Megaport

Appendix 4D

Half-year report

**For the Half-year ended
31 December 2021**

Megaport Limited

ABN: 46 607 301 959

For the period from 1 July 2021 to 31 December 2021

Appendix 4D

The following information sets out the requirements of the Appendix 4D of Megaport Limited ('the Company') with the stipulated information either provided here or cross referenced to the report for the Half-year ended 31 December 2021 ("Half-year report").

This Appendix 4D covers the reporting period from 1 July 2021 to 31 December 2021. The previous corresponding period is 1 July 2020 to 31 December 2020.

Results for Announcement to the Market

Summary of Financial Information

	1 July 2021 to 31 December 2021	1 July 2020 to 31 December 2020	Change $	Change %
Revenue from ordinary activities	51,159,980	36,004,594	15,155,386	42.1
Profit after direct network costs	30,877,396	18,222,343	12,655,053	69.4
Normalised EBITDA	(7,321,961)	(8,815,817)	1,493,856	16.9
Net loss after tax	(20,233,346)	(38,420,850)	18,187,504	47.3

Dividends

No dividend has been proposed or declared in respect of the period ended 31 December 2021.

Explanation of revenue and loss from ordinary activities

Refer to the ASX Announcement titled "1HFY22 Market Update" lodged with ASX on 9 February 2022 and the Director's Report "Review of Operations" section in the Half-year report for commentary on the results for the period and explanations to understand the Group's revenue and loss from ordinary activities.

Net tangible asset backing

	31 December 2021 cents	31 December 2020 cents
Net tangible assets per ordinary share	84.42	112.72

The number of Megaport shares on issue at 31 December 2021 is 157,787,783 shares.

Entities over which control has been gained during the period

On 16 August 2021, the Group acquired 100% of the issued share capital of InnovoEdge, Inc. ("InnovoEdge"), an AI-powered multicloud and edge application orchestration company, via its wholly owned US-registered subsidiary, Megaport (USA), Inc. The company was acquired with the objective of helping Megaport drive greater functionality across its leading Network as a Service Platform, and is expected to provide customers and partners with greater visibility and control of networking, cloud and service resources. Further details are disclosed under note 5 of the Half-year report.

The information provided in the Appendix 4D is based on the Half-year report, which has been prepared in accordance with Australian Accounting Standards.

The 31 December 2021 Half-year report has been reviewed and is not subject to audit dispute or qualification.

HALF-YEAR REPORT

For the Half-year ended 31 December 2021

Registered Office:
Level 3, 825 Ann Street
Fortitude Valley QLD 4006

Contents

Directors' Report

The Directors present their report on the consolidated entity consisting of Megaport Limited and the entities it controlled (referred to as 'the Group' or 'consolidated entity' or 'Megaport') at the end of, or during, the Half-year ended 31 December 2021.

Directors and company secretary

The following persons were Directors of Megaport Limited during the whole period and up to the date of this report:

Bevan Slattery
Vincent English
Jay Adelson
Naomi Seddon
Michael Klayko
Melinda Snowden
Glo Gordon

The Company Secretary is Celia Pheasant.

Principal activities

During the period, 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;
- the development of product features and API integration with key partners; and
- continuing to expand the geographic footprint of its Network and Marketplace.

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 390 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 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 'Megaport's' ("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") 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 their costs of owning and maintaining on premises infrastructure. Leading cloud service providers advocate MCR as a reference service for enabling connectivity between their cloud solutions and third-party cloud platforms.

Megaport Virtual Edge ("MVE") takes our platform beyond data centres and helps enterprises accelerate their journey into SD-WAN and SASE. MVE enables customers to connect branch locations like office buildings, corporate campuses, and storefronts to the Megaport ecosystem of service providers. Since its launch in March 2021 Megaport has continued to accelerate the integration of MVE with many of the leading SD-WAN providers to deliver maximum flexibility for our customers.

Megaport's indirect sales channel, PartnerVantage is Megaport's scale up, scale out program aimed at driving revenue and business growth via channel sales. PartnerVantage will enable indirect channel partners to sell and provision Megaport services on behalf of their customers, with all the requisite materials, commercial terms and conditions, co-marketing support, education and billing information on one platform, to facilitate an easy process for the partners to grow their business.

