Appendix 4E

Annual Report

For the financial year ended
30 June 2022

Appendix 4E

The following information sets out the requirements of the Appendix 4E of Megaport Limited ('the Company') and its controlled entities ('the Group') with the stipulated information either provided here or cross referenced to the Annual Report for the financial year ended 30 June 2022.

The information provided in the Appendix 4E is based on the 30 June 2022 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.

This Appendix 4E covers the reporting period from 1 July 2021 to 30 June 2022. The previous corresponding period is 1 July 2020 to 30 June 2021.

Results for Announcement to the Market

Summary of Financial Information

	1 July 2021 to 30 June 2022 $'000	1 July 2020 to 30 June 2021 $'000	Change $'000	Change %
Revenue from ordinary activities	109,731	78,281	31,450	40%
Loss from ordinary activities after tax attributable to members	(48,495)	(55,000)	6,505	12%
Net loss for the year attributable to members	(48,495)	(55,000)	6,505	12%

Dividends

No dividend has been proposed or declared for the year ended 30 June 2022.

Commentary on the Results for the Period

Refer to the ASX Announcement titled "FY22 Full Year Results and Global Update" lodged with ASX on 9 August 2022 and the Director's Report "Review of Operations" section in the 30 June 2022 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 Statements in the 30 June 2022 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 references to notes disclosures that have been prepared in accordance with Megaport's Statement of Compliance (refer to Note (a) under Section 1 in the Financial Statements in 30 June 2022 Annual Report).

Net Tangible Asset Backing

	30 June 2022 cents	30 June 2021 cents
Net tangible asset backing per ordinary share^	60.85	104.95

^Calculates as net assets less intangible assets divided by the number of ordinary shares on issue

The number of Megaport shares on issue at 30 June 2022 is 157,949,016 (2021: 156,598,437).

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

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 22 of the Financial Statements.

Details of Associates and Joint Ventures

There are no associates or joint ventures of the Group.

Information about the audit

This final report is based on the attached Financial Report which has been audited by the Group's auditors, Deloitte Touche Tohmatsu. A copy of Deloitte's unqualified audit report is included as part of the Financial Statements.

ANNUAL REPORT

2022

Megaport is a leading provider of Network as a Service (NaaS) solutions. The company's global Software Defined Network (SDN) helps businesses rapidly connect their network to services via an easy-to-use portal or our open API.

Megaport offers agile networking capabilities that reduce operating costs and increase speed to market compared to traditional networking solutions. Megaport partners with the world's top cloud service providers, including AWS, Microsoft Azure, and Google Cloud, as well as the largest data centre operators, systems integrators and managed service providers in the world.

Megaport is an ISO/IEC 27001-certified company.

CONTENTS

COMPANY HIGHLIGHTS

Monthly Recurring Revenue[1]

$7.5M
30 JUNE 2021
→
$10.7M
30 JUNE 2022
+43%

Annualised Revenue[2]

$89.8M
30 JUNE 2021
→
$128.3M
30 JUNE 2022
+43%

Total Number of Customers

2,285
30 JUNE 2021
→
2,643
30 JUNE 2022
+16%

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.
3. Total Services comprises of Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), Megaport Virtual Edge (MVE), and Internet Exchange (IX).

Total Number of Services[3]

21,712 → 27,383 +26%

30 JUNE 2021 | 30 JUNE 2021

Total Number of Ports

7,689 → 9,545 +24%

30 JUNE 2021 | 30 JUNE 2022

Total Number of MCRs

502 → 731 +46%

30 JUNE 2011 | 30 JUNE 2022

CHAIRMAN’S LETTER

Dear Shareholder,

I am honoured to present you with the Fiscal Year 2022 Chairman’s Report for Megaport Limited.

With the continued migration of enterprise workloads from siloed, on-premise infrastructure to hybrid and multicloud architectures, cloud is now an undeniable force in almost everything we do. The question of whether a business will adopt cloud is no longer up for debate; it’s now a question of how many clouds they will adopt. In the face of rising global inflation, and ongoing supply chain issues, cloud services are proving to be a critical means of growing and scaling businesses. The ability to minimise costs, deploy with a capital-light strategy, and enable rapid services gives businesses the edge they need through dynamic and shifting economic climates.

This massive growth in cloud adoption is fueling an ever-increasing dependence on critical communications infrastructure as data traverses between end users and public and private cloud locations. Megaport was built to solve this problem and founded at the junction where network infrastructure and operations meets next generation software and automation. Our industry leading Network as a Service platform was built for scalability – with global multi-terabit capacity that reaches 25 countries.

More than a means of scaling cloud connectivity, Megaport has become a fundamental part of solving for cloud interoperability. With services like Megaport Cloud Router (MCR), our customers directly connect public clouds together – all without the need to procure or deploy hardware. This means customers can simplify their operations while ensuring their multicloud environment performs and scales.

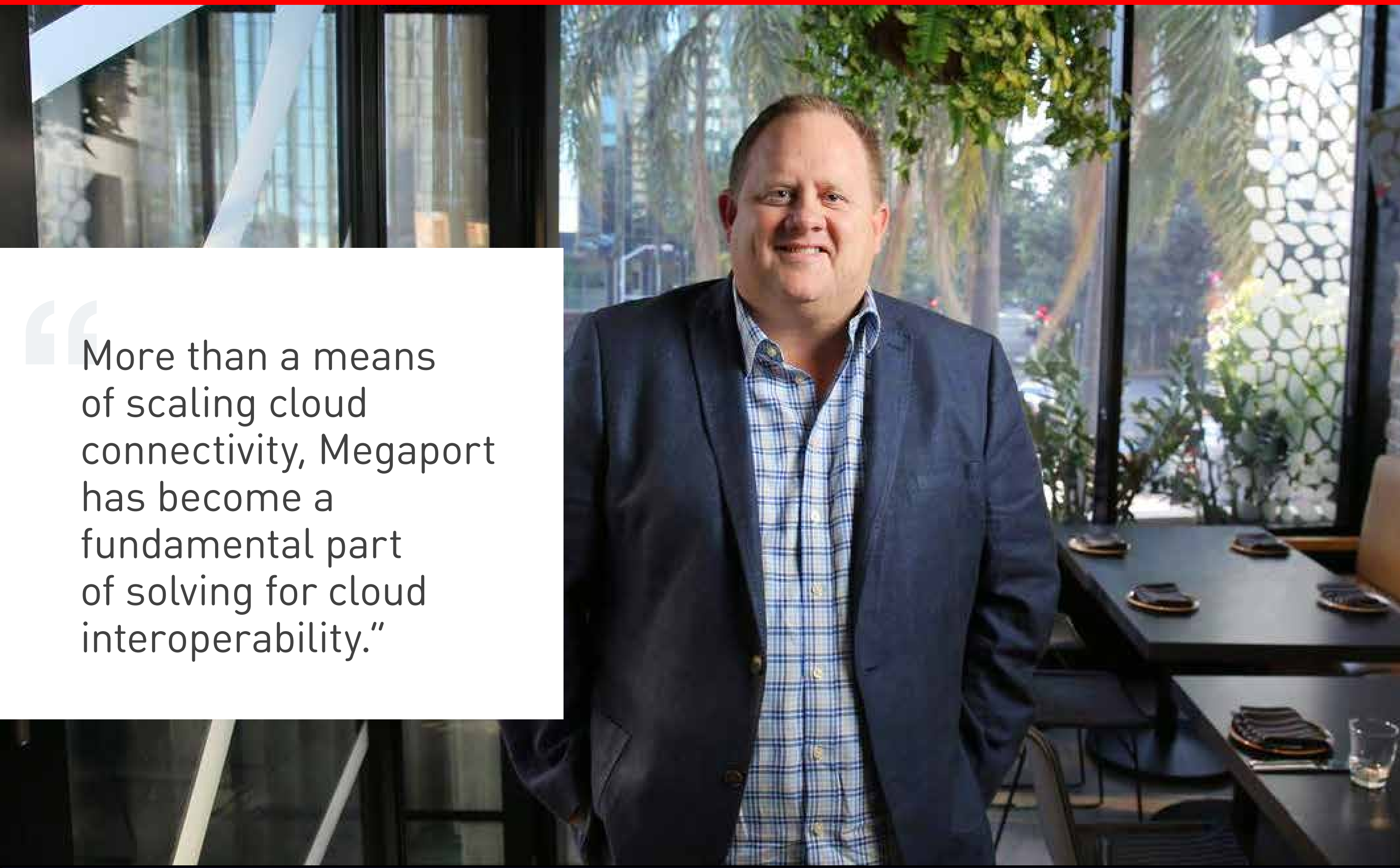
Our company’s innovation roadmap will continue to focus on automation and orchestration of network capacity, Network Function Virtualization, and IT services discovery. We will also focus on security capabilities with future Megaport Virtual Edge (MVE) integrations that bring Secure Access Service Edge (SASE) capabilities to our platform.

As Megaport grows, we too are committed to a holistic view of our company’s impact to our customers, partners, employees, and the global community. I am excited to announce the release of our inaugural Environmental, Social, and Governance Report in the coming quarter. Our ESG Report will provide a view of our plans and actions to align our business towards globally sustainable and equitable operations.

Today more than 2,600 customers and a leading ecosystem of cloud partners, including twenty Fortune 100 companies, trust Megaport to connect and protect their business critical services. I am very proud of Megaport’s enduring drive to innovate and deliver value to our customers, partners, and shareholders. 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 - Megaport Limited | 9 August 2022



> "More than a means of scaling cloud connectivity, Megaport has become a fundamental part of solving for cloud interoperability."

COMPANY HIGHLIGHTS

77%

OF MEGAPORT CONNECTIONS TERMINATE TO PUBLIC CLOUD PROVIDERS

32%

GROWTH OF MULTICLOUD CUSTOMERS

50%

OF MEGAPORT MULTI-CLOUD CUSTOMERS ADOPTED MCR

COMPANY HIGHLIGHTS

Group Exit Gross Margin

APAC	EMEA	NAM	MP1
79%	71%	54%	65%

Drive To Profitability

Japan, Canada EBITDA Profit

Group EBITDA Positive For Q4

Group Exit EBITDA

APAC	EMEA	NAM	MP1
64%	45%	23%	5%

Cloud Onramps → 45 NEW | 278 TOTAL

Cloud Regions → 21 NEW | 142 TOTAL

Total customers

2,285 ↑ 2,643

Average Ports per Customer

3.37 ↑ 3.61

Average Services per Port

2.82 ↑ 2.87

Average Revenue per Port

$974 ↑ $1,120

LETTER FROM THE CEO

Dear Shareholder,

As the first mover and global leader in the Network as a Service space, Megaport has built a unique technology platform. The global reach of our Software Defined Network coupled with our leading ecosystem of service providers has set the standard for cloud connectivity and on-demand data networking.

As a global technology company, we have grown our platform to service 145 cities across 25 countries around the world. We have seen our customers growing along with us. Average revenue per customer grew 24% in fiscal year 2022. Companies of all sizes are taking advantage of Megaport's ability to connect to services and locations all over the world - powering multi-region IT architectures at cloud-speed and with cloud-ease. Increasingly, we are providing global solutions to global enterprises as reflected in the makeup of our customers.

Ultimately, Megaport is a global technology company on the leading edge of cloud connectivity.

Our network infrastructure expertise allowed us to build and operate one-of-a-kind highly efficient global network with healthy operating leverage built-in. With the continued rapid growth in the cloud connectivity space, we have the scale and capital position necessary to drive our business to profitability. This will be a key focus in fiscal year 2023 as we leverage our channel programmes and operational efficiency.

A key indicator of the value of the Megaport platform for customers is service adoption. Average services per customer increased 9% in fiscal year 2022. We drive more value by delivering features that allow customers to take greater control of their traffic and ease the job of getting connected. Our technology roadmap continually drives new features that power greater control and simplifies overall operations.

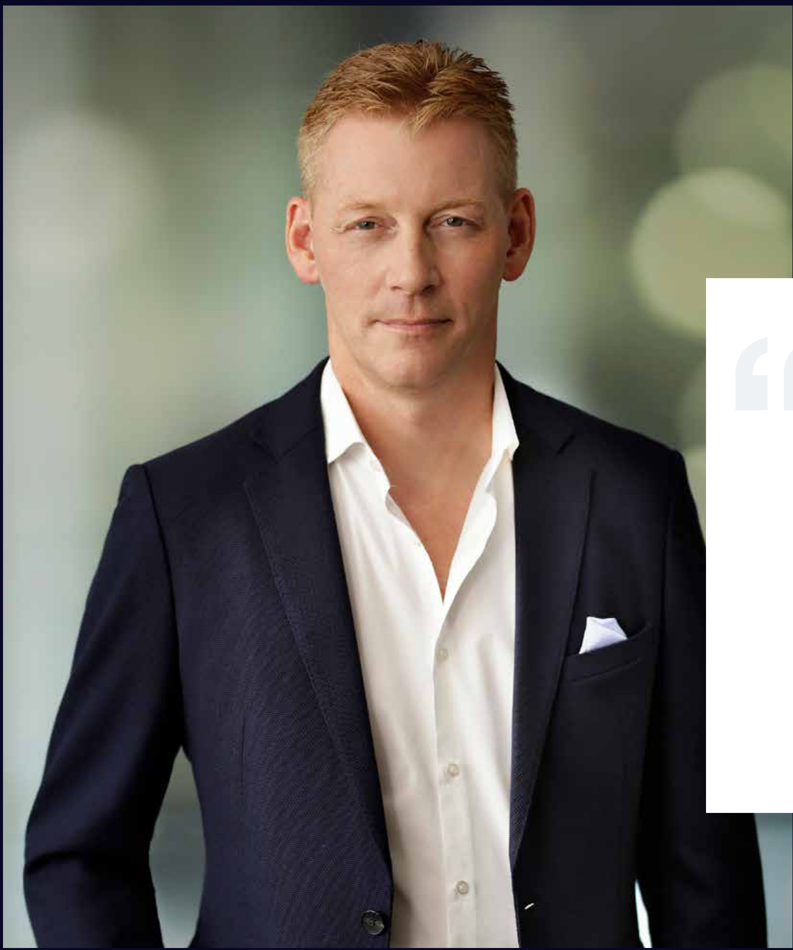
In addition to our strong existing cash position, we have locked in a new revolving credit facility based on the confidence of the Megaport model. Along with our strong cash inflows, we are confident in our cash sustainability position.

