contributed 10% or more to the Group's revenue for both the financial years ending 30 June 2020 and 30 June 2019.

The PPE and intangible assets broken down by major countries is as follows:

	2020		2019	
Location	**$'000**	**%**	**$'000**	**%**
Australia	21,882	34.9	13,302	35.3
United States of America	21,094	33.7	11,489	30.5
Germany	6,462	10.3	6,249	16.6
Other countries	13,247	21.1	6,649	17.6
Total	**62,685**	**100.0**	**37,689**	**100.0**

4 Revenue

The Group derives the following type of revenue for the year from contracts with customers.

	2020 $'000	2019 $'000
Revenue from the rendering of services	58,040	35,065
Total revenue from contracts with customers	**58,040**	**35,065**

5 Direct network costs

Direct network costs comprise of data centre power and space, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance, and channel commissions which are directly related to generating the service revenue of the Group and are not subject to AASB 16 Leases.

6 Income tax benefit / (expense)

(a) Income tax benefit / (expense)t recognised in profit or loss

	2020 $'000	2019 $'000
Current income tax benefit / (expense)	187	(163)
Total current tax benefit / (expense)	**187**	**(163)**
Deferred income tax benefit	296	154
Total deferred tax benefit	**296**	**154**
Income tax benefit / (expense) reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**483**	**(9)**

(a) Income tax recognised in profit or loss (Continued)

Tax losses

The Group has total unused tax losses in Australia of $52.8 million (2019: $40.1 million), in United States of America of $60.6 million (2019: $41.9 million), in Hong Kong of $3.8 million (2019: $3.6 million), in Singapore of $3.7 million (2019: $3.6 million), in the United Kingdom of $6.4 million (2019: $3.5 million) and in other countries totaling $15.7 million (2019: $9.9 million). These losses should be available to offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules. No deferred tax assets have been recorded in relation to these losses.

Parent entity and its Australian subsidiaries were consolidated for income tax purposes for the 2020 and previous financial years (refer Note 1(j)).

Numerical reconciliation of income tax benefit / (expense) benefit to prima facie tax payable or receivable	**2020 $'000**	**2019 $'000**
Accounting loss before income tax	(48,133)	(33,555)
Tax at the Australian tax rate of 30% (2019: 30%)	14,440	10,066
Non-deductible amounts	(2,116)	(1,564)
Recognition of temporary differences previously not brought to account	12	153
Deductible amounts recognised in equity	628	670
Difference in overseas tax rates	(2,714)	(1,672)
Unused tax losses not recognised	(9,767)	(7,662)
Income tax benefit / (expense)	**483**	**(9)**

(b) Current tax assets and liabilities

	2020 $'000	**2019 $'000**
Current tax assets		
Tax refund receivable	107	43
	107	**43**
Current tax liabilities		
Income tax payable	(206)	(247)
Net current tax payable	**(99)**	**(204)**

(c) **Deferred tax balances**

	2020 $'000	**2019 $'000**
Deferred tax assets	4,226	2,770
Deferred tax liabilities	(172)	(287)
Net deferred tax balances	**4,054**	**2,483**

(c) Deferred tax balances (Continued)

The following is the analysis of net deferred tax asset/ (liabilities) presented in the Consolidated Statement of Financial Position:

30 June 2020	Opening balance $'000	Recognised in profit or loss $'000	Recognised directly in equity $'000	Exchange differences $'000	Closing balance $'000
Deferred tax assets and liabilities in relation to:					
Intangible assets	523	(286)	-	-	237
Share issue costs	1,151	(628)	1,270	-	1,793
Accruals and other payables	919	(326)	-	-	593
Unrealised foreign exchange and others	(110)	1,536	-	5	1,431
Total	**2,483**	**296**	**1,270**	**5**	**4,054**

30 June 2019	Opening balance $'000	Recognised in profit or loss $'000	Recognised directly in equity $'000	Exchange differences $'000	Closing balance $'000
Deferred tax assets and liabilities in relation to:					
Intangible assets	508	15	-	-	523
Share issue costs	908	(426)	669	-	1,151
Accruals and other payables	373	546	-	-	919
Unrealised foreign exchange and others	(129)	19	-	-	(110)
Total	**1,660**	**154**	**669**	**-**	**2,483**

(d) Unrecognised deductible temporary differences, unused tax losses and unused tax credits

	2020 $'000	2019 $'000
Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:		
Tax losses carried forward	34,418	24,921
Total deferred tax assets not recognised	**34,418**	**24,921**

7 Material profit or loss items

The Group has identified a number of specific expenses and gains included in profit or loss before income tax which are material due to the significance in their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	Notes	2020 $'000	2019 $'000
Income and expenses			
Depreciation and amortisation:			
Depreciation of non-current assets – property, plant and equipment	12	10,271	6,964
Depreciation of right-of-use-asset	12	5,042	-
Amortisation of non-current assets – intangible assets	13	2,052	2,087
		17,365	**9,051**
Equity-settled employee costs:			
Employee share plan		202	142
Employee share option plans		6,709	4,824
	21(d)	**6,911**	**4,966**
Other expense disclosures:			
Rental expense relating to operating leases	(a)	-	11,967
Employees' superannuation expense		1,650	1,329
Foreign exchange (losses) / gains	(b)	(3,768)	4,263
Interest expense on lease liabilities		638	-
Interest expense on other borrowings		363	20
Expense relating to short-term leases	(a)	1,348	-

Notes:

(a) The Group has entered into commercial leases for the rental of premises, rack space in data centres, and rental of connectivity resources. Further details are included in Note 24(b). The reduction in the current year is due to the contracts that are accounted as Leases under AASB 16 effective 1 July 2019.

(b) The Group provides funding support to subsidiaries to invest in network equipment and fund operating losses until they become established and self-funding. As a result, the Group may be subject to foreign currency gains or losses on intercompany receivables and payables, and cash balances held in foreign currencies. Refer to Note 22 for further details.

8 Loss per share

Basic and diluted loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	2020 $'000	2019 $'000
Net loss for the year attributable to owners of the Company	(47,650)	(33,564)
Loss used in the calculation of basic and diluted loss per share	**(47,650)**	**(33,564)**

	2020 No. of Shares	2019 No. of Shares
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	142,268,464	122,516,945

	2020 $	2019 $
Basic and diluted loss per share	(0.33)	(0.27)

Basic and diluted loss per share excludes the effect of 5,344,001 (2019: 7,476,676) outstanding employee share options as they are anti-dilutive given the Group made a loss for the current and previous years.

9 Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the Consolidated Statement of Cash Flows can be reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	Notes	2020 $'000	2019 $'000
Cash at bank and on hand	(a)	166,877	39,352
Deposits at call	(b)	-	35,527
Total cash and cash equivalents		**166,877**	**74,879**

Notes:

(a) Included in cash at bank and on hand is an amount of $6,545,000 (2019: $5,821,000) that is held under lien by the bank as security for company's borrowings, rental security and credit cards and is therefore not available for use by the Group.