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, OVHcloud 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, Europe offers customers a neutral platform that spans its 768 Enabled Data Centres[1] in key global locations.

Key performance metrics

	Half-yearly Performance			**Trailing 12 Month Performance**		
	Jan-21 to Jun-21	**Jul-21 to Dec-21**	Change	Jan-20 to Dec-20	**Jan-21 to Dec-21**	Change[2]
Enabled Data Centres[1]	761	**768**	1%	716	**768**	7%
Installed Data Centres[3]	405	**411**	1%	386	**411**	6%
Cloud Onramps	233	**240**	3%	220	**240**	9%
Customers	2,285	**2,455**	7%	2,043	**2,455**	20%
Ports	7,689	**8,523**	11%	6,691	**8,523**	27%
MCR	502	**603**	20%	382	**603**	58%
MVE[4]	21	**40**	90%	-	**40**	n/a
Total Services[5]	21,712	**24,359**	12%	19,278	**24,359**	26%
Monthly Recurring Revenue ("MRR") in millions	$7.5	**$9.2**	23%	$6.3	**$9.2**	46%
Revenue in millions	$42.3	**$51.2**	21%	$68.2	**$93.4**	37%

[1]Enabled Data Centres represents Installed Data Centres plus data centres that can be connected directly to Megaport equipment within Installed Data Centres by means of interconnection services provided by the data centre campus/facility operator of the Installed Data Centre.
[2] Change in the 12-month performance at 31 December 2021 to the prior corresponding period ended 31 December 2020.
[3]Installed Data Centres are data centres in which Megaport has a Point of Presence with physical infrastructure.
[4]Megaport announced the launch of MVE on 31 March 2021 and sold its first MVE during the June-21 quarter.
[5]Total Services comprises of Ports, VXCs, MCR, MVEs and Internet Exchange (IX).

In December 2021, Megaport reached 2,455 customers across 768 Enabled Data Centres in 138 cities (2021: 130 cities) and generated monthly recurring revenue ("MRR") of $9.2 million. Of these data centres, 420 were located in North America, 140 in Asia Pacific and 208 in Europe.

During the Half-year ended 31 December 2021:

- On 16 August 2021, the Group acquired 100% of the issued share capital of InnovoEdge, integration of InnovoEdge services with the Megaport platform is in progress, this will provide more orchestration and automation for greater end-to-end control of network and IT resources.
- Megaport Virtual Edge ("MVE") product went live on Cisco's Global Price List ("GPL") following Megaport's inclusion on the Cisco GPL as of September 29, 2021. Access to the Cisco GPL will support Cisco SD-WAN customers in adoption of Megaport to enable Software Defined Cloud Interconnect (SDCI) for rapid cloud connectivity.
- Megaport announced an additional three SD-WAN partners, Versa SASE, Aruba and VMWare, bringing the total number of providers available on the MVE platform to five. This is in addition to Cisco and Fortinet integrated in the prior financial year. Combined, the five providers cover more than 70% of the SD-WAN infrastructure market.
- Megaport completed and launched the PartnerVantage programme, the partner programme is designed to enable indirect channel partners to sell and provision Megaport services on behalf of their customers. Since its launch, Megaport has announced partnerships with two major Value Added Distributors ("VAD"), Arrow and TD SYNNEX.
- Megaport continued to expand its Network footprint to new cities while deepening its reach within existing metros, reaching a milestone of 411 installed locations and 768 enabled locations globally.
- Megaport has announced that it will establish a presence in Mexico, which will bring the Megaport platform to 24 countries and 139 cities globally.
- Megaport furthered its leadership position in cloud networking by enabling 7 new cloud on-ramps globally.