The team is highly aligned to grow our business through geographic expansion to key new markets, ongoing product innovation, and operational efficiencies. This will drive profitability, sustainability, and ultimately value to our shareholders, partners, and customers. We remain highly-customer focused and will accelerate our leadership position in the Network as a Service space.

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

Vincent English

CEO – Megaport Limited | 9 August 2022



"Ultimately, Megaport is a global technology company on the leading edge of cloud connectivity."

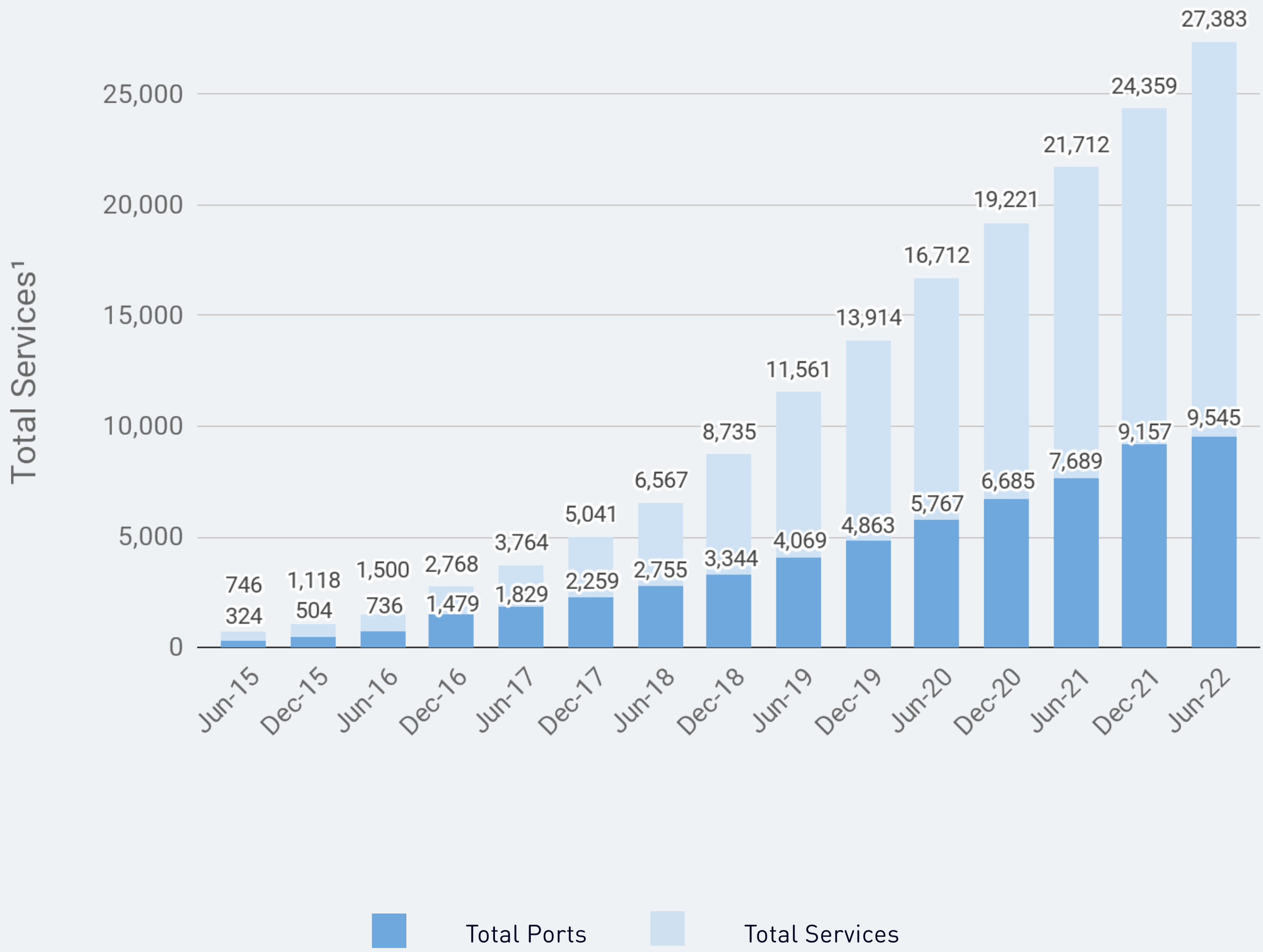
GLOBAL REVENUE

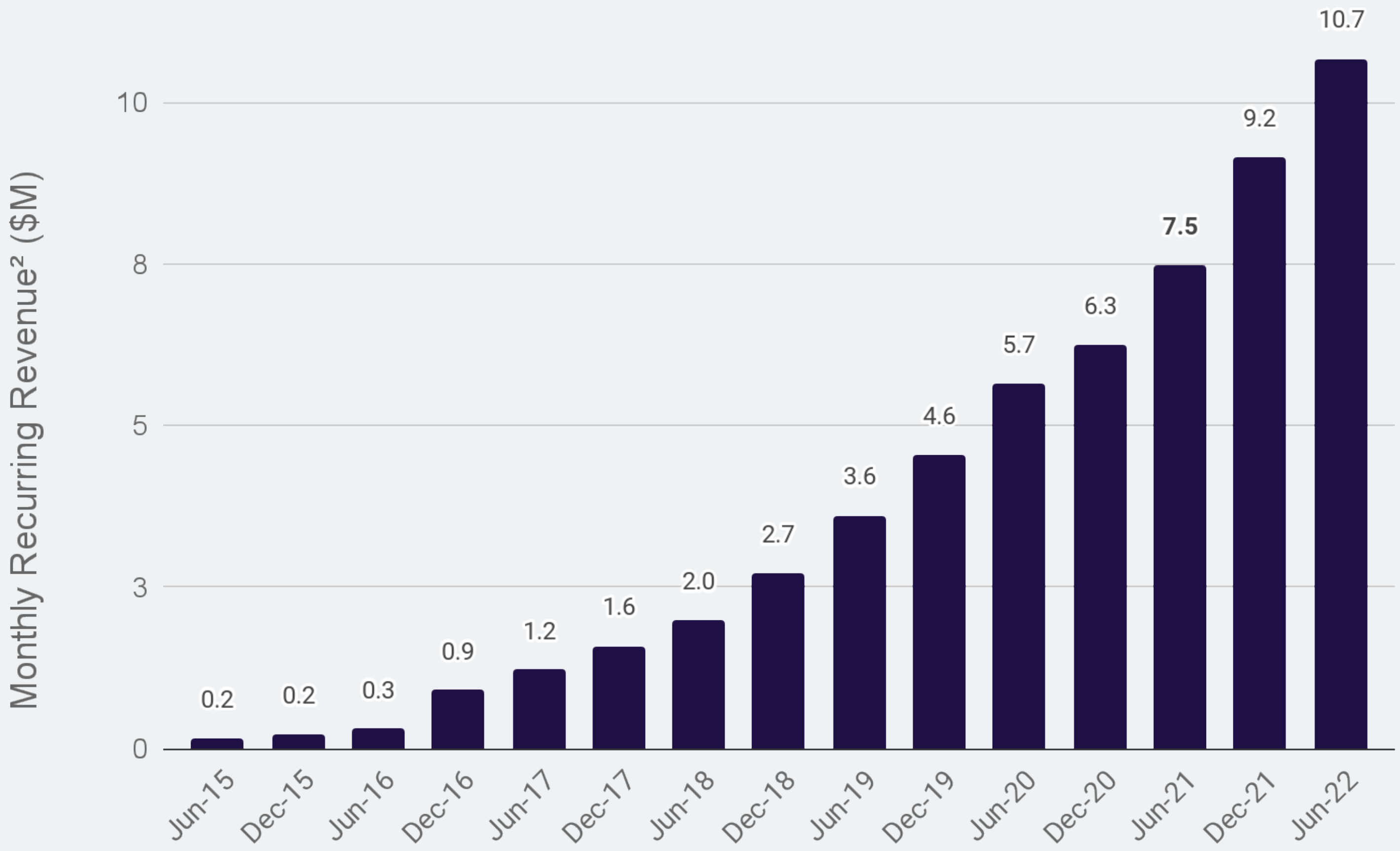
$109.7M

↑ $31.4M | 40%

ACCELERATING GROWTH

Increasing service uptake drives overall revenue growth. Megaport is focused on platform features that simplify service uptake.





1. Total Services comprises of Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), Megaport Virtual Edge (MVE), and Internet Exchange (IX) at period end.
2. Monthly Recurring Revenue (MRR) is revenue (excluding one-off and non-recurring revenue) for the last month of the period.

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 2022.

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Megaport Limited (referred to as 'the Company') and the entities it controlled (referred to as 'the Group' or 'the consolidated entity' or Megaport') at the end of, or during the year ended, 30 June 2022.

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
- Jay Adelson
- Naomi Seddon
- Michael Klayko
- Melinda Snowden
- Glo Gordon (Appointed 1 July 2021)

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;
- the development of product features and API integration with key partners; 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 400 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") 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 Software-Defined approach to Wide Area Networking (“SD-WAN") and Secure Access Service Edge (“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 and Europe offers customers a neutral platform that spans its 787 Enabled Data Centres in key global locations.

Key performance metrics

	Half-Yearly Performance				**Yearly Performance**		
	Dec-20	Jun-21	Dec-21	**Jun-22**	FY21	**FY22**	**YoY % Change**
Enabled Data Centres[1] Installed Data Centres[2]	716 386	761 405	768 411	**787** **423**	761 405	**787** **423**	**3%** **4%**
Cloud Onramps	220	233	240	**278**	233	**278**	**19%**
Customers	2,043	2,285	2,455	**2,643**	2,285	**2,643**	**16%**
Ports	6,691	7,689	8,523	**9,545**	7,689	**9,545**	**24%**
MCR	382	502	603	**731**	502	**731**	**46%**
Megaport Virtual Edge (“MVE”)[3]	n/a	21	40	**73**	21	**73**	**248%**
Total Services[4]	19,278	21,712	24,359	**27,383**	21,712	**27,383**	**26%**
Monthly Recurring Revenue (“MRR”) in millions[5]	$6.3	$7.5	$9.2	**$10.7**	$7.5	**$10.7**	**43%**
Revenue in millions	$36.0	$42.3	$51.2	**$58.6**	$78.3	**$109.7**	**40%**

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.

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

3 Megaport announced the launch of MVE on 31 March 2021 and sold its first MVE during the June-21 quarter.

4 Total Services comprise Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), Megaport Virtual Edge (MVE) and Internet Exchange (IX).

5 Monthly Recurring Revenue (MRR) is revenue (excluding one-off and non-recurring revenue) for the last month of the relevant period.

In June 2022, Megaport reached 2,643 customers across 787 Enabled Data Centres in 145 cities (2021: 136 cities) and generated MRR of $10.7M. Of these Data Centres, 144 were located in Asia Pacific, 431 in North America, and 212 in Europe.

The total Ports on the Group's Network at 30 June 2022 was 9,545, up 24% compared to a year earlier.

During the year ended 30 June 2022 ("FY22"):

- On 16 August 2021, the Group acquired 100% of the issued share capital of InnovoEdge, and integration of InnovoEdge services with the Megaport platform was completed. 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[6].
- 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 ONE was launched in January 2022, a white label, multi-tenant SaaS platform for data centre, managed service, and network service providers, to orchestrate, network, and enable connectivity and cloud services. Megaport ONE is the culmination of integrating services from the acquisition of InnovoEdge.
- Megaport launched its full suite of products and services in Mexico, which brought the Megaport platform to 25 countries and 145 cities globally.
- Megaport continued to expand its Network footprint to new cities while deepening its reach within existing metros, with 787 enabled locations globally via 423 points of presence.
- Megaport furthered its leadership position in cloud networking by enabling 45 new cloud on-ramps globally.

Impact of COVID-19

The COVID-19 pandemic continued to disrupt global supply chains which impacted workforces, production and sales globally.

The Group purchased additional equipment and licenses during the year to mitigate the impact of supply chain delays from its key equipment suppliers.

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

6 Source: OMDIA

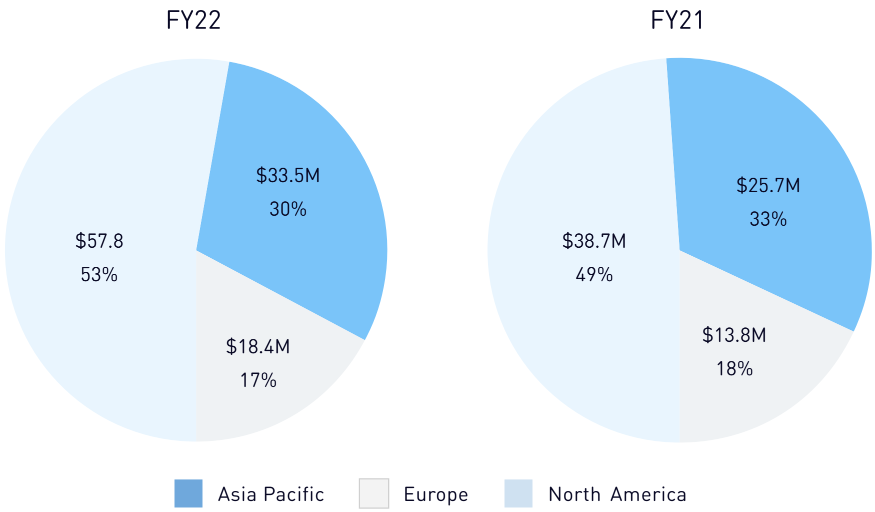
Impact of Russia-Ukraine War

The ongoing war between Russia and Ukraine has affected economic and global financial markets and exacerbated ongoing economic challenges, including rising inflation and global supply-chain disruptions.

Megaport has assessed any potential exposure and risks associated with services based in both Ukraine and Russia, there are no material customers or services which are impacted. The financial statements of the Group do not include any adjustments as a result of the ongoing conflict. Management continues to monitor the ongoing conflict as it evolves.