(b) Deposits at call are readily convertible to known amount of cash recorded.

Cash at bank earns interest at floating rates based on daily bank deposit rates ranging 0% - 1.8% (2019: 0% - 2.75%). The weighted average interest rate for the year was 1.26% (2019: 2.00%).

Reconciliation of loss for the year to net cash flows used in operating activities

Cash flows used in operating activities	Notes	2020 $'000	2019 $'000
Loss for the year		(47,650)	(33,564)
Adjustments for:			
Interest income		(1,070)	(1,128)
Depreciation and amortisation	7	17,365	9,051
Loss on disposal or write-off of non-current assets		(6)	8
Net foreign exchange differences		3,089	(4,779)
Equity-settled employee costs	21(d)	6,911	4,966
Income tax (benefit) / expense		(483)	9
		(21,844)	**(25,437)**
Movements in working capital:			
Increase in trade and other receivables		(3,566)	(3,521)
Decrease / (increase) in other assets		869	(2,367)
Increase in trade and other payables		3,818	3,233
Decrease / (increase) in tax assets and liabilities		23	(23)
Increase in other liabilities		130	10
Net cash used in operating activities		**(20,570)**	**(28,105)**

10 Trade and other receivables

	Notes	2020 $'000	2019 $'000
Current			
Trade receivables	(a)	8,726	5,763
Contract assets	(b)	2,982	1,550
Less: Allowance for expected credit losses	(c)	(467)	(260)
		11,241	**7,053**
Interest receivable		40	315
Other receivables		195	542
Total		**11,476**	**7,910**

Notes:

(a) Trade receivables are non-interest bearing and are generally payable within 30 days.

(b) Contract assets are included in trade and other receivables in the current year. In the prior year, contract assets were included in "other assets" as accrued revenue, which has been reclassified in line with the current year presentation.

(c) Allowances for expected credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions (including the Coronavirus (COVID-19) pandemic) and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period.

Age of receivables that are past due but not impaired	2020 $'000	2019 $'000
1 – 30 days past due	1,082	752
31 – 60 days past due	760	196
61+ days past due	2,135	834
Total	**3,977**	**1,782**

The ageing of the trade receivables for which the expected credit losses provided are as follows:

Age of impaired trade receivables	2020 $'000	2019 $'000
1 – 30 days past due	112	63
31 – 60 days past due	106	26
61+ days past due	249	171
Total	**467**	**260**

Movements in the allowance for expected credit losses are as follows:

	2020 $'000	2019 $'000
Balance at beginning of the year	260	180
Additional allowances recognised	405	297
Amounts written off during the year as uncollectable	(196)	(184)
Amounts recovered/reversed during the year	-	(38)
Exchange differences	(2)	5
Balance at end of the year	**467**	**260**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and no individual customers account for more than 10% of total revenue. Further details regarding risk exposure related to credit, market and interest rate risk have been disclosed in Note 22.

11 Other assets

	2020 $'000	2019 $'000
Current		
Prepayments	1,542	1,994
Deposits and bonds	333	308
	1,875	**2,302**
Non-current		
Prepayments	910	1,352
	910	**1,352**
Total other assets	**2,785**	**3,654**

12 Property, plant and equipment

	Network equipment $'000	Furniture & office equipment $'000	Computer equipment $'000	Leasehold Improvements $'000	Right-of-use assets $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2020							
Opening net book amount	**17,702**	**45**	**321**	**-**	**-**	**8,742**	**26,810**
Initial recognition of right-of-use-asset (Note 1(b))	-	-	-	-	7,435	-	7,435
Additions	-	9	298	481	9,679	20,218	30,685
Transfers	17,403	40	61	-	-	(17,504)	-
Disposals	(13)	(1)	(5)	-	-	-	(19)
Depreciation charge	(9,937)	(34)	(231)	(69)	(5,042)	-	(15,313)
Exchange differences	28	1	3	-	115	87	224
Net book value as at 30 June 2020	**25,183**	**60**	**447**	**412**	**12,187**	**11,533**	**49,822**
At 30 June 2020					-		
Cost	50,381	134	1,225	481	17,113	11,533	80,867
Accumulated depreciation	(25,198)	(74)	(778)	(69)	(4,926)	-	(31,045)
Net book value as at 30 June 2020	**25,183**	**60**	**447**	**412**	**12,187**	**11,533**	**49,822**

	Network equipment $'000	Furniture & office equipment $'000	Computer equipment $'000	Leasehold Improvements $'000	Right-of-use assets $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2019							
Opening net book amount	15,388	54	332	12	-	3,901	19,687
Additions	-	20	254	-	-	13,066	13,340
Transfers	8,376	-	-	-	-	(8,376)	-
Disposals	(4)	-	(6)	-	-	(10)	(20)
Depreciation charge	(6,659)	(30)	(263)	(12)	-	-	(6,964)
Exchange differences	601	1	4	-	-	161	767
Net book value as at 30 June 2019	**17,702**	**45**	**321**	**-**	**-**	**8,742**	**26,810**
At 30 June 2019							
Cost	33,999	104	1,278	35	-	8,742	44,158
Accumulated depreciation	(16,297)	(59)	(957)	(35)	-	-	(17,348)
Net book value as at 30 June 2019	**17,702**	**45**	**321**	**-**	**-**	**8,742**	**26,810**

Additional information relating to property, plant and equipment
The carrying value of right-to-use assets comprises of:

	2020 $'000	2019 $'000
Network equipment	9,210	-
Properties	2,977	-
Total	**12,187**	**-**

13 Intangible assets

	Software $'000	Customer contracts & relationships $'000	Network rights $'000	IRU assets $'000	Brand names, patents & other intangibles $'000	Goodwill $'000	Software under development $'000	Total $'000
Year ended 30 June 2020								
Opening net book amount	**2,435**	**410**	**16**	**3,267**	**427**	**1,554**	**2,770**	**10,879**
Additions	108	-	-	-	134	-	4,367	4,609
R&D refund received*	(611)	-	-	-	-	-	-	(611)
Transfers	4,500	-	-	-	-	-	(4,500)	-
Amortisation charge	(1,503)	(108)	(17)	(410)	(14)	-	-	(2,052)
Exchange differences	(16)	2	1	45	-	(8)	14	38
Net book value as at 30 June 2020	**4,913**	**304**	**-**	**2,902**	**547**	**1,546**	**2,651**	**12,863**
At 30 June 2020								
Cost	8,608	670	830	4,197	664	1,546	2,651	19,166
Accumulated amortisation	(3,695)	(366)	(830)	(1,295)	(117)	-	-	(6,303)
Net book value as at 30 June 2020	**4,913**	**304**	**-**	**2,902**	**547**	**1,546**	**2,651**	**12,863**

*Research and development (R&D) refund relates to government grants received from the Australian Tax Office (ATO) for the costs incurred in eligible technological development programmes which were previously capitalised.