Financial performance

	31 December 2021	**31 December 2020**
	$'000	**$'000**
Revenue	**51,160**	36,005
Profit after direct network costs[6]	**30,877**	18,223
Normalised EBITDA[7]	**(7,323)**	(8,675)
Net loss after income tax	**(20,233)**	(38,421)

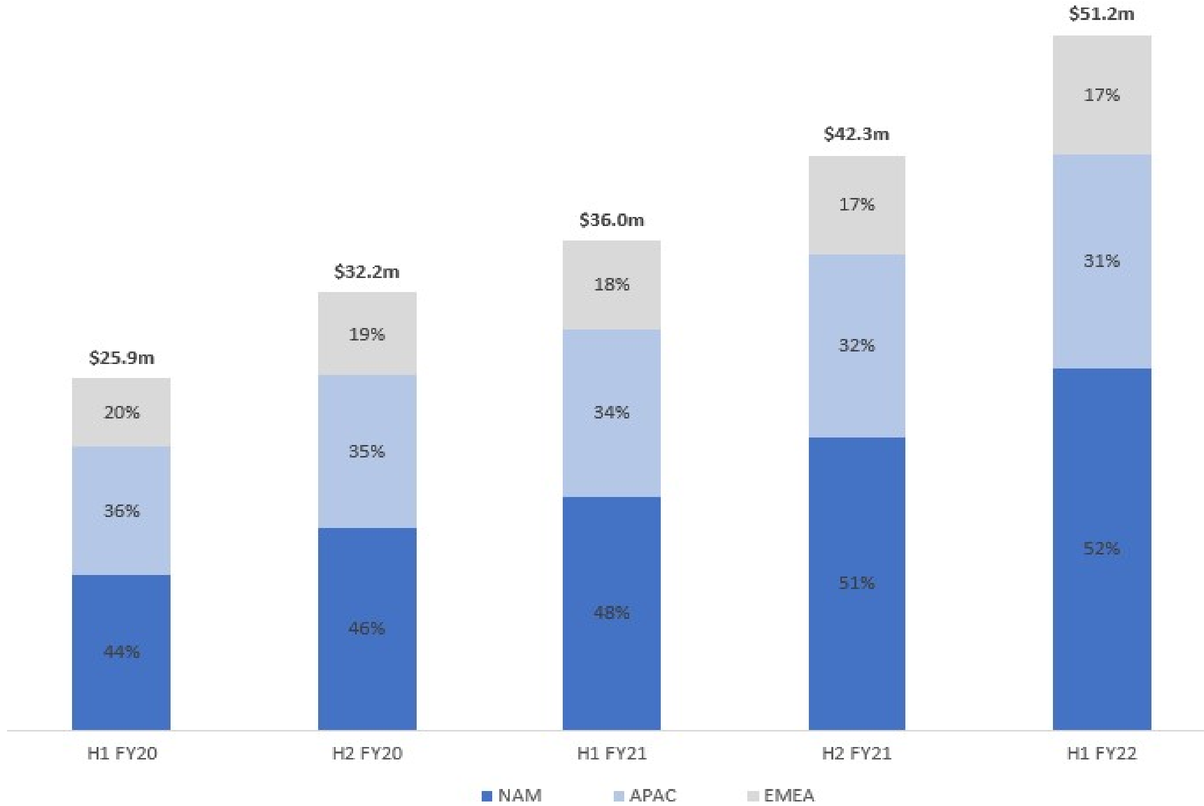
During the Half-year ended 31 December 2021, Megaport drove strong growth across key metrics over the previous reported period, including the number of Installed Data Centres, Customers, Ports, Services, MVE and MRR. The Group's revenue for the period was $51.2 million (31 December 2020: $36.0 million), an increase of 42%. North America grew by 55%, Asia Pacific by 28%, and Europe by 35%.

The profit after direct network costs for the Half-year ended 31 December 2021 was $30.9 million (31 December 2020: $18.2 million), an increase of 69%. The Group has reported an improved gross margin of 60% for the period ended 31 December 2021 (31 December 2020: 51%). All the operating segments generated a profit after direct network costs for the period.

[6] 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 Megaport Group.

[7] Normalised Earnings Before Interest Tax Depreciation and Amortisation ('Normalised EBITDA') represents operating results excluding equity-settled employee benefits, foreign exchange gains / (losses) and non-operating income / (expenses). Including these amounts, EBITDA would be ($5,555,000) for the Half-Year ended on 31 December 2021 and ($28,631,000) on 31 December 2020.