Financial Performance

Reported revenue by operating segment for FY22 and the year ended 30 June 2021 ("FY21") is set out below:



During the year ended 30 June 2022, 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 $109.7 million (2021: $78.3 million), an increase of $31.4 million or 40%. North America grew by 49%, Asia Pacific by 30%, and Europe by 33%.

Profit after direct network costs[7] and partner commissions was $68.3 million, up 62% compared to the corresponding previous year of $42.1 million.

Normalised EBITDA[8] for the year was a loss of $10.1 million (2021: loss of $13.3 million).

The Group's net loss for the year amounted to $48.5 million (2021: $55.0 million).

Financial Position

Megaport continues to maintain a strong financial position with net current assets of $49.8 million (2021: $116.9 million) cash and cash equivalents of $82.5 million (2021: $136.3 million) and total equity of $142.2 million (2021: $180.4 million).

7 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.

8 Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding equity-settled employee costs, foreign exchange gains and certain non-recurring non-operational expenses. Including these amounts, EBITDA would be ($6.4m) in FY22 and ($37.0m) in FY21. Refer Note 1 in the Financial Report for the reconciliation from Normalised EBITDA to the net loss for the year.

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:

- *Breach of information security*: Megaport is exposed to the risk of a material breach of information security that could result in disruption of customer services, financial loss, breach of regulatory compliance or damage to brand and reputation. e.g. unauthorised access to Megaport's IT Assets, change affecting the accuracy and integrity of critical information, or disclosure of confidential information. This could manifest 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 range of other service providers with competing technologies, network reach and capabilities, product and service offerings, and geographic presence. Megaport currently enjoys an early mover advantage in many of its deployed markets. However, Megaport may face increased competition from existing telcos and data centre operators ("DCOs"), 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 supersedes 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 ("IP") including any improvements to existing IP. The IP may not be capable of being legally protected or Megaport may incur substantial costs in asserting or defending its IP rights. Megaport's IP may also be lost, stolen or compromised as a result of an unauthorised electronic security breach.

- *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. A significant decline in our reputation could 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.

- *Continued access to funding and capital:* Whilst Megaport's business is not capital intensive in nature, the continued growth of the Group relies on the development of new markets, new locations, customer acquisition, retention investment, and ongoing maintenance of existing infrastructure and software platforms. Until revenues and margins are sufficient to fund this expenditure, Megaport will require continued access to capital or prudent use of cash in the bank. Failure to obtain capital on favourable terms or use cash wisely may hinder Megaport's ability to expand and pursue growth opportunities, which may reduce competitiveness and have an adverse effect on the financial performance, financial position and growth prospects of the Group.

- *Risk of Major Global Economic Downturn*: Risk of a major global economic downturn could lead to slower sales of ports and services, pressure on pricing and/or potential increased customer churn resulting in a slowdown in revenue growth and delays in reaching EBITDA / free cash flow breakeven, and downgrades to our earnings outlook. It could also heighten the risk of potential interruption to Data Centre access for service support and the risk that the equipment we need installed may be delayed.

- *Dependence on key personnel*: 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 Group'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. While the Company has initiatives to mitigate this risk, the loss of staff in key positions could have a negative impact on Megaport. The loss of key staff to a competitor may amplify this impact.

- *Short operating record:* Megaport was established in 2013 and has a relatively short operational track record and has only been a public company listed on the Australian Securities Exchange ("ASX") since December 2015. As a result, 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 from 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 to 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.

- *Adverse 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. This means that movements in exchange rates, particularly the AUD/USD and AUD/EUR, may have an adverse impact on Megaport's financial performance and position.

- *Doing business outside of Australia:* Megaport currently has operations in Australia, Austria, Belgium, Bulgaria, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Japan, Luxembourg, Netherlands, New Zealand, Mexico, Norway, Poland, Singapore, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, and USA, 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) and other issues in foreign jurisdictions in which Megaport operates. Businesses that operate across multiple jurisdictions, such as Megaport, face additional complexities from the unique business requirements in each jurisdiction.

- *Counterparty obligations*: Megaport currently has operations in 25 countries and has plans to expand to more 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. Whilst the Group seeks to deal with reputable and highlight creditworthy counterparties where possible, this may fail to mitigate the risk of damage to Megaport's business, financial performance and position or reputation from its relationship with one or more of these counterparties.

- *Ability to attract and retain employees:* Megaport's business is dependent on attracting and retaining quality employees. Megaport's ability to meet its labour needs while controlling costs associated with hiring and training new employees is subject to external factors such as unemployment rates, market rates for talent, prevailing wage legislation and changing demographics in its operating markets as well as other factors such Megaport's brand and reputation as an "employer of choice". Changes that adversely impact Megaport's ability to attract and retain quality employees could materially adversely affect Megaport's future financial performance and position.

- *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 related to lack of customer contracts*: Megaport's business model is to offer flexible connectivity arrangements without a requirement for customers to sign up to long-term (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.

- *Tax investigation and/or adverse tax finding/assessment*: 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 & 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. Megaport has achieved ISO/IEC 27001 certification from the International Organization for Standardization ("ISO").

Megaport has qualified and experienced Information Security and Privacy Teams, dedicated to developing processes and procedures to ensure that Megaport's information and technology 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. 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.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year:

Events since the end of the financial year

On 14 July 2022, Management made the decision to reduce its workforce in order to reduce costs and prepare for rising prices and inflation across the Group's key markets. As a result, 35 positions across all regions of the Group were made redundant. The total amount paid to these employees was $1.6 million. The redundancies had not been announced at 30 June and the resulting costs were unable to be measured reliably. Therefore, no liability has been recognised in the Consolidated Statement of Financial Position.

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 Group's operations and results or state of affairs of the Group.

Likely developments and expected results of operations

The 2022 financial year saw strong uptake in Megaport services, with the total number of services connected at 30 June 2022 reaching 27,383, up 26% compared with 12 months earlier. This was driven by strong demand from enterprises for cloud and interconnection services, and a move by software providers towards delivering services in the cloud, both trends that are 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 (Corporate Instrument). In accordance with the Corporations Instrument, amounts in the Directors’ Report and the Financial Statements are rounded off to the nearest thousand dollars ($’000), unless otherwise indicated.

INFORMATION ON DIRECTORS + COMPANY SECRETARY

OTHER CURRENT ASX DIRECTORSHIPS:

None

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

Superloop Limited (ASX:SLC) (director since 2014, resigned on 28 October 2021)

SPECIAL RESPONSIBILITIES:

» Chairman

» Member of the Innovation Committee

INTERESTS IN SHARES AND OPTIONS:

» 8,070,940* fully paid ordinary shares (held directly)

» 66,667 options over ordinary shares (held directly)

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, Asia's most innovative data centre-as-a-service provider; 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; SUBCO, an independent specialist submarine cable development group with 9,800km of submarine cable infrastructure currently under construction between Perth and Oman as part of the Oman Australia Cable system; and HyperOne, expected to become Australia's first hyperscale fiber optic network and the largest private, independent digital infrastructure project in Australia's history.

Slattery's entrepreneurial success is highlighted in having listed 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 Pearcey Foundations Benson Award as well as being inducted into the Commsday Hall of Fame in 2017.

*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 held roles as Chief Financial Officer and Chief Operating Officer before being appointed as Chief Executive Officer in 2017.

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 Committeetee

INTERESTS IN SHARES AND OPTIONS:

» 1,584,149 fully paid ordinary shares (held directly) and 23,975 fully paid ordinary shares (held indirectly)

» 1,000,000 options over ordinary shares (held directly)

GLO GORDON
NON-EXECUTIVE DIRECTOR

Glo has more than 20 years of experience as a senior global executive in business operations strategy and sales at large technology companies including Cisco, Oracle, SAP, and Xerox. She is currently CEO and board member of MATRIXX, a leading 5G digital commerce company in Silicon Valley.

In 2014, Glo became the Chief Revenue Officer, responsible for Sales, Marketing and Customer Success for Jasper, a Silicon Valley IOT startup which was acquired in 2016 by Cisco for $1.4B. At Cisco, as Vice President and General Manager, IoT, Sales and Marketing, Ms Gordon held P&L responsibility for growth and margin for Cisco's Strategic IoT business unit. Prior to Jasper, Glo was with Oracle for 10 years and her last role was Group Vice President, Worldwide BSS/OSS applications sales, contributing double digit growth in recurring revenue for Oracle's Communications Business Unit for Telcos and Enterprise.

More recently, Glo was Chief Revenue Officer at Uptake, an emerging leader in artificial intelligence, machine learning, and predictive analytics.

OTHER CURRENT ASX DIRECTORSHIPS:

None

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

None

SPECIAL RESPONSIBILITIES:

» Member of the Remuneration & Nomination Committee

» Member of the Diversity & Inclusion Advisory Board

INTERESTS IN SHARES AND OPTIONS:

» None

MICHAEL KLAYKO
NON-EXECUTIVE DIRECTOR

Michael Klayko has over 40 years of experience in the data storage, computer, technology and telecommunications industries. During his tenure as CEO of Brocade, he grew the company revenues to over US$2.2 billion. Additionally, he has held leadership and Executive positions at leading technology companies including Rhapsody Networks, McDATA Corporation, EMC Corporation, Hewlett Packard, and IBM.

Michael brings a comprehensive understanding of the technology and network solutions industry coupled with extensive experience as a director of other publicly listed technology companies. He is an Operating Executive at Marlin Equity Partners, a global investment firm. Currently Michael serves as the Chairman of the Board of Virgin Pulse, Star Compliance, Process Unity and CE Broker.

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:

» 25,000 fully paid ordinary shares (held directly)

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, 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 an author and presenter 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 endometriosis awareness and international surrogacy rights and is on the board of Endometriosis Australia and Surrogacy Australia. She is also the board chair of United Stages and on the advisory board of Global Villages.

OTHER CURRENT ASX DIRECTORSHIPS:

None

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

None

SPECIAL RESPONSIBILITIES:

» Lead Independent Director

» Chair of the Remuneration & Nomination Committee

» Chair of the Diversity & Inclusion Advisory Board

» Member of the Audit & Risk Committee

INTERESTS IN SHARES AND OPTIONS:

» 24,000 fully paid ordinary shares (held directly)

MELINDA SNOWDEN
NON-EXECUTIVE DIRECTOR

Melinda has 27 years of experience in finance and has been a professional non executive director since 2010 in a broad range of industries. Melinda is currently a Non-Executive Director and Chair of the Audit and Risk Committee of ASX listed companies WAM Leaders and Best & Less Group Holdings. Melinda is also currently a Non-Executive Director of Newmark REIT Management, LLS Fund Services and an advisory board member of Yarno, a SaaS compliance and education provider.

Melinda has held previous non-executive director roles at MLC, Vita Group, Mercer Investments (Australia), Sandon Capital Investments, Our Ark Mutual and Kennards Self Storage. Prior to her non-executive career, Melinda held investment banking roles with Grant Samuel, Merrill Lynch, and Goldman Sachs and was a solicitor in the corporate division of Herbert Smith Freehills.

Melinda holds a Bachelor of Economics and Laws from the University of Sydney and is a graduate member of the Australian Institute of Company Directors.

OTHER CURRENT ASX DIRECTORSHIPS:

» WAM Leaders Limited (ASX:WLE)

» Best & Less Group Holdings Ltd (ASX:BST)

» Newmark REIT Management Limited, the responsible entity of Newmark Property REIT (ASX:NPR)

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

Sandon Capital Investments Limited (ASX:SNC)

SPECIAL RESPONSIBILITIES:

» Chair of the Audit & Risk Committee

» Member of the Diversity & Inclusion Advisory Board

INTERESTS IN SHARES AND OPTIONS:

» None

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:

» Chair of the Innovation Committee

» Member of the Audit & Risk Committee

» Member of the Remuneration & Nomination Committee

INTERESTS IN SHARES AND OPTIONS:

» 18,000 fully paid ordinary shares (held directly)

CELIA PHEASANT
COMPANY SECRETARY

Celia Pheasant is an experienced in-house information and communications technology lawyer with more than 25 years of legal experience. Celia has served in her current capacity as company secretary for Megaport since 2015 and is responsible for the corporate governance of its subsidiaries in 25 countries globally. Celia is also General Counsel for Soda, a leading hub for innovation, incubation and investment in Australian digital infrastructure and technology businesses.

Celia commenced her career as a solicitor in the telecommunications division at Herbert Smith Freehills before continuing with in-house counsel 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.