	Software $'000	Customer contracts & relationships $'000	Network rights $'000	IRU assets $'000	Brand names, patents & other intangibles $'000	Goodwill $'000	Software under development $'000	Total $'000
Year ended 30 June 2019								
Opening net book amount	1,681	505	291	3,505	327	1,531	1,431	9,271
Additions	47	-	-	-	120	-	3,289	3,456
Transfers	1,938	-	-	-	45	-	(1,983)	-
Amortisation charge	(1,232)	(104)	(279)	(407)	(65)	-	-	(2,087)
Exchange differences	1	9	4	169	-	23	33	239
Net book value as at 30 June 2019	**2,435**	**410**	**16**	**3,267**	**427**	**1,554**	**2,770**	**10,879**
At 30 June 2019								
Cost	4,608	673	837	4,152	530	1,554	2,770	15,124
Accumulated amortisation	(2,173)	(263)	(821)	(885)	(103)	-	-	(4,245)
Net book value as at 30 June 2019	**2,435**	**410**	**16**	**3,267**	**427**	**1,554**	**2,770**	**10,879**

Additional information relating to intangible assets

The development team's time spent developing software is capitalised. A portion of their time is spent on researching new development opportunities and maintaining existing software. The total cost incurred for this time for the year ended 30 June 2020 was $538,000 (2019: $485,000), which is included in the employee expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

14 Impairment of goodwill

An impairment test is required to be performed for CGUs with indefinite life intangible assets, goodwill or where there is an indication of impairment. The Europe CGU was tested for impairment as it was allocated goodwill on acquisition of Megaport (Deutschland) GmbH (formerly, Peering Gmbh). No impairment indicators were identified for other CGUs.

The carrying amount of goodwill is as follows:

CGU	Note	2020 $'000	2019 $'000
Europe		1,546	1,554
Total	**13**	**1,546**	**1,554**

Goodwill is tested for impairment annually. The Group performed its annual impairment test using the carrying value as at 30 June 2020 (2019: carrying value as at 30 June 2019).

The recoverable amount of Europe has been determined using the value-in-use calculation, which includes the financial budgets set for the next financial year and management's earnings and cash flow projections for subsequent years.

Key assumptions used for value-in-use calculation

The following key assumptions were applied to the cash flow projections when determining the value-in-use calculation for Europe:

	2020	2019
Pre-tax discount rate	13.50%	14.25%
Terminal growth rate	3%	3%
Cash flows beyond the next financial year are extrapolated using a growth rate of:		
Revenue growth (years 2 – 5)	33%	45%
Expenses growth (years 2 – 5)	15%	18%

- *Revenue* – using the budgeted revenue for the year ended 30 June 2021 and projections for a further four years.
- *Expenses* – using the budgeted expenses for the year ended 30 June 2021 and projections for a further four years.
- *Terminal value* – calculated based on a multiple of estimated cash flows in year five.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for Europe considering the impacts that the Coronavirus (COVID-19) pandemic has had to-date. The directors have determined that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of Europe.

15 Trade and other payables

	Notes	2020 $'000	2019 $'000
Current			
Trade payables	(a),(c)	2,912	3,690
Employee entitlements	(b)	5,670	4,113
Other payables and accruals	(c)	5,529	5,174
		14,111	**12,977**

Notes:

(a) Trade payables are non-interest bearing and are normally settled on terms ranging from 7 to 30 days.

(b) Employee entitlements includes accrued annual leave, and other employee benefits payable. The entire balance is presented as a current liability as the Group does not have an unconditional right to defer settlement for any of these obligations. However, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

(c) Includes amounts due to related parties (Note 27(e)) and an amount of $202,000 accrued for employee share plan (2019: $142,000) (Note 21(c)).

Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate the fair value.

Interest rate risk and liquidity risk

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. Information regarding interest rate risk and liquidity risk exposure is set out in Note 22.

16 Borrowings

	Notes	2020 $'000	2019 $'000
At amortised cost			
Current			
Lease liabilities	(a)	5,867	-
Other borrowings	(b)	3,618	836
		9,485	**836**
Non-current			
Lease liabilities	(a)	6,584	-
Other borrowings	(b)	5,174	1,744
		11,758	**1,744**
		21,243	**2,580**

Notes:

(a) Lease liabilities recognised on adoption of AASB 16 at fair value effective 1 July 2019 (refer note 1(b)) and subsequently at amortised cost using the effective interest method.

(b) During the year, the Group increased the vendor financing facility to $12.0 million (2019: $5.7 million). The facility is for the purposes of funding the purchase of network equipment and payment of software licenses. The facility is governed by an Instalment Purchase Agreement. The facility does not carry interest and is repayable via equal instalments over 36 months from the drawdown date. The borrowing is secured by a bank guarantee charged over $5.7 million in cash and cash equivalents. The vendor financing facility was fully drawn down at 30 June 2020. At inception the fair value of the loan is recognised using an estimate of a market borrowing rate.

(c) The following table presents the changes in liabilities arising from financing activities:

		Lease liabilities $'000	Other borrowings $'000	Total $'000
Balance at 1 July 2018		59	-	59
Additions (cash)		-	2,900	2,900
Fair value adjustments		-	(231)	(231)
Repayment (cash)		(59)	(89)	(148)
Balance at 30 June 2019		**-**	**2,580**	**2,580**
Initial recognition of lease liabilities	1(b)	7,435	-	7,435
Additions (cash)		-	9,243	9,243
Additions (non-cash)		9,679	-	9,679
Fair value adjustments		-	(804)	(804)
Repayment (cash)		(4,773)	(2,227)	(7,000)
Exchange differences		110	-	110
Balance at 30 June 2020		**12,451**	**8,792**	**21,243**

17 Financial liabilities

There are no material contingent assets or liabilities as at 30 June 2020 (30 June 2019: nil).

The following table presents the changes in the contingent consideration:

	2020 $'000	2019 $'000
Opening balance	-	995
Paid out (cash)	-	(1,008)
Exchange movement	-	13
Closing balance	**-**	**-**

The contingent consideration relating to the acquisition of Megaport (Deutschland) GmbH (formerly Peering GmbH) was fully paid at 30 June 2019.