Reported revenue by operating segment for the Half-year ended 31 December 2021 (“H1 FY22”) and the last four reporting periods is set out below:



Financial position

	31 December 2021	30 June 2021
	$'000	**$'000**
Net assets	**174,295**	180,412
Cash and cash equivalents at end of the period	**104,626**	136,312

Megaport continues to maintain a strong financial position with net current assets of $82.4 million (30 June 2021: $116.9 million), cash and cash equivalents of $104.6 million (30 June 2021: $136.3 million) and total equity of $174.3 million (30 June 2021: $180.4 million).

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. In accordance with that Corporations Instrument, amounts in the Directors' Report and the Half-year financial report are rounded off to the nearest thousand dollars ($'000), unless otherwise indicated.

Auditor’s Independence Declaration

A copy of the auditor’s independence declaration is required under section 307C of the Corporations Act 2001 and is set out on page 7.

Signed in accordance with a resolution of the Directors made pursuant to s306(3) of the *Corporations Act 2001*.

On behalf of the Directors

Bevan Slattery
Chairman
9 February 2022

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The Board of Directors
Megaport Limited
Level 3, 825 Ann Street
Fortitude Valley, QLD 4006

9 February 2022

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 review of the half year financial report of Megaport Limited for the half-year ended 31 December 2021, 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 review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R. D. Wanstall

Richard Wanstall
Partner
Chartered Accountants

ABN: 46 607 301 959

For the Half-year ended 31 December 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	31 December 2021 $'000	31 December 2020 $'000
Continuing operations			
Revenue	2	51,160	36,005
Direct network costs		(20,283)	(17,782)
Profit after direct network costs		**30,877**	**18,223**
Other income		34	268
Employee expenses		(28,354)	(20,288)
Professional fees		(4,130)	(2,973)
Marketing expenses		(1,059)	(469)
IT costs		(1,631)	(791)
Travel expenses		(506)	(32)
Equity-settled employee costs and related tax costs		(1,976)	(2,645)
Depreciation and amortisation expense		(13,612)	(10,916)
Finance costs		(808)	(763)
Foreign exchange gains / (losses)	8	4,606	(17,157)
Other expenses		(3,381)	(2,499)
Loss before income tax		**(19,940)**	**(40,042)**
Income tax (expense) / benefit		(293)	1,621
Net loss for the period		**(20,233)**	**(38,421)**
Other comprehensive income / (loss), net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the transaction of foreign operations		(2,986)	8,734
Total other comprehensive loss, net of income tax		**(2,986)**	**8,734**
Total comprehensive loss for the period		**(23,219)**	**(29,687)**

Loss per share		**$**	**$**
Basic and diluted loss per share		(0.13)	(0.25)

ABN: 46 607 301 959

As at 31 December 2021

Condensed Consolidated Statement of Financial Position

	Notes	31 December 2021 $'000	30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		104,626	136,312
Trade and other receivables		11,922	10,272
Current tax assets		290	28
Other assets		4,636	3,737
Total current assets		**121,474**	**150,349**
Non-current assets			
Property, plant and equipment	3	50,402	42,726
Intangible assets	4	41,096	16,058
Deferred tax asset		10,548	10,989
Other assets		218	441
Total non-current assets		**102,264**	**70,214**
Total assets		**223,738**	**220,563**
Liabilities			
Current liabilities			
Trade and other payables		22,849	20,716
Borrowings	6	12,147	9,443
Provisions		3,904	3,123
Current tax liabilities		72	83
Other liabilities		122	130
Total current liabilities		**39,094**	**33,495**
Non-current liabilities			
Borrowings	6	9,460	6,314
Provisions		355	277
Deferred tax liabilities		534	65
Total non-current liabilities		**10,349**	**6,656**
Total liabilities		**49,443**	**40,151**
Net assets		**174,295**	**180,412**
Equity			
Issued capital	7	404,691	395,935
Reserves		14,769	9,409
Other equity		(11,914)	(11,914)
Accumulated losses		(233,251)	(213,018)
Total equity		**174,295**	**180,412**