Meetings of Directors

The number of meetings of the Company's board of directors and each board committee held during the year ended 30 June 2022, and the numbers of meetings attended by each director were:

	Directors' meeting		Meetings of Committees							
			Audit & Risk		Remuneration & Nomination		Innovation		Diversity & Inclusion Advisory Board	
	A	B	A	B	A	B	A	B	A	B
Bevan Slattery	10	10	*	*	*	*	3	4	*	*
Vincent English	8	10	*	*	*	*	4	4	*	*
Jay Adelson	9	10	6	7	7	7	4	4	*	*
Naomi Seddon	9	10	7	7	7	7	*	*	4	4
Michael Klayko	9	10	*	*	*	*	4	4	*	*
Melinda Snowden	9	10	7	7	*	*	*	*	4	4
Glo Gordon	9	10	*	*	6	7	*	*	3	4

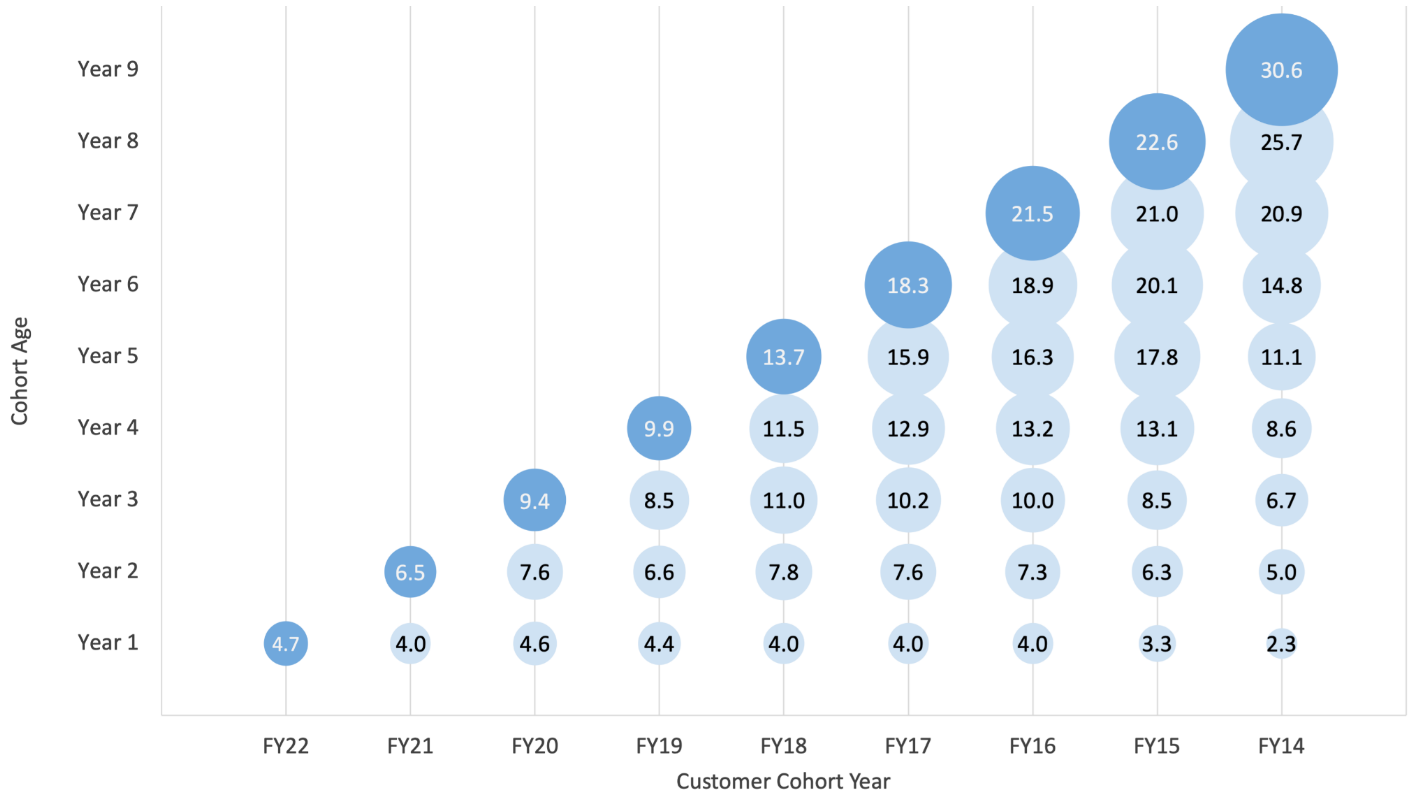
A = Number of meetings attended

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

CUSTOMER COHORT TRENDS

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



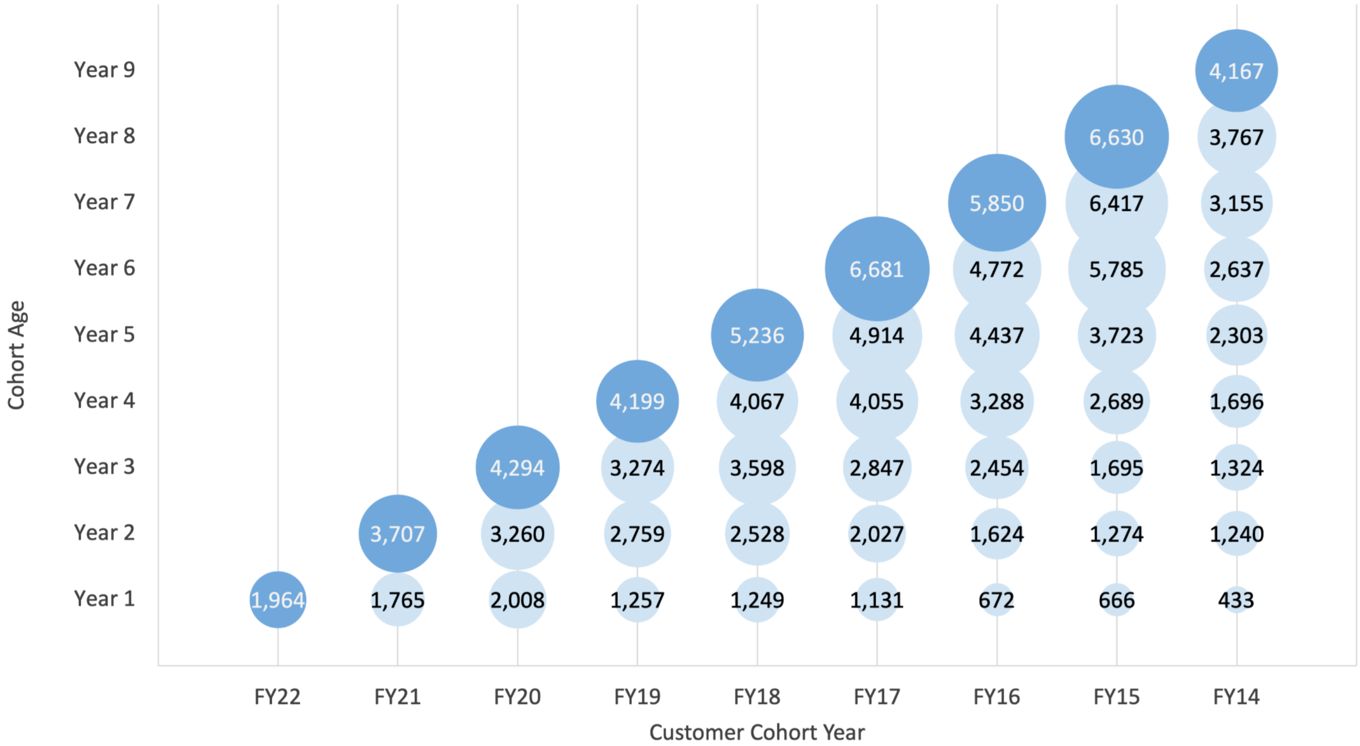
Average Services Per Customer[2]

10.3

+9%

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 2022.
2. At 30 June 2022; percentage represents growth compared to 12 months earlier.



Average Monthly Revenue Per Customer[3] ($)

$4.0K

+24%

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 2022.
2. At 30 June 2022; percentage represents growth compared to 12 months earlier.
3. Represents June 2022 MRR divided by total customers at 30 June 2022; percentage represents movement compared to 12 months earlier

REMUNERATION REPORT

Letter from the Chair of the Remuneration and Nomination Committee

Dear Shareholders

We are pleased to present the Remuneration and Nomination Committee report which highlights some of the initiatives that we have implemented throughout the year to attract, retain and support our most important asset – our people.

The year has seen more challenges: the pandemic, global unrest, and associated impacts have resulted in a tough economy and labour market. As a result, we have put a lot of effort into supporting our people through a number of health and wellness initiatives, from a monetary scheme to spend on individual chosen benefits globally, to an app providing techniques for mental wellness. We've created forums for team members to develop initiatives which are deemed important to them. Overall, our key focus was to maintain a strong culture of inclusion which underpins our values. Our team has been supportive of one another in an effort to best serve our customers and maintain solid performance in a competitive market while continuing to deliver several key initiatives to support future shareholder value.

In an effort to reduce our costs and prepare for rising prices and inflation across our key markets, we took the additional step of reducing our workforce to place us in the best possible position for revenue growth in FY23.

Several steps were taken to achieve targets that were set by the Board, including the achievement of 40% growth in revenue, and a 62% growth in gross margin. Our executive team was also successful in positioning our business for future growth, with the acquisition of InnovoEdge, Inc, and the launch of the PartnerVantage program. For more detail on these initiatives, please refer to our Operating and Financial Review section.

Over the past year we have also implemented the following:

- A global learning platform in which to access online development throughout the organisation
- Global flexible benefits program providing $100 AU per person, per month with freedom to spend on anything they wish. E.g. towards gym subscriptions, childcare, and groceries to name just a few
- A staff Restricted Stock Unit (RSU) program for select employees
- Development of female leaders via 'Women Rising' Microsoft program
- Introduction of the Diversity and Inclusion Advisory Board
- An intern program for candidates with diverse skills including veterans
- Volunteer leave of two paid days per year
- Bereavement leave for those suffering miscarriage

Remuneration outcomes
Our achievements above are reflected in the executive remuneration outcomes for this year. Executives received an average of 70% of their Short-Term Incentive (STI) target for performance against key performance indicators.

Changes to remuneration
The Board regularly reviews our executive remuneration structure to ensure it continues to drive shareholder value and enables us to attract and retain the talent we need.

FY22 – Introduction of Restricted Stock Units (RSU)
The Board introduced an RSU plan during FY22 in which executives and employees of the Group were granted RSUs with a three year vesting period. The Board has determined that RSUs, rather than share options, will be granted under the LTI plan for awards from FY23 onwards, as RSUs are more aligned with the Group's growth profile.

First strike against remuneration report
At our 2021 AGM, we received a 'first strike' as a result of a 27.9% vote against the adoption of our 2021 Remuneration Report. Under the *Corporations Act 2001*, if we receive a 'second strike' against our 2022 Remuneration Report, a resolution is to be put to shareholders asking if they wish to hold an extraordinary general meeting, also known as a 'spill meeting'. Details on the feedback received from our shareholders and our response to the strike are outlined in this Remuneration Report.

In response, we undertook a robust review of our compensation models for executives and directors against similarly situated companies and engaged AON and Korn Ferry to assist with this review. As a result, we have developed compensation models that we strongly believe reflect the calibre of talent that is needed to take Megaport into the next phase of the Company's growth as a global organisation, and are consistent with models of similarly situated ASX-listed companies. The result is that we have developed compensation models, and an RSU plan and grants that reflect the thorough analysis that we have undertaken in this regard.

The Board is confident that Megaport Limited's remuneration policies and our investment in our team support the Group's financial and strategic goals and place the organisation in a position where we are fostering the commitment of our executive team and Board to ensure that we can achieve the best future outcomes for our shareholders. We are committed to transparency and an ongoing dialogue with shareholders on remuneration and to this end we have made changes to the remuneration report to improve our transparency to shareholders. We will continue to review and revise our policies and practices to align us with up-to-date best practice within our major markets across the globe. We are confident that our customers, global workforce and our shareholders will benefit from the improvements that we continue to make within our organisation to better assist and support our people to continue to achieve high performance and that these benefits will be seen well into and beyond this next stage of our growth as a company.

Finally, without our people we could not continue to achieve and we recognise that there have been many challenges that we have all faced throughout the past year. To this end, we would like to acknowledge the effort of all of our people who have worked hard to achieve the best outcomes for the organisation and you – our valued shareholders.

On behalf of the Board, I invite you to review the full report; we welcome your feedback and thank you for your continued support.

Yours sincerely

Naomi Seddon
Remuneration and Nomination Committee Chair

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 2022 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[9]

Name	Position
Bevan Slattery	Chairman and Non-Executive Director
Vincent English	Executive Director and Chief Executive Officer ("CEO")
Jay Adelson	Non-Executive Director
Naomi Seddon	Non-Executive Director
Michael Klayko	Non-Executive Director
Melinda Snowden	Non-Executive Director
Glo Gordon	Non-Executive Director (Appointed 1 July 2021)

Other key management personnel

Name	Position
Sean Cassidy	Chief Financial Officer ("CFO")
Rodney Foreman	Chief Revenue Officer ("CRO") (Resigned 20 May 2022)

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.

[9] 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 (the "Committee") is a committee of the Board. The Remuneration and Nomination Committee members as at 30 June 2022 are:

Remuneration and Nomination Committee[10]

Name	Position
Naomi Seddon	Chair
Glo Gordon	Member
Jay Adelson	Member

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 Group;
- regularly formally assessing the appropriate balance of skills, experience and diversity required on the Board and the extent to which they are represented;
- reviewing and evaluating market practices and trends on remuneration matters relevant to the Group;
- reviewing and making recommendations to the Board about the Group'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 Group'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;
- 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; and
- reviewing and reporting to the Board, at least annually, on the proportion of women and men in the workforce at all levels of the Group, and their relative levels of remuneration.

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

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

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/leadership-governance. The Committee's charter incorporates 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.

When making remuneration recommendations to the Board, the Committee:

- Assesses the scope of the role, performance of the individual in the role, current market rates and the strategy of the Group;
- Considers comparable roles in similar markets with the objective to align the Group's compensation structures;
- Takes into account the global nature of the business, and the requirements of certain roles in key locations; and
- Undertakes regular assessment to determine how the Group's remuneration strategies can attract and retain a diverse workforce.

The executive remuneration and reward arrangements consist of three components:

- Fixed remuneration comprising salary, superannuation, and Company shares
- Short term incentives ("STI") in the form of a cash-based award and ordinary shares
- Long term incentives ("LTI") in the form of share options and restricted stock units

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 Securities Trading Policy is available on Megaport's website at megaport.com/investor/leadership-governance.

Clawback of Remuneration

In the event of serious misconduct, the CFO and the Chief People Officer have the discretion to reduce, cancel, or clawback remuneration, including any unvested LTI or amounts deemed to be overpayments.

Use of Remuneration Consultants

During the year the Committee approved the engagement of the following consultants to make recommendations regarding KMP remuneration:

Consultant Name	Services provided	Fees ($)
Korn Ferry	LTI scheme report based on trends for Non-Executive Directors within the ASX environment.	10,416
Aon	LTI scheme report based on trends for Non-Executive Directors within the ASX environment.	20,000
Compensia	Recommendations regarding industry relevant LTI programmes.	21,602
Total		**52,018**

All recommendations made from the above consultants were free from undue influence from the KMP to whom the remuneration recommendations apply.
The remuneration recommendations were provided to the Committee as an input into decision making only. The Committee considered the recommendations, along with other factors, in making its remuneration decisions.