18 Issued capital

Ordinary shares	**Number of shares**		**$'000**	
	2020	**2019**	**2020**	**2019**
Fully paid	153,261,431	134,703,635	371,524	229,521
Total issued capital	**153,261,431**	**134,703,635**	**371,524**	**229,521**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Group, 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 the holder to one vote, either in person or by proxy, at a meeting of the Company.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

The movement in fully paid ordinary shares is summarised below:

	Number of shares	Total $'000
Balance at 1 July 2018	117,803,182	166,840
Shares issued - Private Placement	12,500,000	50,000
Shares issued - Share Purchase Plan	2,497,813	9,991
Shares issued – Employee Share Plan	28,638	111
Shares issued – Employee share options exercised	1,874,002	4,142
Less: Transaction costs arising on share issues, net of tax	-	(1,563)
Balance at 30 June 2019	**134,703,635**	**229,521**

	Number of shares	Total $'000
Balance at 1 July 2019	134,703,635	229,521
Shares issued - Private Placements	12,363,158	111,770
Shares issued - Share Purchase Plan	2,367,948	22,496
Shares issued – Employee Share Plan	24,024	142
Shares issued – Employee share options exercised	3,802,666	10,557
Less: Transaction costs arising on share issues, net of tax	-	(2,962)
Balance at 30 June 2020	**153,261,431**	**371,524**

The following capital raising activities were successfully completed during the year:

- On 6 December 2019, Megaport announced the successful completion of its fully underwritten share placement to institutional, sophisticated, and professional investors to raise approximately $62 million. Megaport issued 7.1 million shares under the placement. The issue price of $8.70 per share represented a discount of 4.8% to the closing price of Megaport shares on 4 December 2019. Proceeds raised from the placement will be used to accelerate expansion to new locations and new markets, undertake capacity upgrades, fund innovation and development of new technology, and fund operating costs and general working capital requirements.

- On 7 April 2020, Megaport announced it would raise $50 million in new equity via a fully underwritten placement to institutional, experienced, sophisticated, and professional investors (Placement) and a further $15 million via a Share Purchase Plan (SPP). The issue price of $9.50 per share represented a discount of 8.9% to the closing price of Megaport shares on 7 April 2020.

  Megaport issued 5,263,158 shares under the Placement on 15 April 2020.

  On 7 May 2020, based on the extremely strong demand from retail shareholders, an assessment of its capital requirements and feedback from Megaport's retail shareholders, the Board of Megaport determined to increase the equity raised under the SPP by 50% to $22.5 million (2,367,948 fully paid ordinary shares), with applicants to be scaled back on a pro-rata basis. The issue of shares under the SPP was completed on 12 May 2020.

  Proceeds raised from the placement and the SPP will be used to accelerate sales, product development and platform expansion opportunities in the near and medium term. Additionally, it will give the company some funding capacity for future strategic opportunities.

The new shares issued are ordinary shares and rank equally with existing Megaport ordinary shares.

(a) Capital management

The Group maintains a conservative funding structure that allows it to meet its operational and regulatory requirements, while providing the capital to fund the future strategic growth plan.

When determining dividend returns to shareholders the Board considers a number of factors, including the Group's anticipated cash requirements to fund its growth, operational plan, and current and future economic conditions. The Group is not bound by externally imposed capital requirements. Based on the current strategic plan being executed and anticipated cash focus, the Board's current policy is to not issue dividends.

	2020 $'000	2019 $'000
Total borrowings*	21,243	2,580
Total equity	212,030	110,590
Gearing ratio	**10.0%**	**2.3%**

*Total borrowings include lease liabilities accounted for under AASB 16 effective 1 July 2019. At 30 June 2020, external borrowings comprised the $8.8 million vendor financing facility (2019: $2.6 million).

19 Reserves

	2020 $'000	2019 $'000
Foreign currency translation reserve	(4,058)	(4,436)
Employee share option reserve	13,435	6,726
	9,377	**2,290**

The following table shows a breakdown of the 'reserves' line item as per the Consolidated Statement of Financial Position, and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below.

	Foreign currency translation reserve $'000	Employee share option reserve $'000	Total $'000
Balance at 1 July 2018	(881)	1,902	1,021
Exchange differences arising on translation of foreign operations	(3,555)	-	(3,555)
Share option expense	-	4,824	4,824
Balance at 30 June 2019	**(4,436)**	**6,726**	**2,290**
Exchange differences arising on translation of foreign operations	378	-	378
Share option expense	-	6,709	6,709
Balance at 30 June 2020	**(4,058)**	**13,435**	**9,377**

Notes:

(i) Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating the net assets of foreign operations) are reclassified to profit or loss on the disposal or discontinuation of foreign operations.

(ii) Employee share option reserve

The employee share option reserve relates to share options granted by the Company to its employees under ESOP 2015 and ESOP General. Further information about employee share option plans is set out in Note 21.

20 Accumulated losses

Movement in accumulated losses is as follows:

	2020 $'000	2019 $'000
Balance at beginning of year	(109,307)	(75,743)
Net loss attributable to owners of the Company	(47,650)	(33,564)
Balance at end of year	**(156,957)**	**(109,307)**

21 Equity-settled employee benefit

(a) Share options granted under Megaport's employee share option plan (ESOP General)

(i) Details of the ESOP General of the Company

The parent entity has a share option scheme for executives and employees of the Company and its subsidiaries. In accordance with the terms of the plan, as approved by the Directors on 2 November 2015, executives and employees of the Group may be granted options to purchase ordinary shares at the Board's discretion.

Each employee share option converts into one ordinary share of the Company on exercise. Amounts are paid or payable by the recipient on exercising the options, and are individual to that employee's option plan agreement. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The number of options granted is individual to that employee's option plan agreement and again at the Board's discretion. The options reward executives and employees to the extent of meeting service conditions or performance conditions specific to the individual's agreement.

(i) Details of the ESOP General of the Company (Continued)

The following arrangements under the ESOP General were in existence as of 30 June 2020:

Options series	Number of outstanding options	Grant date	Vesting date	Expiry date	Exercise price $	Fair value at grant date $
Series 2016 – 5	20,000	12/09/2016	12/09/2019	12/09/2020	1.91	1.217
Series 2016 – 6	5,000	30/09/2016	31/10/2019	31/10/2020	2.02	1.375
Series 2016 – 8	11,666	17/10/2016	17/10/2019 – 31/10/2019	17/10/2020 – 31/10/2020	2.02	1.343
Series 2018 - 1	3,334	14/07/2017	31/10/2019	31/10/2020	1.79	0.927
Series 2018 - 2	16,667	25/07/2017	01/07/2020	01/07/2021	1.75	1.066
Series 2018 - 6	16,667	31/03/2018	31/03/2021	31/03/2022	3.07	1.530
Series 2018 - 7	375,000	03/04/2018	19/02/2020-19/02/2021	19/02/2021-19/02/2022	2.93	1.348- 1.536
Series 2019 - 1	450,000	02/07/2018	02/07/2020-02/07/2022	02/07/2021-02/07/2023	3.22	1.492- 1.872
Series 2019 - 2	3,334	02/07/2018	31/10/2020	31/10/2021	3.22	1.492
Series 2019 - 3	1,140,000	03/09/2018	03/09/2019-15/06/2021	03/09/2020-15/06/2022	3.26	1.303- 1.749
Series 2019 - 4	80,000	03/09/2018	30/06/2020-30/06/2021	30/06/2021-30/06/2022	2.74	1.204- 1.375
Series 2019 - 5	50,000	01/10/2018	01/10/2020	01/10/2021	2.66	1.572
Series 2019 - 6	75,000	29/11/2018	31/10/2019-31/10/2021	31/10/2020-31/10/2022	2.72	1.523- 1.907
Series 2019 - 7	1,000,000	29/11/2018	29/11/2020	29/11/2021	3.60	1.299
Series 2020 – 1	60,000	03/12/2018	03/12/2019-03/12/2021	03/12/2020-03/12/2022	2.73	1.408- 1.720
Series 2020 – 2	10,000	04/03/2019	04/03/2020-04/03/2022	04/03/2021-04/03/2023	3.24	1.382- 1.753
Series 2020 - 3	484,000	15/07/2019	15/07/2019-01/07/2022	15/07/2020-01/07/2023	4.66	2.270- 3.104
Series 2020 - 4	100,000	20/08/2019	18/12/2020	18/12/2021	3.60	4.306
Series 2020 - 5	100,000	20/08/2019	20/08/2020-20/08/2022	20/08/2021-20/08/2023	5.90	2.531- 3.197
Series 2020 - 6	500,000	22/08/2019	22/08/2019-01/07/2021	22/08/2020-01/07/2022	4.00	4.297-4.592
Series 2020 - 7	100,000	22/11/2019	22/11/2020-22/11/2022	22/11/2021-22/11/2023	8.43	2.330-3.291
Series 2020 - 8	200,000	23/11/2019	23/11/2020-23/11/2021	23/11/2021-23/11/2022	6.96	3.168-3.596
Series 2020 - 9	200,000	20/01/2020	20/01/2021-20/01/2023	20/01/2022-20/01/2024	7.91	4.238-5.159
Series 2020 - 10	200,000	01/04/2020	01/09/2020	01/09/2021	8.49	2.017
Series 2020 - 11	143,333	26/06/2020	26/06/2020	03/09/2020-15/09/2020	1.79 – 3.26	8.952-10.417
Total	**5,344,001**					