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

ABN: 46 607 301 959

For the Half-Year Ended 31 December 2021

Condensed Consolidated Statement of Changes in Equity

	Issued capital $'000	Reserves $'000	Other equity^ $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	371,524	9,377	(11,914)	(156,957)	212,030
Loss for the period	-	-	-	(38,421)	(38,421)
Other comprehensive loss	-	8,734	-	-	8,734
Total comprehensive loss for the period	**-**	**8,734**	**-**	**(38,421)**	**(29,687)**
Issue of ordinary share capital	5,150	-	-	-	5,150
Employee share option expense	-	2,671	-	-	2,671
Balance at 31 December 2020	**376,674**	**20,782**	**(11,914)**	**(195,378)**	**190,164**
Balance at 1 July 2021	395,935	9,409	(11,914)	(213,018)	180,412
Loss for the period	-	-	-	(20,233)	(20,233)
Other comprehensive loss net of income tax	-	(2,986)	-	-	(2,986)
Total comprehensive loss for the period	**-**	**(2,986)**	**-**	**(20,233)**	**(23,219)**
Issue of ordinary share capital	5,468	-	-	-	5,468
InnovoEdge acquisition – equity consideration (note 5)	-	10,194	-	-	10,194
Transfer from equity-settled employee benefits reserve	3,288	(3,288)	-	-	-
Employee share option expense	-	1,440	-	-	1,440
Balance at 31 December 2021	**404,691**	**14,769**	**(11,914)**	**(233,251)**	**174,295**

^ Represents adjustment arising from common-control transactions

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

Megaport

ABN: 46 607 301 959

For the Half-Year Ended 31 December 2021

Condensed Consolidated Statement of Cash Flows

	Notes	31 December 2021 $'000	31 December 2020 $'000
Cash flows from operating activities			
Receipts from customers		55,042	43,080
Payments to suppliers and employees		(62,174)	(47,115)
Transaction costs relating to acquisition of subsidiary		(565)	-
Income taxes paid		(17)	(132)
Finance costs		(798)	(773)
Net cash flows used in operating activities		**(8,512)**	(4,940)
Cash flows from investing activities			
Interest received		36	264
Proceeds from disposal of property, plant and equipment		16	-
Payments for property, plant and equipment		(15,111)	(7,481)
Payments for intangible assets		(6,250)	(4,616)
Payments for acquisition of subsidiary	5	(10,401)	-
Net cash flows used in investing activities		**(31,710)**	(11,833)
Cash flows from financing activities			
Proceeds from issue of new shares		5,232	4,948
Share issue transaction costs		-	(57)
Proceeds from borrowings		9,096	307
Repayment of borrowings		(3,092)	(2,049)
Payment of lease liabilities		(3,296)	(3,017)
Net cash flows from financing activities		**7,940**	132
Net decrease in cash and cash equivalents held		(32,282)	(16,641)
Effects of exchange rate changes on cash and cash equivalents		596	(5,408)
Cash and cash equivalents at beginning of the period		136,312	166,877
Cash and cash equivalents at end of the period		**104,626**	144,828

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

Notes to the Condensed Consolidated Financial Statements

1 Significant accounting policies

(a) Statement of compliance

The Half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

(b) Basis of preparation

The Half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The accounting policies and methods of computation adopted in the preparation of the Half-year financial report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards. There are no new standards applicable to the Group that are effective for the period beginning 1 July 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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.

(c) 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 the evolving Coronavirus (COVID-19) situation, and forecast results and margins from operations. The Group has sufficient cash reserves 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.

2 Segment information

The following tables present revenue, results and assets information for the Group's operating segments.