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 2021 AGM. This amount is currently $1,500,000. Actual remuneration to Non-Executive Directors for the financial year 2022 totalled $1,292,657 (2021: $575,166).

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

The Non-Executive Directors fall under the same 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, training 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.

	2022 $	**2021 $**
Base fees		
Chairman	250,000	200,000
Other non-executive directors	175,000	125,000
Additional fees		
Audit & Risk Committee – Chair	15,000	15,000
Remuneration & Nomination Committee – Chair	15,000	15,000
Innovation Committee – Chair	15,000	15,000
Diversity & Inclusion Advisory Board – Chair^	15,000	-
Audit & Risk Committee – Member	10,000	10,000
Remuneration & Nomination Committee – Member	10,000	10,000
Innovation Committee – Member	10,000	10,000
Diversity & Inclusion Advisory Board – Member	10,000	-

^The Diversity & Inclusion Advisory Board was established in the current year.

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 Group 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 Group 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 and a training allowance 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/pension contributions are paid in accordance with relevant Government legislation, to employee nominated defined contribution superannuation/pension funds.

Short term incentive policy and procedure

Senior executives may be eligible for a short-term incentive ("STI") payable in cash, 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.

A summary of the STI targets and weightings is listed below:

	Financial		Non-financial
	Revenue	EBITDA	Leadership
Chief Executive Officer	50%	50%	0%
Chief Financial Officer	0%	80%	20%
Chief Revenue Officer	50%	50%	0%

The non-financial target of Leadership relates to how well a KMP leads their teams, drives performance, and the level of employee retention.

The STI award is determined after the end of the financial year following a review of performance over the year. The Board approves the final STI award, which is paid two months after the end of the year.

Senior executives may also be eligible for an STI payable in shares in the Company. The Company has a share scheme for employees of the Company and its subsidiaries, the Employee Share Plan (ESP). Under the ESP eligible employees on 1 June 2022 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.

Shares 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.

Where an executive resigns or is terminated before the end of the financial year, no STI is awarded for that year.

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 Group;
- provide an incentive and reward to recognise eligible participants for their contributions to the Group; and
- attract and retain a high standard of managerial and technical personnel for the benefit of the Group.

The Group currently has two long term incentive plans: the Megaport Limited Employee Share Option Plan (“ESOP” or “ESOP General”) which contains share options and the Employee Restricted Stock Units Plan (“RSU General”) which contains restricted stock units (“RSU”).

ESOP General

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 the ESOP. 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;
- 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 2022, the Company had had 1,778,335 options on issue to eligible employees, including Directors and other KMP under the ESOP. There were no options on issue to consultants. At 9 August 2022, the number of options on issue under the ESOP had decreased to 603,335.

RSU General
The following terms apply to the RSU General:

- the RSU General is open to the executives of Megaport;
- all RSUs must be offered to participants for no consideration under the RSU General. The offer must be in writing and specify, amongst other things, the monetary value of the RSUs, the vesting period and any conditions to be satisfied before vesting;
- the RSUs are settled in shares in full on the date of vesting; and
- once shares are allotted upon settlement of the RSUs, 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 dividends before the date of issue.

The RSU General 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 2022, the fair value of RSU's on issue to eligible employees of the Group was $7,240,861. None of the RSUs on issue were to KMP. At 9 August 2022, the fair value of RSUs on issue decreased to 7,081,525.

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 and Chief Executive Officer ("CEO") of the 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 $1,000,000 (2021: $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;
- 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 $500,000, 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 2022 relate directly to Megaport's financial performance. Details of the STI payable to the CEO in respect of 2022 financial year are outlined later in this report.

The CEO was not issued any options during the year ended 30 June 2022 (2021: 1,000,000). The amounts listed for the CEO's LTI for the financial year consists of options issued in previous years under Megaport's ESOP, details of which appear later in this report. As at 30 June 2022, Vincent holds 1,000,000 outstanding options (2021: 1,000,000 options). On 1 July 2022, 500,000 vested options expired and 500,000 unvested options were forfeited. Vincent had no outstanding options at the date of this report.

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	CRO	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	No notice	Four 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	No notice	Four 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 to the extent of any accrued but untaken annual leave.	Payment in lieu of notice period
Remuneration:	As disclosed in the relevant section		

^Subsequent to year end, the period of notice required to terminate agreement (by the KMP or by the Company) for the CFO has been revised to twelve weeks.

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		
2022	**Salary and fees[11] $**	**Short-term incentive $**	**Non-monetary benefits $**	**Super-annuation / Pension contribution $**	**Termination benefits $**	**Long service leave $**	**Shares $**	**Options[12] $**	**Total $**
Non-Executive Directors									
Bevan Slattery	237,273	-	-	22,727	-	-	-	55,397	315,397
Jay Adelson	210,000	-	-	-	-	-	-	35,915	245,915
Naomi Seddon	215,000	-	22,657	-	-	-	-	35,915	273,572
Michael Klayko	185,000	-	-	-	-	-	-	-	185,000
Melinda Snowden	184,091	-	-	15,909	-	-	-	-	200,000
Glo Gordon*	195,000	-	5,000	-	-	-	-	-	200,000
	1,226,364	**-**	**27,657**	**38,636**	**-**	**-**	**-**	**127,227**	**1,419,884**
Executive Director									
Vincent English	**1,000,000**	**300,000**	**6,371**	**23,568**	**-**	**50,979**	**-**	**1,212,894**	**2,593,812**
Other KMP									
Sean Cassidy	362,500	87,117	7,990	27,443	-	1,371	1,000	258,240	745,661
Rodney Foreman**	375,401	-	-	17,177	643,379	-	-	30,864	1,066,821
	737,901	**87,117**	**7,990**	**44,620**	**643,379**	**1,371**	**1,000**	**289,104**	**1,812,482**
Total Remuneration	**2,964,265**	**387,117**	**42,018**	**106,824**	**643,379**	**52,350**	**1,000**	**1,629,225**	**5,826,178**

* Appointed 1 July 2021

** Resigned 20 May 2022

11 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

12 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

2021	Short-term benefits			Post-employment benefits		Long-term benefits	Equity-settled benefit and rights		
	Salary and fees[13] $	Short-term incentive $	Non-monetary benefits $	Super-annuation / Pension contribution $	Termination benefits $	Long service leave $	Shares $	Options[14] $	Total $
Non-Executive Directors									
Bevan Slattery	200,152	-	-	19,014	-	-	-	114,793	333,959
Jay Adelson	164,583	-	-	-	-	-	-	152,984	317,567
Naomi Seddon	150,000	-	-	-	-	-	-	152,984	302,984
Michael Klayko*	28,847	-	-	-	-	-	-	-	28,847
Melinda Snowden**	11,479	-	-	1,091	-	-	-	-	12,570
	555,061	**-**	**-**	**20,105**	**-**	**-**	**-**	**420,761**	**995,927**
Executive Director									
Vincent English	**561,817**	**273,975**	**6,306**	**21,694**	**-**	**12,264**	**-**	**2,671,180**	**3,547,236**
Other KMP									
Sean Cassidy^	362,976	110,129	-	31,918	-	-	1,000	348,727	854,750
Rodney Foreman^^	175,957	130,910	-	4,865	-	-	1,000	232,468	545,200
Joshua Munro#	378,546	-	-	19,349	-	22,714	-	43,031	463,640
Peter Hase##	43,815	-	-	33,310	179,453	-	-	-	256,578
	961,294	**241,039**	**-**	**89,442**	**179,453**	**22,714**	**2,000**	**624,226**	**2,120,168**
Total Remuneration	**2,078,172**	**515,014**	**6,306**	**131,241**	**179,453**	**34,978**	**2,000**	**3,716,167**	**6,663,331**

* Appointed 16 March 2021

**Appointed 1 June 2021

^ Appointed 1 July 2020

^^Appointed 1 February 2021

#Appointed on an interim basis on 13 July 2020 with role concluding on 1 February 2021

Resigned 13 July 2020

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.

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13 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

14 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

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[15]	
	2022	2021	2022	2021	2022	2021
Non-Executive Directors						
Bevan Slattery	82%	66%	-	-	18%	34%
Jay Adelson	85%	52%	-	-	15%	48%
Naomi Seddon	87%	50%	-	-	13%	50%
Michael Klayko	100%	100%	-	-	-	-
Melinda Snowden	100%	100%	-	-	-	-
Glo Gordon	100%	-	-	-	-	-
Executive Director						
Vincent English	42%	17%	12%	8%	47%	75%
Other KMP						
Sean Cassidy	54%	46%	12%	13%	34%	41%
Rodney Foreman	97%	33%	-	24%	3%	43%

15 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	
	2022	2021	2022	2021
Executive Director				
Vincent English	60%	100%	40%	-
Other KMP				
Sean Cassidy	68%	100%	32%	-
Rodney Foreman*	-	100%	100%	-

*Bonus paid/payable in 2021 has been prorated to align with the period of service and includes an additional discretionary bonus of $16,667.

The STI amounts that were paid or are payable were determined by the Remuneration and Nomination Committee following an assessment of performance against targets. Performance against STI targets for the year ended 30 June 2022 were as follows:

	Financial		Non-financial
	Revenue	EBITDA	Leadership
Chief Executive Officer	60%	60%	N/A
Chief Financial Officer	N/A	60%	100%
Chief Revenue Officer^	0%	0%	N/A

^Resigned 20 May 2022

Equity-Based Compensation

Employee share option and restricted stock unit plans

Currently, the Group has two equity-based compensation plans, the ESOP General which contains share options and the RSU General, which contains restricted stock units ("RSUs"). Refer to the Long Term Incentive Policy and Procedure section above for details on the ESOP and RSU General.

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 and RSUs will vest if they meet specific performance targets within the employee's business unit; for all other employees, the options and RSUs will vest if the employee meets a length of service requirement.

Participation in the plans are at the Board's absolute discretion and no individual has a contractual right to participate in the plans.

Under ESOP, once the options vest, a participant will have a set period of time to exercise the options. 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

Under the RSU General, the RSUs are granted for no consideration and are settled immediately once fully vested. On settlement, the RSUs convert into fully paid ordinary shares.

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

Option series	Outstanding options	Grant date	Grant date fair value $	Exercise price $	Vesting date	Expiry date
ESOP – series 2019 - 5	66,667	22-Nov-19	2.85 – 3.29	8.43	22-Nov-21 to 22-Nov-22	22-Nov-22 to 22-Nov-23
ESOP – series 2020 - 1	200,000	1-Jul-20	3.21 – 4.67	12.08	1-Jul-21 to 1-Jul-23	1-Jul-22 to 1-Jul-24
ESOP – series 2020 - 3	1,000,000	23-Oct-20	3.16 – 4.07	14.50	1-Jul-21 to 1-Jul-22	1-Jul-22 to 1-Jul-23
ESOP – series 2021 - 5	100,000	1-Feb-21	2.63	13.48	1-Feb-22	1-Feb-23

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 2021		Granted during the year[16]		Exercised/settled during the year		Adjustment in probability of vesting[16]	Forfeited		Cessation as KMP		Closing balance 30 June 2022		Vested and exercisable	
Name	**Number**	**$**	**Number**	**$**	**Number**	**$**	**$**	**Number**	**$**	**Number**	**$**	**Number**	**$**	**Number**	**$**
Bevan Slattery	100,000	282,472	-	-	(33,333)	(77,665)	-	-	-	-	-	66,667	204,807	33,333	95,121
Jay Adelson	50,000	179,823	-	-	(50,000)	(179,823)	-	-	-	-	-	-	-	-	-
Naomi Seddon	100,000	338,245	-	-	(100,000)	(338,245)	-	-	-	-	-	-	-	-	-
Vincent English	1,000,000	3,617,204	-	-	-	-	-	-	-	-	-	1,000,000	3,617,204	500,000	1,580,868
Sean Cassidy	200,000	648,542	-	-	-	-	82,352	-	-	-	-	200,000	730,894	50,000	160,577
Rodney Foreman^	400,000	1,101,748	-	-	-	-	136,170	(300,000)	(974,586)	(100,000)	(263,332)	-	-	-	-

All share options issued to KMP were made in accordance with the provisions of the employee share option plan. On 1 July 2022, 500,000 of Vincent English's options and 50,000 of Sean Cassidy's options expired, and the 500,000 unvested options held by Vincent English were forfeited.

16 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

16 Changes in fair value of options are attributed by the increase in probability of options being vested during the year.

^ Resigned on 20 May 2022.

Employee share option plans (Continued)

The amount of fully vested share options for each KMP as at 30 June 2022 are as follows

Name	Number of vested options	Value of vested options ($)	Vesting conditions met
Bevan Slattery	33,333	95,121	Service condition: 2 years continuous service from the grant date.
Vincent English	500,000	1,580,868	Performance conditions: 1. Megaport achieving EBITDA breakeven on an exit run rate basis in FY21; and 2. Successful launch of Megaport Virtual Edge to the market.
Sean Cassidy	50,000	160,577	Performance conditions: 1. Expansion and stabilisation of finance team; 2. Increase finance reporting capability; and 3. Improve Accounts Payable and Accounts Receivable functions to reduce level of outstanding debtors.
Total	**633,333**	**2,056,038**	

The number of shares issued to KMP on exercise of options during the year is as follows:

30 June 2022	Number of shares issued	Amount paid per share
Bevan Slattery	33,333	8.43
Jay Adelson	50,000	6.96
Naomi Seddon	100,000	6.96

Further details of the employee share option plans and of share options granted during the 2022 financial year are contained in Note 20 to the financial statements.

Additional disclosures relating to KMP

KMP equity holdings

The movement in number of ordinary shares of Megaport Limited[17] to KMP is as follows:

Name	Balance at 01 July 2021	Purchased	Disposed	Net other changes during the year	Cessation as KMP	Balance at 30 June 2022	Balance held nominally
Non-Executive Directors							
Bevan Slattery~	12,140,107	33,333	(4,007,500)	-	-	8,165,940	8,070,940
Jay Adelson	10,000	50,000	(42,000)	-	-	18,000	18,000
Michael Klayko	25,000	-	-	-	-	25,000	25,000
Naomi Seddon	-	100,000	(76,000)	-	-	24,000	24,000
Executive Director							
Vincent English	1,608,057	-	-	67	-	1,608,124	1,584,149
Other KMP							
Sean Cassidy	-	3,500	-	67	-	3,567	3,567
Rodney Foreman^	-	-	-	67	(67)	-	-

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

^Resigned 20 May 2022

17 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.