All options are exercisable from their vesting date to their expiry date, or 60 days after the resignation of the executive or employee, or 30 days on termination for a serious breach, whichever is the earlier.

(ii) Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year is $3.28 (2019: $1.12). Options were priced using a Black-Scholes pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting service and/or performance conditions attached to the option), and behavioral considerations. Expected volatility is based on either the historical share price volatility of the life of the Company or comparative company volatility. The key assumptions of share options granted during the year are:

Option series	Grant date share price $	Exercise price $	Expected volatility %	Expected option life Years	Dividend yield %	Risk-free interest rate* %
Series 2020 – 1	3.88	2.73	40	1.5 – 3.5	-	1.45 – 1.61
Series 2020 – 2	4.28	3.24	40	1.5 – 3.5	-	0.77 – 1.16
Series 2020 - 3	6.84	4.66	40	0.5 – 3.5	-	1.25 – 1.49
Series 2020 - 4	7.78	3.60	40	0.5 – 1.5	-	1.23 – 1.31
Series 2020 - 5	7.78	5.90	40	1.5 – 3.5	-	1.23 – 1.31
Series 2020 - 6	8.27	4.00	40	0.5 – 2.5	-	1.23 – 1.31
Series 2020 - 7	9.41	8.43	40	1.5 – 3.5	-	1.15 – 1.42
Series 2020 - 8	9.41	6.96	40	1.5 – 2.5	-	1.15 – 1.26
Series 2020 - 9	11.43	7.91	40	0.5	-	1.45 – 1.76
Series 2020 - 10	10.03	8.49	40	0.5	-	1.09
Series 2020 - 11	12.20	1.79 – 3.26	40	1.5 – 3.5	-	0.77

*Based on The Group of 100 commissioned Milliman discount rates

(iii) Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2020		2019	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the year	6,876,676	3.14	2,925,885	2.42
Granted during the year	2,213,324	5.33	5,805,000	3.34
Forfeited during the year	(400,000)	2.95	(580,207)	2.55
Expired during the year	(143,333)	3.04	-	-
Exercised during the year^	(3,202,666)	3.07	(1,274,002)	2.67
Balance at end of the year	**5,344,001**	**4.11**	**6,876,676**	**3.14**

^ The weighted average share price at the date of grant of these options was $3.77 (2019: $3.76).

The number of options that have vested and become exercisable in the current reporting year was 3,468,337 (2019: 2,281,667). The number of options expired during the current year was 143,333 (2019: nil).

(iv) Share options outstanding at the end of the year

The share options outstanding at the end of the year had a weighted average exercise price of $4.11 (2019: $3.14), and a weighted average remaining contractual life of 477 days (2019: 535 days).

(b) Share options granted under Megaport's 2015 employee share option plan (2015 ESOP)

(i) Details of the 2015 ESOP of the Company

The establishment of the Megaport Limited 2015 Employee Share Option Plan was approved by the shareholders at the 2 November 2015 shareholders' meeting. The 2015 ESOP is designed to provide long-term incentives for senior managers and above (including Directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest when a pre-determined length of service is met. It is at the Board's discretion to whom options are awarded.

Once vested, the options remain exercisable for periods ranging from 12 to 24 months, depending on the individual agreement. Options are granted under the plan for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price has been set at the commencement of the agreement.

All options are exercisable from their vesting date to their expiry date, or 60 days after the resignation of the executive or employee, or 30 days on termination for a serious breach, whichever is the earlier.

(ii) Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2020		2019	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Balance at beginning of the year	600,000	1.25	1,200,000	1.25
Exercised during the year	(600,000)	1.25	(600,000)	1.25
Balance at end of the year	**-**	**-**	**600,000**	**1.25**

(c) Employee Share Plan (ESP)

The Company has a share scheme for employees of the Company and its subsidiaries. Under the ESP eligible employees on 1 June 2020, were granted $1,000 in Megaport shares for no consideration. Shares will be issued subsequent to year end to the eligible employees who are still employed and have not rendered their resignation on the issuance date. This follows a similar grant of shares on 31 July 2019 to eligible employees at 1 June 2019.

Shares are issued under the ESP carry the same dividend and voting rights as existing shares. However, the ESP shares are subject to a holding lock until the earlier of three years from the date of issue and the date on which the participant ceases to be employed by the Group.

(d) Expenses arising from equity-settled employee benefit transactions

Total expenses arising from equity-settled employee benefit transactions recognised during the year as part of employee expenses were as follows:

	2020 $'000	**2019 $'000**
Options issued under ESOP General	6,709	4,790
Options issued under 2015 ESOP	-	34
Employee Share Plan (ESP)	202	142
Total expense	**6,911**	**4,966**

22 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Board reviews and agrees policies for managing any risks that are considered significant to the Group, which are summarised in this note.

The Group holds the following financial instruments:

	Notes	2020 $'000	2019 $'000
Financial assets – at amortised cost			
Cash and cash equivalents	9	166,877	74,879
Trade and other receivables	10	11,476	7,910
Deposits and bonds	11	333	308
Total financial assets		**178,686**	**83,097**
Financial liabilities – at amortised cost			
Trade and other payables	15	14,111	12,977
Borrowings	16	21,243	2,580
Total financial liabilities		**35,354**	**15,557**

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, price risk and interest rate risk.