Half-year ended 31 December 2021	Asia Pacific $'000	North America[4] $'000	Europe $'000	Total operating segments $'000	Other[5] $'000	Total $'000
Revenue[1]	**15,737**	**26,582**	**8,841**	**51,160**	**-**	**51,160**
Profit after direct network costs	**11,698**	**13,302**	**5,877**	**30,877**	**-**	**30,877**
Normalised EBITDA[2]	**7,606**	**3,804**	**1,487**	**12,897**	**(20,220)**	**(7,323)**
Interest income	-	-	-	-	34	34
Depreciation and amortisation expense	(2,526)	(4,043)	(2,006)	(8,575)	(5,037)	(13,612)
Equity-settled employee costs and related tax costs	-	-	-	-	(1,976)	(1,976)
Finance costs	(402)	(53)	(56)	(511)	(297)	(808)
Foreign exchange gains / (losses)	168	3,264	(39)	3,393	1,213	4,606
Non-operating expenses[3]	14	(876)	-	(862)	1	(861)
Income tax benefit / (expense)	791	(234)	(126)	431	(724)	(293)
Net profit / (loss)	**5,651**	**1,862**	**(740)**	**6,773**	**(27,006)**	**(20,233)**
Half-year ended 31 December 2020						
Revenue[1]	**12,278**	**17,185**	**6,542**	**36,005**	**-**	**36,005**
Profit after direct network costs	**8,464**	**6,177**	**3,582**	**18,223**	**-**	**18,223**
Normalised EBITDA[2]	**4,349**	**(538)**	**322**	**4,133**	**(12,808)**	**(8,675)**
Interest income	14	-	-	14	254	268
Depreciation and amortisation expense	(2,210)	(2,967)	(1,354)	(6,531)	(4,385)	(10,916)
Equity-settled employee benefits	-	-	-	-	(2,645)	(2,645)
Finance costs	(298)	(99)	(38)	(435)	(328)	(763)
Foreign exchange gains / (losses)	(1,142)	(10,002)	(669)	(11,813)	(5,344)	(17,157)
Non-operating expenses[3]	(143)	-	-	(143)	(11)	(154)
Income tax benefit / (expense)	596	656	(14)	1,238	383	1,621
Net profit / (loss)	**1,166**	**(12,950)**	**(1,753)**	**(13,537)**	**(24,884)**	**(38,421)**
Total segment assets						
At 31 December 2021	44,415	62,649	28,828	**135,892**	87,846	**223,738**
At 30 June 2021	33,725	41,212	38,052	**112,989**	107,574	**220,563**

1. Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the Half- year ended 31 December 2021 and 31 December 2020.
2. Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding equity-settled employee costs and related tax costs, foreign exchange gains/(losses) and non-operating income / (expenses).
3. Non- operating expenses represent gain/loss on disposal / write off of intangible assets, property, plant and equipment and right of use assets.
4. Includes InnovoEdge, Inc. results (refer to note 5 for further details)
5. "Other" represents head office and group services costs, whose function is to support the operating segments and growth of the global business.

3 Property, plant and equipment

	$'000
At 31 December 2021	
Opening net book value	42,726
Additions	19,703
Transfers to intangible assets	(79)
Disposals / write-down	(508)
Depreciation charge	(11,183)
Exchange differences	(257)
Net book value at 31 December 2021*	**50,402**
At 30 June 2021	
Opening net book value	49,822
Additions	17,208
Transfers to intangible assets	(1,042)
Disposals / write-down	(2,135)
Depreciation charge	(19,593)
Exchange differences	(1,534)
Net book value as at 30 June 2021*	**42,726**

* Includes right-of-use assets of $8.5 million as at 31 December 2021 (30 June 2021: $7.7 million)

4 Intangible assets

	$'000
At 31 December 2021	
Opening net book value	16,058
Additions^	27,321
Transfers from property, plant and equipment	79
Disposals	(3)
Amortisation charge	(2,429)
Exchange differences	70
Net book value as at 31 December 2021	**41,096**
At 30 June 2021	
Opening net book value	11,802
Additions	7,455
Transfers from property, plant and equipment	1,042
Disposals	(190)
Amortisation charge	(3,869)
Exchange differences	(182)
Net book value as at 30 June 2021	**16,058**

^ includes Intangible assets and Goodwill recognised on acquisition of InnovoEdge of $20.6 million, refer to note 5 for further details.

5 Business combinations

a) Acquisition InnovoEdge, Inc

On 16 August 2021, the Group acquired 100% of the issued share capital of InnovoEdge, Inc. ("InnovoEdge"), an AI-powered multicloud and edge application orchestration company, via its wholly owned US-registered subsidiary, Megaport (USA), Inc. The company was acquired with the objective of helping Megaport drive greater functionality across its leading Network as a Service Platform, and is expected to provide customers and partners with greater visibility and control of networking, cloud and service resources. The acquisition has been accounted for using the acquisition method.