Other supplementary information

The table below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to 30 June 2022:

	30 June 22 $'000	30 June 21 $'000	30 June 20 $'000	30 June 19 $'000	30 June 18 $'000
Revenue	109,731	78,281	58,040	35,065	19,753
Net loss before tax	38,175	61,645	49,194	33,555	25,326
Net loss after tax	48,495	55,000	48,711	33,564	24,463

	30 June 22	30 June 21	30 June 20	30 June 19	30 June 18
Share price at start of year	$18.43	$12.08	$6.53	$3.95	$2.28
Share price at end of year	$5.45	$18.43	$12.08	$6.53	$3.95
Basic / diluted loss per share	0.31	0.35	0.34	0.27	0.23

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 2022 (2021: nil).

Other transactions and balances with KMP of the Group

During the year, Group entities entered into the following transactions with KMP and their related parties:

	Notes	2022 $	2021 $
Sales and purchases of goods and services			
Purchase of shared services from entities controlled by key management personnel	(i)	173,457	143,506
Purchase of direct network costs from entities related to key management personnel	(ii)	187,524	870,287
Legal services from entities controlled by key management personnel		-	4,373
Sale of network related services to entities related to key management personnel	(ii)	44,410	85,604
Other transactions			
Employee compensation of associates to key management personnel		97,375	30,716

(i) Shared services agreement

The Company entered into a shared services agreement with Capital B Pty Ltd CAN 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) Pty Ltd ("Megaport Australia") and Megaport (Singapore) Pte Ltd ("Megaport Singapore") 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) Limited ("Megaport Hong Kong") entered into an "Indefeasible Rights of Use" ("IRU") Agreement with Superloop Australia and Superloop (Hong Kong) Limited ("Superloop Hong Kong") 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 giving written notice to Superloop Hong Kong no later than 3 months prior to the expiry of the term. These agreements also include a maintenance fee payable monthly.

On 28 October 2021, Bevan Slattery has stepped down from the Superloop Board as Chair. As of this date, Superloop ceased being a related party of the Group. The value of the transactions listed above for 2022 is only for the time that Superloop was considered a related party.

The total commitments for minimum payments in relation to Superloop supplier agreements payable in future as follows:

	2022^ **$**	**2021** **$**
Lease commitments including leases recognised as liabilities		
Within one year	-	100,141
After one year but not more than five years	-	77,410
	-	**177,551**
Other contractual service commitments		
Within one year	-	135,433
After one year but not more than five years	-	261,301
More than five years	-	54,438
	-	**451,172**
Total	**-**	**628,723**

^Note: Effective 28 October 2021, Superloop is not a related party to the Group following Mr. Slattery's departure from the Superloop Board as Chair.

(d) Outstanding balances arising from entities related to key management personnel

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

	2022 $	2021 $
Amounts owed by related parties		
Entities related to key management personnel	4,236	16,413
	4,236	**16,413**
Amounts owed to related parties		
Entities related to key management personnel	-	221,567
	-	**221,567**

(e) 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.

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

The Group received a first strike on its Remuneration Report at the 2021 AGM, with 27.9% of votes cast against the adoption of the 2021 Remuneration Report. Based on discussions held with different shareholders, the key concerns that led to the first strike were in relation to:

- Options issued during the year were considered adhoc in nature, with short vesting periods and without performance conditions; and
- A need for improvement in the transparency around the rationale for remuneration decisions.

In response to the strike, the following actions have been taken:

- The Board introduced an RSU plan during the year, and intends to issue RSUs in place of share options in future periods;
- The Equity Based Compensation section of the Remuneration Report has been updated for 2022 to include further information of options vested for KMP, and the vesting conditions that were met. Additional disclosure showing the number of shares acquired on exercise of options and the amount paid per share has also been included;
- The Overview of Remuneration Governance Framework section of the Remuneration Report has been updated for 2022 to include further information behind how the Remuneration Committee makes their decisions around remuneration; and
- Details of the Group's short term incentive policy and procedure has been updated for 2022 to include a breakdown of the financial and non-financial STI targets of each KMP and the weightings of each. Further, the Remuneration of KMP section of the Remuneration Report now includes an analysis of performance against these targets for each KMP.

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.

The following non-audit services were provided by the entity's auditor, Deloitte Touche Tohmatsu Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Deloitte Touche Tohmatsu Australia received or are due to receive the following amounts for the provision of non-audit services:

	2022 **$**
Advisory in establishment of risk management framework	151,369
Total remuneration for non-audit services	**151,369**

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. Megaport Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (Fourth Edition) published by the ASX Corporate Governance Council.

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

V. English

Vincent English

Executive Director and Chief Executive Officer
Brisbane
9 August 2022

Deloitte.

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

9 August 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 audit of the financial report of Megaport Limited for the year ended 30 June 2022, 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 2022

	Notes	2022 $'000	2021 $'000
Continuing operations			
Revenue	2	109,731	78,281
Direct network costs	3	(29,727)	(27,575)
Partner commissions	3	(11,745)	(8,638)
Profit after direct network costs and partner commissions		**68,259**	**42,068**
Interest income		122	300
Employee expenses	5	(58,712)	(41,369)
Professional fees		(6,774)	(4,626)
Marketing expenses		(2,524)	(1,539)
Travel expenses		(2,351)	(185)
IT costs		(3,411)	(2,252)
Equity-settled employee costs and related tax costs	20	(4,430)	(9,828)
Depreciation and amortisation expense	5	(29,969)	(23,464)
Finance costs	5	(1,883)	(1,488)
Foreign exchange gains/(losses)	5	10,055	(13,478)
Other expenses		(6,557)	(5,784)
Loss before income tax		**(38,175)**	**(61,645)**
Income tax (expense)/benefit	4(a)	(10,320)	6,645
Net loss for the year		**(48,495)**	**(55,000)**
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	17	(8,590)	6,527
Total other comprehensive income, net of income tax		**(8,590)**	**6,527**
Total comprehensive loss for the year		**(57,085)**	**(48,473)**

Loss per share		**$**	**$**
Basic and diluted loss per share	6	0.31	0.35

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Current assets			
Cash and cash equivalents	7	82,545	136,312
Trade and other receivables	8	15,508	10,272
Income tax receivable	4(b)	253	28
Other assets	9	4,599	3,737
Total current assets		**102,905**	**150,349**
Non-current assets			
Property, plant and equipment	10	60,612	42,726
Intangible assets	11	46,138	16,058
Deferred tax assets	4(c)	10,729	10,989
Other assets	9	-	441
Total non-current assets		**117,479**	**70,214**
Total assets		**220,384**	**220,563**
Liabilities			
Current liabilities			
Trade and other payables	14	35,137	20,716
Borrowings	18	13,100	9,443
Provisions	15	4,727	3,123
Income tax payable	4(b)	142	83
Other liabilities		39	130
Total current liabilities		**53,145**	**33,495**
Non-current liabilities			
Borrowings	18	14,172	6,314
Provisions	15	371	277
Deferred tax liabilities	4(c)	10,448	65
Total non-current liabilities		**24,991**	**6,656**
Total liabilities		**78,136**	**40,151**
Net assets		**142,248**	**180,412**
Equity			
Issued capital	16	407,405	395,935
Reserves	17	8,270	9,409
Other equity		(11,914)	(11,914)
Accumulated losses		(261,513)	(213,018)
Total equity		**142,248**	**180,412**

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 2022

	Notes	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)	(158,018)	210,969
Loss for the year		-	-	-	(55,000)	(55,000)
Other comprehensive income		-	6,527	-	-	6,527
Total comprehensive loss for the year		**-**	**6,527**	**-**	**(55,000)**	**(48,473)**
Transactions with owners in their capacity as owners:						
Issue of ordinary share capital	16	11,752	-	-	-	11,752
Transfer from equity-settled employee benefits reserves	16, 20	12,659	(12,659)	-	-	-
Employee share option expense	17, 20	-	6,164	-	-	6,164
Balance at 30 June 2021		**395,935**	**9,409**	**(11,914)**	**(213,018)**	**180,412**
Balance at 1 July 2021		395,935	9,409	(11,914)	(213,018)	180,412
Loss for the year		-	-	-	(48,495)	(48,495)
Other comprehensive (loss)/ income		-	(8,590)	-	-	(8,590)
Total comprehensive loss for the year		**-**	**(8,590)**	**-**	**(48,495)**	**(57,085)**
Transactions with owners in their capacity as owners:						
Issue of ordinary share capital	16	5,464	-	-	-	5,464
InnovoEdge acquisition – equity consideration	17, 22	-	10,194	-	-	10,194
InnovoEdge – Milestone 1	16, 17	2,718	(2,718)			-
Transfer from equity-settled employee benefits reserves	16, 17	3,288	(3,288)	-	-	-
Employee share option expense	17, 20	-	3,263	-	-	3,263
Balance at 30 June 2022		**407,405**	**8,270**	**(11,914)**	**(261,513)**	**142,248**

^ Represents adjustment arising from common-control transactions, refer to Section 1(f)(iv) 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 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		115,589	87,451
Payments to suppliers and employees		(122,917)	(94,367)
Transaction costs relating to acquisition of subsidiary	22	(642)	-
Income taxes paid		(68)	(206)
Finance costs		(1,845)	(1,498)
Net cash flows used in operating activities	7	**(9,883)**	**(8,620)**
Cash flows from investing activities			
Interest received		53	333
Payments for property, plant and equipment		(25,996)	(14,080)
Payments for intangible assets		(13,882)	(8,418)
Proceeds from disposal of property, plant and equipment		21	60
Payments for acquisition of subsidiary	22	(10,401)	-
Net cash flows used in investing activities		**(50,205)**	**(22,105)**
Cash flows from financing activities			
Proceeds from issue of new shares	16	5,232	11,550
Proceeds from borrowings	18	14,394	3,024
Repayment of borrowings	18	(5,981)	(3,877)
Payment of principal portion of lease liabilities	18	(7,780)	(5,830)
Net cash flows from financing activities		**5,865**	**4,867**
Net decrease in cash and cash equivalents held		(54,223)	(25,858)
Effects of exchange rate changes on cash and cash equivalents		456	(4,707)
Cash and cash equivalents at beginning of the year		136,312	166,877
Cash and cash equivalents at end of the year	7	**82,545**	**136,312**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Overview

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.

Significant accounting policies adopted in the preparation of these consolidated financial statements are included in the relevant notes to the 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 2022.

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.

b) Reclassification to comparatives

In the current year financial statements, partner commissions have been presented separately from direct network costs in the Consolidated Statement of Profit or Loss in order to show greater transparency. The prior year partner commissions previously included in direct network costs has been reclassified to conform with the current year presentation, as follows:

Financial statement item	30 June 2021 as previously reported $'000	Reclassification $'000	30 June 2021 as reported $'000
Consolidated Statement of Profit or Loss			
Direct network costs	(36,213)	8,638	(27,575)
Partner commissions	-	(8,638)	(8,638)
Total	**(36,213)**	**-**	**(36,213)**

Partner commissions are a cost involved with generating sales (refer to Note 3), and remain included in the calculation of the Group's gross profit. The reclassification did not have an impact on other comprehensive income, the Consolidated Statement of Financial Position, or the Consolidated Statement of Cash Flows.

c) Reading the financial statements

The notes to the consolidated financial statements have been grouped into sections. Each section includes an introduction to outline the focus and content of the section. The related notes are grouped under that section. The accounting policies as well as key accounting estimates and judgements applied in the preparation of the financial statements report which are relevant to the note are also included. The notes grouping has been done under the following sections:

- Section 1: Basis of preparation
- Section 2: Business performance
- Section 3: Core assets, liabilities and working capital
- Section 4: Capital and financial risk management
- Section 5: Employee related benefits
- Section 6: Group structure and related party transactions
- Section 7: Other information

Section 1: Basis of preparation

This section explains the basis of preparation of the financial statements and provides a summary of the key accounting estimates and judgements applied in the preparation of the financial statements.

a) Basis of preparation of the financial statements

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 Accounting Standards Board (AASB), and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. 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 consolidated financial statements 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 and the accompanying notes 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 Coronavirus (COVID-19), 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.

Historical cost and fair value conventions
The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at fair value at the end of each reporting date, as explained in accounting policies in the relevant notes.

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.

b) Critical accounting estimates and judgements

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, make estimates and assumptions in determining 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.

b) Critical accounting estimates and judgements (continued)

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.

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group as a whole 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 as at the reporting date or subsequently as a result of the COVID-19 pandemic.

Other specific significant management judgements and estimates used are set out in the relevant notes. These are summarised below.

Key accounting estimate and judgement	Note
Estimating provision for income taxes	4
Recognition of deferred tax relating to unused tax losses	4
Determining the useful lives of property, plant and equipment and intangible assets	10 & 11
Capitalisation of internally generated intangible assets	11
Recognition and measurement of intangible assets acquired in business combinations	11
Impairment of assets	12
Determining the incremental borrowing rates for leases	13
Fair value measurements of equity-settled employee benefits	20
Accounting for contingent consideration	22

c) New and amended standards and interpretations adopted by the Group

The new and revised standards and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the year ended 30 June 2022 did not have a material impact on the financial statements of the Group.

d) New standards and interpretations not yet adopted

There are other Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, and have not been early adopted by the Group for the annual reporting period ended 30 June 2022. The Group has not applied the following new and revised Australian Accounting Standards, interpretations and amendments that have been issued but are not yet effective:

Effective for annual reporting periods beginning on or after	Standard/Amendment
1 January 2023	AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date
1 January 2022	AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments
1 January 2023	AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

Effective for annual reporting periods beginning on or after	Standard/Amendment
1 January 2023	AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

AASB 2020-1 amends AASB 101 *Presentation of Financial Statements* and affects only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments:

- Clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period;
- Specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability;
- Explain that rights are in existence if covenants are complied with at the end of the reporting period; and
- Introduce a definition of 'settlement' where settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendment may result in some reclassification of some liabilities between current and non-current categories.