(i) Foreign exchange risk

The Group operates internationally and is subject to foreign exchange risk arising from exposure to foreign currencies. The Group's earnings and cash flows are influenced by a wide variety of currencies due to the geographic diversity of the Group's sales and the countries in which it operates. The Australian dollar (AUD), US Dollar (USD) and Euro are the currencies in which the majority of the Group's sales are denominated. Operating costs and capital expenditure are influenced by the currencies of those countries where the Group's data centres and fibre and connectivity links are located. In the current year, the USD and the Euro were the most important currencies (apart from the AUD) influencing costs. In any particular year, currency fluctuations may have a significant impact on the Group's financial results. A strengthening of the AUD against the currencies in which the Group's revenue, costs and capital expenditure are partly determined has a positive effect on the Group's net profit or loss and a weakening of the AUD has a negative effect on the Group's net profit or loss. However, a strengthening of the AUD does reduce the value of non-AUD denominated net assets and therefore total equity.

Given the dominant role of the AUD in the Group's operations, the AUD is the currency in which financial results are presented both internally and externally. It is also the most appropriate currency for financing the Group's operations. Cash is predominantly denominated in AUD and USD.

(i) Foreign exchange risk (Continued)

Certain AUD cash reserves and other financial assets and liabilities, including intercompany balances, are held in currencies other than the functional currency of the relevant subsidiary. This results in an accounting exposure to exchange gains and losses as the financial assets and liabilities are translated into the functional currency of the subsidiary that holds those assets and liabilities. These exchange gains or losses are recorded on the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The majority of Group's cash and cash equivalents are denominated in AUD and USD. The table below summarises the Group's cash and cash equivalents by currency:

Currency funds held in	Notes	2020 $'000	2019 $'000
Australian Dollar (AUD)		106,799	69,826
American Dollar (USD)		55,014	2,145
European union Euro (EUR)		1,864	1,429
New Zealand Dollar (NZD)		674	230
British Pound (GBP)		587	408
Swiss Franc (CHF)		923	145
Hong Kong Dollar (HKD)		302	170
Canadian Dollar (CAD)		279	362
Singapore Dollar (SGD)		132	81
Others		303	83
Total cash and cash equivalents		**166,877**	**74,879**

The Group has adopted policies to manage foreign currency risk. These include:

- Board-approved foreign currency hedging policy;
- Forecasting of future cash flows; and
- Monitoring natural hedges arising from trading operations.

The hedging policy involves ensuring three months of operating costs and specified capital expenditure amounts are held in currencies significant to the Group.

Sensitivity

The table below estimates the impact of a 10% change in the closing exchange rate of the AUD against significant currencies, on financial assets and financial liabilities. The impact is expressed in terms of the effect on net profit or loss. The sensitivities are based on financial assets and liabilities held at 30 June 2020, where balances are not denominated in the functional currency of the subsidiary.

	Effect on net profit / (loss)	
10% strengthening/weakening of AUD	**2020 $'000**	**2019 $'000**
USD	3,588 / (3,588)	214 / (214)
Euro	23 / (23)	143 / (143)
GBP	-	41 / (41)

The Group's exposure to movement in other foreign currencies is not material.

(ii) Price risk
The Group is not exposed to any equity securities price risk or commodity price risk.

(iii) Cash flow and fair value interest rate risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The Group's main interest rate risk arises from the interest earned on various short-term deposits and cash at bank accounts (refer Note 9).

Sensitivity
At 30 June 2020, if interest rates had increased/decreased by 100 basis points from the year end and rates with all other variables held constant, post-tax loss for the year would have been $594,000 higher / $594,000 lower (2019: $262,000 higher / $262,000 lower), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, and other receivables.

(i) Cash and cash equivalents
With respect to cash and cash equivalents, the Group's exposure to credit risk arises from a potential default of the deposit counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group's cash (refer to Note 9), is held at financial institutions with the following credit ratings:

	2020		2019	
	$'000	Credit Rating[1]	$'000	Credit Rating*
Australia	75,121	AA-	62,008	AA-
Australia	82,377	A-	8,646	A+
North America	-	A+	629	A+
North America	4,092	A-	1,074	A
Asia	1,011	A-	399	A
Europe	922	AAA	145	AAA
Europe	176	AA-	72	AA-
Europe	1,019	A+	661	A+
Europe	2,009	A-	1,215	A-
Europe	150	BBB	30	BBB
Total	**166,877**		**74,879**	

* In determining the credit quality of these financial assets, Megaport Limited has used the long-term rating from Standard & Poor's as of June 2020 (2019: July 2019).

(b) Credit risk

(ii) Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit evaluations are performed for major customers. The Group does not require collateral in respect of financial assets. Outstanding customer receivables are monitored regularly.

The Group's credit risk is low due to the large volume of customers with individual transactions typically being small in value. To illustrate this, at 30 June 2020, 80% of the trade receivable balance was due from 393 customers (2019:243). Also, no one customer accounts for more than 5% of total revenue. Receivable balances are monitored on an ongoing basis with the intention that the Group's exposure to allowances for credit loss is minimised.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due.

At the end of the year, the Group held cash and cash equivalents of $166.9 million (2019: $74.9 million).

The Group manages liquidity risk by monitoring cash flows and estimating future operational draws on cash reserves.

At 30 June 2020, the Group had external debt of $8.8 million excluding lease liability (refer to Note 16). There were no other debt facilities at 30 June 2020.

Maturities of financial liabilities

The Group's financial liabilities comprise trade and other payables, borrowings and other financial liabilities, and no derivative financial instruments are held. The undiscounted cash flows for the respective future periods are included in the following table. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2020.

The table below details the Group's remaining contractual maturity for its non-derivative financial liabilities within agreed repayment periods. The table sets out undiscounted cash flows of financial liabilities based on the earliest estimated date on which the Group can be required to pay. The table includes both interest and principal cash flows for interest bearing liabilities.

	Weighted average effective interest rate %	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	Total $'000	Carrying amount $'000
Trade and other payables	-	4,195	6,799	2,499	618*	14,111	14,111
Lease liabilities	6.0%	584	1,702	4,162	6,899	13,347	12,451
Other borrowings	6.0%	337	675	3,036	5,417	9,465	8,792
Total at 30 June 2020		**5,116**	**9,176**	**9,697**	**12,934**	**36,923**	**35,354**
Trade and other payables	-	7,364	2,697	2,535	381*	12,977	12,977
Lease liabilities	6.0%	-	-	-	-	-	-
Other borrowings	6.0%	81	161	725	1,812	2,779	2,580
Total at 30 June 2019		**7,445**	**2,858**	**3,260**	**2,193**	**15,756**	**15,557**

*Annual leave expected to be settled after 12 months

23 Contingent liabilities

The Group has no contingent liabilities at reporting date (2019: nil).