The fair values recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	$'000
Total identifiable assets acquired and liabilities assumed at fair value	
Identifiable intangible assets (provisional) (i)	2,595
Other net assets acquired	11
Goodwill arising on acquisition (provisional) (i)	17,989
Total	**20,595**
Purchase consideration	
Cash paid	10,401
Contingent consideration arrangement (ii)	10,194
Total purchase consideration	**20,595**
Analysis of cash flows on acquisition	
Cash paid (included in cash flows from investing activities)	10,401
Less: Cash and cash equivalents acquired	-
Net cash outflows on acquisition	**10,401**

i. The initial accounting for the acquisition of InnovoEdge has only been provisionally determined as at the end of the half-year. At the date of finalisation of this half-year financial report, the necessary final valuation calculations and reviews had not been finalised and the fair value of the identifiable assets, associated deferred tax liabilities and goodwill noted above have therefore only been provisionally determined based on the directors' best estimate. Intangible assets may therefore need to be subsequently adjusted, with a corresponding adjustment to goodwill prior to 16 August 2022 (one year after the transaction).

ii. The contingent consideration represents $10,194,000 (USD $7.5 million) worth of ordinary shares in Megaport Limited, contingent on conditions set out in the Stock Purchase Agreement ("SPA"). The equity consideration subject to the achievement of specified product development and revenue milestones, will be issued in three tranches over a period of three years following completion. The three tranches are independent of each other. The directors expect that the milestones will be met and $10,194,000 represents the estimated fair value of this obligation.

5 Business combinations (continued)

b) Acquisition-related costs

Acquisition-related costs amount of $895,322 is included in other expenses in profit or loss.

c) Contingent consideration arrangement

The contingent consideration arrangement consists of equity consideration of up to 604,626 ordinary shares in Megaport Limited subject to the achievement of specified product development and revenue milestones and will be issued in three tranches over a period of three years following completion.

The fair value of the contingent consideration of $10,194,000 was determined based on USD $7.5 million, converted to AUD using an exchange rate of USD $1 to AUD $1.3592 and a share issue price of AUD $16.86 as agreed in the SPA.

d) Goodwill

The goodwill of $18 million is attributable to InnovoEdge, Inc.'s acquired workforce and the synergies expected to arise after the merging of operations of InnovoEdge into Megaport's operations. The goodwill has been allocated to the North America ("NAM") segment.

Reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period is presented below:

	$'000
Gross carrying amount	
At 1 July 2021	1,566
Acquisition of InnovoEdge	17,989
At 31 December 2021	**19,555**
Accumulated impairment losses	
At 1 July 2021 and 31 December 2021	-
Net book value	
At 1 July 2021	1,566
At 31 December 2021	**19,555**

e) Impact of acquisition on the results of the Group

Included in the half-year loss for the Group is $482,000 loss attributable to InnovoEdge. InnovoEdge did not contribute any revenue in the half year to 31 December 2021.

Had the acquisition of InnovoEdge occurred on 1 July 2021, the revenue of the Group from continuing operations for the half-year ended 31 December 2021 would have remained unchanged, and the loss for the half-year from continuing operations would have been $20,872,000. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on a half-yearly basis and to provide a reference point for comparison in future half years.

6 Borrowings

	Notes	31 December 2021 $'000	30 June 2021 $'000
Current			
Lease liabilities	(a)	5,549	4,734
Other borrowings	(b)	6,598	4,709
		12,147	**9,443**
Non-current			
Lease liabilities	(a)	3,313	3,345
Other borrowings	(b)	6,147	2,969
		9,460	**6,314**
		21,607	**15,757**

Notes:

(a) Represents the outstanding lease commitments within the scope of AASB 16.

(b) Represents the outstanding balance of the drawn vendor financing facility. In July 2021, the Group increased the vendor financing facility limit to $24.2 million (30 June 2021: $15.2 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. At inception the fair value of the loan is recognised using an estimate of a market borrowing rate.