AASB 2020-3 amends AASB 1, AASB 9, AASB 15, AASB 141, AASB 3, AASB 116 and AASB 137. Relevant to the Group are the amendments to AASB 9 *Financial Instruments*. AASB 9 amendment is to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. The new amendment clarifies that only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included.

AASB 2021-2 amends AASB Standards to improve accounting policy disclosures so that they provide more useful information to investors users of the financial statements and clarify the distinction between accounting policies and accounting estimates. This may change the disclosure of accounting policies included in the financial statements.

AASB 2021-5 amends AASB 112 *Income Taxes* to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time (the 'initial recognition exception'). The amendments clarify that the initial recognition exception does not apply to transactions where both an asset and a liability are recognised in a single transaction. Accordingly, deferred tax is required to be recognised on such transactions.

Except to the extent noted above, the directors do not expect that the adoption of the recently issued accounting standards or amendments will have a material impact on our financial results upon their adoption in the future periods.

e) IFRS sustainability developments

On 31 March 2022, the International Sustainability Standards Board ("ISSB") published its first two exposure drafts (EDs) on IFRS Sustainability Disclosure Standards, namely, *General Requirements for Disclosure of Sustainability-related Financial Information* and *Climate-related Disclosures*.

The purpose of the proposed standard *General Requirements for Disclosure of Sustainability-related Financial Information* is to require entities to provide all material information about the entity's exposure to sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions about whether to provide economic resources to the entity.

The purpose of the proposed standard *Climate-related Disclosures* is to require entities to provide information about their exposure to climate-related risks and opportunities. The proposed standard sets out the requirements for the identification, measurement and disclosure of climate-related financial information, and requires an entity to disclose relevant information along the four content pillars derived from the Recommendations of the Taskforce for Climate-Related Financial Disclosures, Governance, Strategy, Risk Management, and Metrics and Targets.

The EDs were open for comment until 29 July 2022. The ISSB intends to redeliberate the EDs in the second half of 2022 based on feedback received from stakeholders and intends to issue the resulting IFRS Sustainability Disclosure Standards based on these proposals. At the date of this report, the effective date of these standards has not been set.

In Australia, the AASB has issued ED 321 *Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures* requesting feedback on the potential implications of the ISSB proposals implementation in an Australian environment. Comments on AASB ED 321 closed on 15 July 2022 and the AASB will consider feedback on the ED at its subsequent meetings.

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. Management will continue to monitor the development of these standards and will adopt the requirements of the standards as and when they become effective.

f) Other accounting policies not included anywhere else in the report

(i) 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 their respective functional currency spot rates at the dates the transactions first qualifies for recognition. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the functional currency spot rate 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 a foreign exchange translation reserve.

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.

(ii) 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.

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.

(iii) 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 are 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.

(iv) 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.

Section 2: Business performance

This section provides information about our results, performance of our segments, information on revenue, direct network costs, partner commissions, details of income tax expenses, details of significant expense lines and our earnings per share for the period.

1. Segment reporting

(a) Description of segments

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 has been identified as the Board of Directors, who make strategic decisions on behalf of the Group.

The Group's Board of Directors examines the performance of the Group from a geographic perspective and has identified three operating segments. Head office and Group services costs whose function is to support the operating segments are presented under "other" in this note. 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 2022, 108 installed data centres operate across Asia-Pacific (2021: 105).
- **North America,** established in April 2016, and subsequently acquired InnovoEdge, Inc. during the financial year. There are now 210 installed data centres across the United States of America, Canada, and Mexico (2021: 198).
- **Europe,** established in 2016 and subsequently acquired Megaport (Bulgaria) EAD (formerly OMNIX Group AD) and Megaport (Deutschland) GmbH (formerly Peering GmbH) respectively. There are now 105 installed data centres across Europe (2021: 102).
- **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 Maker

The CODM monitors 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 partner commissions, and Normalised EBITDA, each of which are 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 property, plant and equipment ("PPE"), the physical location of the assets.

1. Segment reporting (continued)

(c) Segment performance and position

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2022 and 30 June 2021 is as follows:

2022	Asia-Pacific $'000	North America[5] $'000	Europe $'000	Total operating segments $'000	Other[3] $'000	Total $'000
For the year ended 30 June 2022						
Direct revenue	22,105	38,180	12,137	72,422	-	72,422
Indirect revenue	11,388	19,668	6,253	37,309	-	37,309
Revenue[1]	**33,493**	**57,848**	**18,390**	**109,731**	**-**	**109,731**
Profit after direct network costs and partner commissions	**25,834**	**30,146**	**12,279**	**68,259**	**-**	**68,259**
Normalised EBITDA[2]	**17,703**	**11,574**	**3,449**	**32,726**	**(42,874)**	**(10,148)**
Interest income	8	-	-	8	114	122
Depreciation and amortisation expense	(5,266)	(7,972)	(3,719)	(16,957)	(13,012)	(29,969)
Equity-settled employee costs and related tax costs	-	-	-	-	(4,430)	(4,430)
Finance costs	(880)	(77)	(116)	(1,073)	(810)	(1,883)
Foreign exchange (losses)/gains	(931)	9,200	(1,611)	6,658	3,397	10,055
Non-operating income/(expenses)	14	(780)	(300)	(1,066)	(856)	(1,922)
Income tax (expense)/benefit	(2,396)	(3,382)	357	(5,421)	(4,899)	(10,320)
Net profit/(loss) for the year	**8,252**	**8,563**	**(1,940)**	**14,875**	**(63,370)**	**(48,495)**
Additions to PPE and intangible assets[4]	25,758	32,370	4,557	62,685	16,451	79,136
As at 30 June 2022						
Segment assets	**53,355**	**69,907**	**29,292**	**152,554**	**67,830**	**220,384**

1. Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the year ended 30 June 2022 and 30 June 2021.
2. Normalised Earnings Before Interest Tax Depreciation and Amortisation ("Normalised EBITDA") represents operating results excluding the equity-settled employee costs and related tax costs, foreign exchange gains and non-operating income/(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 includes right-of-use assets.
5. Includes InnovoEdge, Inc. results (refer to Note 22 for further details).

1. Segment reporting (continued)

(c) Segment performance and position (continued)

2021	Asia-Pacific $'000	North America $'000	Europe $'000	Total operating segments $'000	Other[3] $'000	Total $'000
For the year ended 30 June 2021						
Direct revenue	17,483	26,337	9,410	53,230	-	53,230
Indirect revenue	8,228	12,395	4,428	25,051	-	25,051
Revenue[1]	**25,711**	**38,732**	**13,838**	**78,281**	**-**	**78,281**
Profit after direct network costs and partner commissions	**18,097**	**15,784**	**8,187**	**42,068**	**-**	**42,068**
Normalised EBITDA[2]	**10,326**	**1,490**	**1,588**	**13,404**	**(26,724)**	**(13,320)**
Interest income	21	-	-	21	279	300
Depreciation and amortisation expense	(4,475)	(6,093)	(3,566)	(14,134)	(9,330)	(23,464)
Equity-settled employee costs and related tax costs	-	-	-	-	(9,828)	(9,828)
Finance costs	(578)	(200)	(81)	(859)	(629)	(1,488)
Foreign exchange (losses)/gains	(1,527)	(7,550)	(487)	(9,564)	(3,914)	(13,478)
Non-operating expenses	(189)	(95)	(49)	(333)	(34)	(367)
Income tax benefit	1,394	4,816	250	6,460	185	6,645
Net profit/(loss) for the year	**4,972**	**(7,632)**	**(2,345)**	**(5,005)**	**(49,995)**	**(55,000)**
Additions to PPE and intangible assets[4]	4,660	10,195	2,353	17,208	7,455	24,663
As at 30 June 2021						
Segment assets	**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 in during the year ended 30 June 2022 and 30 June 2021.
2. Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding the equity-settled employee costs, foreign exchange (losses)/gains and non-operating income/(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 includes of right-of-use assets

1. Segment reporting (continued)

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

	2022		2021	
Location	**$'000**	**%**	**$'000**	**%**
United States of America	55,881	50.9	37,580	48.0
Australia	21,660	19.8	17,446	22.3
Germany	8,035	7.3	6,972	8.9
United Kingdom	6,336	5.8	4,649	5.9
Other countries	17,819	16.2	11,634	14.9
Total	**109,731**	**100.0**	**78,281**	**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 2022 and 30 June 2021.

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

	2022		2021	
Location	**$'000**	**%**	**$'000**	**%**
United States of America	45,461	42.6	19,328	32.9
Australia	39,645	37.1	18,225	31.0
Germany	3,662	3.4	4,909	8.3
United Kingdom	2,361	2.2	2,046	3.5
Other countries	15,621	14.7	14,276	24.3
Total	**106,750**	**100.0**	**58,784**	**100.0**

2. Revenue

The Group derived the following type of revenue for the year from contracts with customers (disaggregated by sales channel).

	2022 $'000	2021 $'000
Direct sales channel – rendering of services^	72,422	53,231
Indirect sales channel – rendering of services*	37,309	25,050
Total revenue from contracts with customers	**109,731**	**78,281**

^ Revenue generated from customers sourced directly by Megaport.
* Revenue generated from customers initially sourced through external partner resellers and agents.

Revenue recognition and measurement
AASB 15 *Revenue from Contracts with Customers* establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers and requires application of a five-step process to identify the contract with the customer, identify performance obligations in the contract, determine transaction price, allocate the transaction price to the performance obligations and recognise revenue when performance obligations are satisfied.

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

Rendering of services
Megaport derives income primarily through short and medium term contracts for the sale and provisioning of on-demand 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 of "the completion of provision of service" is satisfied. The performance obligation is satisfied over time, usually on a monthly basis. 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 with standard payment terms of 30 days.

3. Direct network costs and partner commissions

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.

Partner commissions comprise of commissions paid/payable to agents and resellers which are indirectly related to generating the service revenue of the Group. Agents and resellers earn a set percentage as per their Reseller Agreement on all services consumed by the customer.

4. Income tax (expense)/benefit

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

(i) Major components of income tax expense

	2022 **$'000**	**2021** **$'000**
Current income tax benefit/(expense)	137	(167)
Deferred income tax (expense)/benefit	(10,457)	6,812
Total Income tax (expense)/benefit	**(10,320)**	**6,645**

(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable or receivable.

	2022 **$'000**	**2021** **$'000**
Accounting loss before income tax	(38,175)	(61,645)
Tax at the Australian tax rate of 30% (2021: 30%)	11,453	18,494
Non-deductible or non-taxable amounts	(267)	8,151
Recognition of taxable benefits previously not brought to account	4,354	1,714
Deductible amounts recognised in equity	-	(82)
Difference in overseas tax rates	(2,057)	(7,943)
Unused tax losses not recognised	(21,609)	(13,689)
Minimum taxes / withholding taxes	(7)	-
Adjustment in respect of prior years	(2,187)	-
Total income tax (expense)/benefit	**(10,320)**	**6,645**

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

Income tax benefit represents the sum of the tax currently receivable and deferred tax. 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.

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 21. Tax benefit/expense, 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.

(b) Current tax assets and liabilities

	2022 $'000	2021 $'000
Income tax receivable	253	28
Income tax payable	(142)	(83)
Net current tax receivable/(payable)	**111**	**(55)**

(c) Deferred tax assets and liabilities

	2022 $'000	2021 $'000
Deferred tax assets	10,729	10,989
Deferred tax liabilities	(10,448)	(65)
Net deferred tax assets	**281**	**10,924**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.
Deferred tax is determined using tax rates and laws that have been enacted, or substantively enacted, by the reporting date, and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, unused tax losses and any unused tax credits to the extent that it is probable that taxable profits will be available against which those temporary differences can be utilised. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates 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 it is no longer probable sufficient taxable profits will be available to allow recovery of all or part of the asset.

(c) Deferred tax assets and liabilities (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences except to the extent that the deferred tax liability arises from:

- the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit;
- the initial recognition of goodwill or;
- taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, where the Group is able to control the reversal of the temporary difference and it is not probable that the temporary difference will reverse in the foreseeable future.

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.

(i) The following is the analysis of deferred tax assets and deferred tax liabilities presented in the Consolidated Statement of Financial Position:

30 June 2022

While the deferred tax assets and liabilities above are disclosed gross for completeness, there are opportunities to net positive and negative timing differences within tax jurisdictions and tax groups. The value of such potential offsets is $7.5 million, meaning the net deferred tax assets and liabilities for the group are $3.3 million and $3.0 million respectively.

Deferred tax assets	Opening balance $'000	Recognised in profit or loss $'000	Acquired in business combination $'000	Exchange differences $'000	Closing balance $'000
Intangible assets	481	(447)	-	-	34
Share issue costs and options	2,666	(168)	-	-	2,498
Accruals and other payables	1,872	968	-	43	2,883
Unrealised foreign exchange and others	4,268	(1,249)	-	348	3,367
Tax losses (non-capital)	1,702	168	-	77	1,947
Deferred tax assets	**10,989**	**(728)**	**-**	**468**	**10,729**

Deferred tax liabilities	Opening balance $'000	Recognised in profit or loss $'000	Acquired in business combination $'000	Exchange differences $'000	Closing balance $'000
Intangible assets	(58)	(2,516)	(541)	1	(3,114)
Share issue costs and options	-	-	-	-	-
Accruals and other payables	(7)	(558)	-	(51)	(616)
Unrealised foreign exchange and others	-	(6,655)	-	(63)	(6,718)
Tax losses (non-capital)	-	-	-	-	-
Deferred tax liabilities	**(65)**	**(9,729)**	**(541)**	**(113)**	**(10,448)**

(c) Deferred tax assets and liabilities (continued)

30 June 2021

	Opening balance $'000	Recognised in profit or loss $'000	Exchange differences $'000	Closing balance $'000
Deferred tax assets and liabilities in relation to:				
Intangible assets	237	185	-	422
Share issue costs and options	1,793	873	-	2,666
Accruals and other payables	593	1,272	-	1,865
Unrealised foreign exchange and others	1,431	2,780	58	4,269
Tax losses (non-capital)	-	1,702	-	1,702
Net deferred tax asset	**4,054**	**6,812**	**58**	**10,924**

A deferred tax asset in relation to unused tax losses is $1.9 million (2021: $1.7 million). Projections of taxable profits from various sources and tax planning were used to support the recognition of these losses, and they have been recognised on the basis that it is considered probable that the Group will generate future taxable profits against which these losses can be utilised. The future projected taxable profit is underpinned by the Group's forecasts of customer and revenue growth and the anticipated timing of the increase in demand for the Group's services. The deferred tax asset relating to the unused tax losses will be reassessed in future periods based on the level of taxable income generated by the Group.