24 Commitments

(a) Capital commitments

The Group had no commitments to purchase property, plant and equipment and intangible assets at 30 June 2020 (2019: $0.5 million)

(b) Expenditure commitments

Commitments for future rental payments in relation to non-cancellable operating or short term leases as at 30 June are as follows:

	2020 $'000	2019 $'000
Within one year	346	4,509
After one year but not more than five years	-	4,437
Total	**346**	**8,946**

From 1 July 2019, the Group has recognised right-of-use assets and lease liabilities for these leases, except for short term and low value leases. See note 1(b) for further information. Current year commitments represent the short-term leases and leases of low-value assets.

25 Events occurring after the financial year

The COVID-19 pandemic is ongoing, and whilst the actual impact on Megaport's operational and financial performance to 30 June 2020 has not been significant, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Megaport announced the development of Megaport Virtual Edge (MVE) on 17 August 2020. MVE is a product innovation that will enable customers to host virtual networking devices, including SD-WAN controllers, directly on Megaport's platform. This allows customers to connect branch locations and campuses to Megaport's interconnection platform to simplify end-to-end network provisioning and management.

The Group is not aware of any other matters or circumstances that have arisen since the end of the year which have significantly affected or may significantly affect the operations and results of the consolidated entity.

26 Interest in other entities

The Group's subsidiaries at 30 June 2020 are set out in the following table. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Notes	Place of business/ country of incorporation	Ownership interest held by the Group	
			2020 %	2019 %
Megaport (Australia) Pty Ltd	(a)	Australia	100	100
Megaport (Services) Pty Ltd	(a)	Australia	100	100
Megaport (New Zealand) Limited		New Zealand	100	100
Megaport (Singapore) Pte Ltd		Singapore	100	100
Megaport (Hong Kong) Limited		Hong Kong	100	100
Megaport Japan K.K		Japan	100	100
Megaport (USA) Inc.		United States of America	100	100
Megaport (Canada) Inc.		Canada	100	100
Megaport (UK) Limited		United Kingdom	100	100
Megaport (Europe) Limited		United Kingdom	100	100
European Voice Link Limited		United Kingdom	100	100
Megaport (Deutschland) Gmbh (Formerly Peering GmbH)		Germany	100	100
Megaport (Deutschland) GmbH	(b)	Germany	-	100
Megaport (Netherlands) B.V.		The Netherlands	100	100
Megaport (Ireland) Limited		Republic of Ireland	100	100
Megaport (Schweiz) AG		Switzerland	100	100
Megaport (Sweden) AB		Sweden	100	100
Megaport Bulgaria EAD (Formerly OMNIX Group EAD)		Republic of Bulgaria	100	100
Eastern Voice Link EOOD	(c)	Republic of Bulgaria	100	100
Megaport (France) SaS	(d)	France	100	-

(a) These entities are a part of the Australia tax-consolidated group with the head entity, Megaport Limited.
(b) De-registered during the year.
(c) The company was under de-registration process as at 30 June 2020.
(d) Incorporated on 22 July 2019

27 Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Parent entity

The ultimate parent entity within the Group is Megaport Limited.

(b) Subsidiaries

Interest in subsidiaries are set out in Note 26.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2020 $	2019 $
Short-term benefits	1,701,092	1,966,133
Post-employment benefits	58,195	110,031
Long-term benefits	16,638	744
Equity-settled employee costs	1,163,706	2,077,503
Total	**2,939,631**	**4,154,411**

The remuneration of directors and key executives is determined by the Remuneration & Nomination Committee.

Detailed remuneration disclosures are provided in the Remuneration Report in the Director's Report.

(d) Transactions with other related parties

During the year, group entities entered into the following transactions with related parties that are not members of the Group:

	Notes	2020 $	2019 $
Sales and purchases of goods and services			
Purchase of shared services from entities controlled by key management personnel	(i)	126,635	104,015
Purchase of direct network costs from entities related to key management personnel	(ii)	559,538	506,334
Other transactions			
Employee compensation of associates to key management personnel		54,156	42,609

(d) Transactions with other related parties (Continued)

(i) Shared services agreement

The Company entered into a shared services agreement with Capital B Pty Ltd ACN 162 622 282 (Capital B), a company controlled by the Chairman, Bevan Slattery. Under the agreement, Capital B provides certain services to the Company. The services are charged on the basis of the actual cost to Capital B, allocated on the time Capital B employees spend providing services to the Company. The obligations on Capital B under the agreement are typical for a service agreement, and require that Capital B provide the services with due care, skill and judgment, comply with the law in providing the services and effect appropriate insurance. Capital B may seek reimbursement for certain expenses incurred in connection with the provision of services under the agreement. Either party may terminate the agreement for convenience on 60 days' written notice.

(ii) Supplier agreement with Superloop

Megaport Australia and Megaport Singapore have entered into agreements to acquire dark fibre services from Superloop (Australia) Pty Ltd (Superloop Australia) and Superloop (Singapore) Pte. Ltd (Superloop Singapore), respectively, which are both companies related to the Chairman through the ASX-listed Company Superloop Limited. Under the agreements, Megaport Australia and Megaport Singapore issued a service order form to Superloop Australia and Superloop Singapore (as applicable) which sets out the nature of the services requested and confirms the applicable monthly fee. The terms of the master services agreements with Superloop Australia and Superloop Singapore are consistent with the supply agreements that Megaport Australia and Megaport Singapore have entered into with third-party suppliers for similar services in the same region.

In April 2017, Megaport Australia and Megaport Hong Kong entered into an "Indefeasible Rights of Use" (IRU) Agreement with Superloop Australia and Superloop (Hong Kong) Limited and Megaport Singapore entered into a long term agreement with Superloop Singapore for exclusive right to use dark fibre. Under these agreements, Superloop would provide fibre to Megaport for the term of the agreements, which is 10 years. The initial amounts payable in relation to these agreements are payable upon execution of the related fibre order and at the end of the first year of the term, with monthly amounts payable over the term of the agreement. The IRU agreement includes the option to extend the fibre term for a further period subject to the agreement of both parties, and by Megaport (Hong Kong) Limited giving written notice to Superloop (Hong Kong) Limited no later than 3 months prior to the expiry of the term. These agreements also include a maintenance fee payable monthly.

The total commitments for minimum payments in relation to Superloop supplier agreements, not already recognised as liabilities, are payable in future as follows:

	2020 $	2019 $
Lease commitments		
Within one year	83,943	83,759
After one year but not more than five years	10,575	97,719
	94,518	**181,478**
Other contractual service commitments		
Within one year	65,325	65,325
After one year but not more than five years	261,301	261,301
More than five years	119,763	185,089
	446,389	**511,715**
Total	**540,907**	**693,193**

(e) Outstanding balances arising from other related parties

The following balances were outstanding at the end of the year:

	2020 $	2019 $
Amounts owed by related parties		
Entities related to key management personnel	4,325	20,910
	4,325	**20,910**
Amounts owed to related parties		
Entities related to key management personnel	102,746	3,359
	102,746	**3,359**

(f) Terms and conditions

Directors for the Group hold other directorships as detailed in the Directors' Report. Where any of these related entities are customers or suppliers of the Group, the arrangements are on similar terms to third party customers or suppliers respectively.

All transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

28 Parent entity financial information

(a) Summary financial information

The individual financial statements of the parent entity show the following aggregate amounts:

	2020 $'000	2019 $'000
Statement of Financial Position		
Current assets	148,862	62,768
Non-current assets	212,499	158,677
Total assets	**361,361**	**221,445**
Current liabilities	719	494
Total liabilities	**719**	**494**
Net assets	**360,642**	**220,951**
Shareholders' equity		
Issued capital	371,524	229,521
Reserves	13,434	6,725
Accumulated losses	(24,316)	(15,295)
Shareholders' equity	**360,642**	**220,951**
Net Loss for the year	**(9,021)**	**(6,003)**
Total comprehensive loss for the year	**(9,021)**	**(6,003)**

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2020 (2019: nil).

(c) Contractual commitments

The parent did not have any contractual commitments at 30 June 2020 (2019: nil).

The financial information for the parent entity, Megaport Limited, has been prepared on the same basis as the consolidated financial statements.

29 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2020 $	2019 $
Audit services: Deloitte Touche Tohmatsu Australia		
Audits and review of the financial reports - Group	176,625	145,530
Audits and review of the financial reports – Subsidiary entities	13,650	12,600
New accounting standards transition review	15,000	25,000
Total remuneration of Deloitte Touche Tohmatsu Australia	**205,275**	**183,130**
Other Deloitte network firms:		
Audits of the subsidiary entities' financial reports	24,956	21,938
Total remuneration of Deloitte network firms	**24,956**	**21,938**
Related practices of non-Deloitte Touche Tohmatsu		
Audit of the subsidiary entities' financial reports	-	1,631
Total remuneration of non-Deloitte network firms	**-**	**1,631**

DIRECTORS' DECLARATION

In the Directors' opinion:

a. The financial statements and notes set out on pages 51 to 110 of Megaport Limited ("the Company" or "consolidated entity") are in accordance with the *Corporations Act 2001*, including:
   i. Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   ii. Giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date,

b. At the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the Directors made pursuant to s295(5) of the *Corporations Act 2001*.

On behalf of the Board of Directors

Vincent English
Executive Director and Chief Executive Officer

Brisbane
19 August 2020

Deloitte.

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Independent Auditor's Report to the Members of Megaport Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Megaport Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of cash generating units *Refer to Note 2(f) – Impairment of assets, Note 13 – Intangible assets and Note 14 – Impairment of goodwill.* An impairment assessment has been undertaken as at 30 June 2020 for all cash generating units with indefinite life intangible assets (goodwill) and those for which indicators of impairment have been identified. As at year-end, the group had goodwill of $1.5 million held within the Europe cash generating unit ("CGU"). Management conducts annual impairment tests using a discounted cash flow model, to assess the recoverability of the carrying value of the Group's cash generating units ("CGUs"). There are a number of key judgements made in determining the inputs into these models including: - Identification of cash generating units, - Future cash flows for the CGUs, - Discount rates; and - Future and Terminal value growth rates	In conjunction with our valuation specialists, our procedures included, but were not limited to: - Evaluating the appropriateness of management's identification of the Group's CGUs and management's processes around the development of the 'value in use' discounted cash flow model, - Challenging the key assumptions and methodology used by management in the impairment model, - Evaluating the future projected cash flows used in the model to determine whether they are reasonable and supportable given the current macroeconomic climate including the impact of COVID-19 and expected future performance of each cash generating unit, - Testing the mathematical accuracy of the cash flow model, and - Assessing the recoverable amount against the carrying value of each cash generating unit. We also assessed the appropriateness of the disclosures in Note 14 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

Deloitte.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 47 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Megaport Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. D. Wanstall

Richard Wanstall
Partner
Chartered Accountants
Brisbane, 19 August 2020

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable at 6 August 2020.

(a) Ordinary share capital

153,339,886 fully paid ordinary shares are held by 11,350 individual shareholders.
All issued ordinary shares carry one vote per share.

(b) Options

5,430,000 options are held by 31 individual options holders.
Options do not carry a right to vote.

(c) Distribution of holders of equity securities

Analysis of numbers of equity security holders by size of holding:

	Number of investors	
Holding	**Fully paid ordinary shares**	**Options**
1 – 1,000	6,537	-
1,001 – 5,000	3,179	2
5,001 – 10,000	980	1
10,001 – 100,000	611	15
100,001 and over	43	13
Total	**11,350**	**31**

The number of shareholders holding less than the marketable parcel of fully paid ordinary shares is 293.

(d) Substantial shareholders

Substantial beneficial shareholders of 5% or more of the fully paid ordinary shares in the Company are set out as follows:

Name	**Number held**	**Percentage of issued shares**
Ordinary shares		
Mr Bevan Andrew Slattery	13,037,607	8.50%
Capital Research Global Investors	12,832,512	8.37%

(e) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest beneficial holders of equity securities are listed as follows:

	Fully paid ordinary shares	
Name	**Number held**	**Percentage of issued shares**
MR Bevan Andrew Slattery	13,037,607	8.50
American Funds Small Cap World Fund	11,932,512	7.78
Blue Stamp Trust	5,177,852	3.38
T Rowe Price Small Cap Value Fund	4,029,323	2.63
AustralianSuper	2,347,052	1.53
Vanguard Total International Stock Index Fund	2,180,123	1.42
UniSuper	2,002,530	1.31
TIAA CREF Real Estate Securities Fund	1,960,000	1.28
Digital Realty Trust	1,829,475	1.19
H & M Investment Fund	1,616,098	1.05
Norges Bank Investment Management (NBIM)	1,411,064	0.92
CFSIMAL - CFS Wholesale Australian Share Fund	1,402260	0.91
Vanguard Australian Shares Index Fund	1,400,562	0.91
UBS Securities	1,340,703	0.87
Bank of America Merrill Lynch	1,319,171	0.86
T Rowe Price US Small-Cap Value Equity Trust	1,307,562	0.85
WSSP (Westpac Staff Super Plan)	1,306,927	0.85
Fidelity Fund SICAV - Pacific Fund	1,245,175	0.81
Australian Equity EFM Building Block 1	1,184,915	0.77
Ausbil Australian Emerging Leaders Fund	1,115,285	0.73
	59,146,196	**38.57%**

Unquoted equity securities

	Number on issue	Number of holders
Options issued under Employee Share Option Plan (ESOP General) to take up ordinary shares	5,430,000	31

CORPORATE DIRECTORY

Current directors	Bevan Slattery Vincent English Jay Adelson Naomi Seddon
Company Secretary	Celia Pheasant
Principal Registered Office in Australia	Level 3 825 Ann Street Fortitude Valley, QLD 4006
Share Register	LINK Market Services Level 12 680 George Street Sydney, NSW 2000 Phone: 1300 554 474
Auditor	Deloitte Touche Tohmatsu Level 23 123 Eagle Street Brisbane, QLD 4000
Stock Exchange Listing	Megaport Limited shares are listed on the Australian Securities Exchange (ASX).
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