7 Issued capital

Movements in ordinary share capital:

Details	Number of shares	Total $'000
Balance at 1 July 2020	153,261,431	371,524
Shares issued – Employee share plan	14,673	202
Shares issued – Employee share options exercised	3,322,333	11,550
Transfer from equity-settled employee benefits reserve	-	12,659
Balance at 30 June 2021	**156,598,437**	**395,935**
Shares issued – Employee share plan	16,013	236
Shares issued – Employee share options exercised	1,173,333	5,232
Transfer from equity-settled employee benefits reserve	-	3,288
Balance at 31 December 2021	**157,787,783**	**404,691**

8 Foreign exchange differences

(a) Exchange differences on monetary items recognised in profit or loss

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 countries in which the Group operates. The Australian Dollar (AUD), US Dollar (USD), Euro (EUR) and Pound Sterling (GBP) are the main currencies in which the majority of the Group's sales and costs are denominated. In any particular year, currency fluctuations may have a significant impact on the Group's financial results.

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). Certain cash reserves, 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 table below summarises the Group's foreign exchange gain / (loss), the fluctuation during the period is mainly attributed to the weakening of the AUD against the USD and results from the revaluation of the USD denominated cash and intercompany balances.

	31 December 2021 $'000	**31 December 2020 $'000**
Realised foreign exchange gain / (loss)	279	(9)
Unrealised foreign exchange gain / (loss)	4,327	(17,148)
Net foreign exchange gain / (loss)	**4,606**	**(17,157)**

(b) Foreign currency translation reserve movement

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. The table below summarises the movement of the foreign currency translation reserve during the period.

	Foreign currency translation reserve $'000
Balance at 30 June 2020	**(4,058)**
Exchange differences arising on translation of foreign operations	6,527
Balance at 30 June 2021	**2,469**
Exchange differences arising on translation of foreign operations	(2,986)
Balance at 31 December 2021	**(517)**

9 Equity-settled employee costs and related tax costs

Employee share option plan (ESOP General)

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.

During the half-year, the company issued 1,173,333 ordinary shares for $5.2 million, on exercise of 1,173,333 share options issued under its executive share option plan. As a result of this share issue, $3,287,747 was transferred from the equity-settled employee benefits reserve to issued capital.

The Company issued 25,000 share options (31 December 2020: 1,300,000 share options) over ordinary shares under its employee share option plan throughout the half-year. These share options had a fair value at grant date of between $3.64 - $5.83 per share option (31 December 2020: $2.77 - $5.62 per share option).

Once vested, the options remain exercisable for 12 months. When exercisable, each option is convertible into one ordinary share. The exercise price is set at the share option grant date.

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 2021, were granted $1,000 in Megaport shares for no consideration. In August 2021, 16,013 shares were issued to the eligible employees who were still employed and had not tendered their resignation on the issuance date.

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 form the date of issue and the date on which the participant ceases to be employed by the Group.

10 Related party transactions

(c) Key management personnel

Remuneration arrangements of key management personnel are disclosed in the Group annual financial report.

(d) Transactions with other related parties

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

	31 December 2021 $	**31 December 2020 $**
Sales and purchases of goods and services		
Purchase of shared services from entities controlled by key management personnel	124,170	119,000
Purchase of direct network costs from entities related to key management personnel	187,524	557,000
Sale of network related equipment and services to entities related to key management personnel	44,474	37,420

Arrangements with related parties are on similar arm's length terms as other customers and suppliers.

11 Events occurring after the reporting period

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

Directors' Declaration

In the directors' opinion:

a. the condensed consolidated financial statements and notes set out on pages 8 to 20 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 31 December 2021 and of its performance for the half-year ended on that date and

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(a) confirms that the financial statements also comply with the relevant International Financial Reporting Standards applicable for interim reporting as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors made pursuant to s303(5) of the *Corporations Act 2001.*

On behalf of the Directors

Bevan Slattery
Chairman

Brisbane
9 February 2022

Deloitte.

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Independent Auditor's Review Report to the Members of Megaport Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Megaport Limited (the "Company") and its subsidiaries ("the Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2021, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Megaport Limited is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and

- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with 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 annual 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 review report.

Deloitte.

Directors' Responsibilities for the Half-year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

DELOITTE TOUCHE TOHMATSU

Richard Wanstall
Partner
Chartered Accountants

Brisbane, 9 February 2022