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

	2022 $'000	2021 $'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	69,620	44,672
Total deferred tax assets not recognised	**69,620**	**44,672**

The deferred tax asset not recognised above is the result of unused tax losses in Australia of $95.1 million (2021: $48.3 million); United States of America of $137.0 million (2021: $90.8 million); United Kingdom of $11.5 million (2021: $8.9 million); Germany of $9.2 million (2021: $7.9 million); Singapore of $6.6 million (2021: $6.6 million); Hong Kong of $6.5 million (2021: $6.5 million) and in other countries totalling $28.1 million (2021: $26.6 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 and recognition criteria.

(d) Significant areas of judgement

(i) Estimating provision for 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 tax assets and liabilities in the period in which such determination is made.

(ii) Recognition of deferred tax relating to unused tax losses

In assessing the probability of realising income tax assets recognised, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operating activities and the application of existing tax laws in each jurisdiction. The Group considers relevant tax planning opportunities that are within the Group's control, are feasible, and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognised. Also, future changes in tax laws could limit the Group from realising the tax benefits from the deferred tax assets. The Group reassesses unrecognised income tax assets at each reporting period.

5. Significant 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 significant due to their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	Notes	2022 $'000	2021 $'000
Income and expenses			
Depreciation and amortisation:			
Depreciation of property, plant and equipment	10	15,923	13,676
Depreciation of right-of-use-assets	10, 13	8,077	5,919
Amortisation of intangible assets	11	5,969	3,869
		29,969	**23,464**
Equity-settled employee costs and related tax costs:			
Employee share option plans	20	2,136	6,164
Employee share plan	20	254	245
Restricted stock units	20	1,127	-
Share related costs	20	112	351
Employee share plan tax and other related costs	20	801	3,068
		4,430	**9,828**
Other expense disclosures:			
Employees' superannuation expense		3,149	2,140
Foreign exchange (gains)/losses	(a)	(10,055)	13,478
Interest expense on lease liabilities		802	621
Interest expense on other borrowings		790	489
Expense relating to short-term leases		1,350	1,691

Notes:

(a) 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 19 for further details.

6. 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:

	2022 $'000	2021 $'000
Net loss for the year attributable to owners of the Company	(48,495)	(55,000)
Loss used in the calculation of basic and diluted loss per share	**(48,495)**	**(55,000)**

	2022 No. of Shares	2021 No. of Shares
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	157,532,992	155,021,100

	2022 $	2021 $
Basic and diluted loss per share	(0.31)	(0.35)

Basic EPS 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 EPS adjusts the figures used in the determination of basic EPS taking into account:

- The after-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.

Basic and diluted loss per share excludes the effect of 1,778,335 (2021: 3,226,668) outstanding employee share options and outstanding restricted stock units with a total fair value of $7,240,861 as these are anti-dilutive given the Group made a loss for the current and previous years.

Section 3: Core assets, liabilities and working capital

This section provides information about our long-term tangible and intangible assets as well as our impairment assessment. This section also includes information about our short-term assets and liabilities, and cash balances in support of our working capital and liquidity position.

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.

7. Cash and cash equivalents

	Notes	2022 $'000	2021 $'000
Cash at bank	(a)	82,545	136,312
Total cash and cash equivalents		**82,545**	**136,312**

Notes:

(a) Included in cash at bank is an amount of $6,594,456 (2021: 6,517,733) that is held under lien by the bank as security for the Group's borrowings, rental security and credit cards and is therefore not available for use by the Group.

Cash at bank earns interest at floating rates based on daily bank deposit rates ranging 0% - 0.30% (2021: 0% - 0.75%). The weighted average interest rate for the year was 0.074% (2021: 0.38%).

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.

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:

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

Cash flows used in operating activities	Notes	2022 $'000	2021 $'000
Loss for the year		(48,495)	(55,000)
Adjustments for:			
Interest income		(122)	(300)
Depreciation and amortisation	5	29,969	23,464
(Gain)/loss on disposal or write-off of non-current assets		(92)	329
Net foreign exchange differences		(10,055)	12,905
Equity-settled employee costs	20(e)	3,263	6,409
Deferred income tax expense/(benefit)		10,457	(6,812)
Other non cash adjustment to operating profit		24	-
		(15,051)	**(19,005)**
Movements in working capital:			
(Increase)/decrease in trade and other receivables		(5,236)	1,171
Increase in other assets		(1,557)	(517)
Increase in operating trade and other payables		10,909	9,139
Increase in tax assets and liabilities		(166)	(44)
Increase in other liabilities and provisions		1,218	636
Net cash used in operating activities		**(9,883)**	**(8,620)**

8. Trade and other receivables

(a) Trade and other receivables and contract assets

	Notes	2022 $'000	2021 $'000
Trade receivables	(a)	10,202	6,571
Contract assets	(b)	5,908	3,940
Less: Allowance for expected credit losses	(c)	(699)	(380)
		15,411	**10,131**
Interest receivable		75	7
Other receivables		22	134
Total trade and other receivables and contract assets		**15,508**	**10,272**

Notes:

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

(b) Contract assets relate to the Group's right to consideration for services provided to customers but for which the Group has no unconditional rights to payment at the reporting date. The contract assets are transferred to receivables when the Group issues an invoice to the customer upon bill run on first of the following month which is when the rights become unconditional.

(c) Allowances for expected credit losses ("ECL") 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 COVID-19 pandemic) and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

(b) Recognition and measurement

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 ECL. Trade receivables are generally due for settlement within 30 days.

The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments over the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset/liability.

The Group recognises a loss allowance for ECL on financial assets (trade and other receivables including contract assets) which are measured at amortised cost. The loss allowance is recognised in profit or loss.

The Group has applied the simplified approach to measuring ECL, which uses a lifetime expected loss allowance. To measure the ECL, trade receivables and contract assets have been grouped based on days overdue. The ECL on trade receivables and contract assets 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.

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

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due but no expected credit loss has been recognised at the end of the reporting period.

Age of receivables that are past due but no expected credit loss has been recognised	**2022 $'000**	**2021 $'000**
1 – 30 days past due	1,560	498
31 – 60 days past due	332	98
61+ days past due	421	703
Total	**2,313**	**1,299**

The ageing of the trade receivables for which the ECL provided are as follows:

Allocation of ECL	**2022 $'000**	**2021 $'000**
0 – 30 current not yet due	63	88
1 – 30 days past due	71	16
31 – 60 days past due	26	15
61+ days past due	539	261
Total	**699**	**380**

(c) Allowance for ECL

Movements in the allowance for ECL are as follows:

	2022 $'000	2021 $'000
Balance at beginning of the year	380	467
Additional allowances recognised	581	359
Amounts written off during the year as uncollectable	(235)	(461)
Exchange differences	(27)	15
Balance at end of the year	**699**	**380**

9. Other assets

	2022 $'000	2021 $'000
Current		
Prepayments	4,176	3,311
Deposits and bonds	423	426
	4,599	**3,737**
Non-current		
Prepayments	-	441
	-	**441**
Total other assets	**4,599**	**4,178**

Prepayments consist of expenditure paid for in advance, and in relation to which the economic benefits will be realised in the future. Prepayments are initially recorded as assets in the Consolidated Statement of Financial Position and subsequently expensed to the Consolidated Statement of Profit or Loss and Other Comprehensive Income or reclassed in the Consolidated Statement of Financial Position, at the time when the benefits are realised. The future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset.

Deposits are monies paid to various service providers as initial payments for future service or goods delivery. Deposits are usually offset against future payments.

Bonds consist of monies paid to various service providers as security for contractual obligations of the Company. Bonds are refundable in certain circumstances, upon the discharge of contractual obligations to which they relate.

10. 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 2022							
Opening net book amount	**31,483**	**115**	**532**	**382**	**7,685**	**2,529**	**42,726**
Additions	-	26	557	-	14,716	28,149	43,448
Transfers within property, plant and equipment	19,246	-	76	-	-	(19,322)	-
Transfers to intangible assets	-	-	-	-	-	(416)	(416)
Disposals	(702)	-	-	-	(1,137)	(358)	(2,197)
Depreciation charge	(15,222)	(70)	(400)	(231)	(8,077)	-	(24,000)
Exchange differences	1,101	4	17	9	(119)	39	1,051
Net book value as at 30 June 2022	**35,906**	**75**	**782**	**160**	**13,068**	**10,621**	**60,612**
At 30 June 2022							
Cost	85,303	294	2,216	704	23,738	10,621	122,876
Accumulated depreciation	(49,397)	(219)	(1,434)	(544)	(10,670)	-	(62,264)
Net book value as at 30 June 2022	**35,906**	**75**	**782**	**160**	**13,068**	**10,621**	**60,612**

*Refer to Note 13 for further details on Right-of-use assets

10. Property, Plant and Equipment (continued)

	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 2021							
Opening net book amount	**25,183**	**60**	**447**	**412**	**12,187**	**11,533**	**49,822**
Additions	28	129	176	206	3,084	13,585	17,208
Transfers within property, plant and equipment	21,096	4	230	-	-	(21,330)	-
Transfers to intangible assets	-	-	-	-	-	(1,042)	(1,042)
Disposals	(305)	(1)	-	-	(1,761)	(68)	(2,135)
Depreciation charge	(13,049)	(76)	(317)	(234)	(5,919)	-	(19,595)
Exchange differences	(1,470)	(1)	(4)	(2)	94	(149)	(1,532)
Net book value as at 30 June 2021	**31,483**	**115**	**532**	**382**	**7,685**	**2,529**	**42,726**
At 30 June 2021							
Cost	64,427	259	1,613	684	17,539	2,529	87,051
Accumulated depreciation	(32,944)	(144)	(1,081)	(302)	(9,854)	-	(44,325)
Net book value as at 30 June 2021	**31,483**	**115**	**532**	**382**	**7,685**	**2,529**	**42,726**

*Refer to Note 13 for further details on Right-of-use assets

10. Property, Plant and Equipment (continued)

(a) Recognition and measurement

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-of-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
Right of use assets – Network equipment	1 – 10 years	Straight line
Right of use assets – Properties	1 – 5 years	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.

(b) Critical accounting estimates and judgement

Useful lives of PPE
The economic life of PPE which includes network infrastructure 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 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 expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

11. 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 2022								
Opening net book amount	**8,958**	**204**	**-**	**2,337**	**392**	**1,566**	**2,601**	**16,058**
Additions	-	-	-	-	8	-	14,564	14,572
Additions arising from business combination (Note 22)	2,576	-	-	-	-	18,540	-	21,116
Transfers from property, plant and equipment	-	-	-	-	-	-	416	416
Transfers	8,905	-	-	-	17	-	(8,922)	-
Disposals	-	-	-	-	-	-	(3)	(3)
Amortisation charge	(5,450)	(56)	-	(404)	(59)	-	-	(5,969)
Exchange differences	(18)	(7)	-	116	(1)	(223)	81	(52)
Net book value as at 30 June 2022	**14,971**	**141**	**-**	**2,049**	**357**	**19,883**	**8,737**	**46,138**
At 30 June 2022								
Cost	27,225	651	816	4,167	597	19,883	8,737	62,076
Accumulated amortisation	(12,254)	(510)	(816)	(2,118)	(240)	-	-	(15,938)
Net book value as at 30 June 2022	**14,971**	**141**	**-**	**2,049**	**357**	**19,883**	**8,737**	**46,138**

11. Intangible assets (continued)

	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 2021								
Opening net book amount	**3,852**	**304**	**-**	**2,902**	**547**	**1,546**	**2,651**	**11,802**
Additions	-	-	-	-	89	-	7,366	7,455
Transfers from property, plant and equipment	-	-	-	-	-	-	1,042	1,042
Transfers	8,458	-	-	-	-	-	(8,458)	-
Disposals	(10)	-	-	-	(180)	-	-	(190)
Amortisation charge	(3,304)	(104)	-	(397)	(64)	-	-	(3,869)
Exchange differences	(38)	4	-	(168)	-	20	-	(182)
Net book value as at 30 June 2021	**8,958**	**204**	**-**	**2,337**	**392**	**1,566**	**2,601**	**16,058**
At 30 June 2021								
Cost	15,821	681	854	3,950	574	1,566	2,601	26,047
Accumulated amortisation	(6,863)	(477)	(854)	(1,613)	(182)	-	-	(9,989)
Net book value as at 30 June 2021	**8,958**	**204**	**-**	**2,337**	**392**	**1,566**	**2,601**	**16,058**

Additional information relating to intangible assets

Qualifying costs relating to the development team's time spent developing software is capitalised. Costs incurred in relation to the development of software code that enhances, modifies or creates additional capability to existing on-premise systems and meets the definition criteria of an intangible are capitalised. The portion of their time spent on researching new development opportunities and maintaining existing software is expensed. The total cost incurred for this time for the year ended 30 June 2022 was $1,245,000 (2021: $1,014,000), which is included in the employee expenses in the Consolidated Statement of Profit or Loss.

11. Intangible assets (continued)

(a) Recognition and measurement

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and 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.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of these costs incurred are for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

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.

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.

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.

(a) Recognition and measurement (continued)

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.

(b) Critical accounting estimates and judgements

(i) Useful lives of intangible assets

The economic life of intangible assets, which includes 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 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 amortisation expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(ii) Capitalisation of internally generated intangible assets

The Group develops network software internally. 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.

(iii) Recognition and measurement of intangible assets acquired from business combination

The intangible assets acquired in the business combination during the year ended 30 June 2022 (refer to Note 22) have been recognised as the asset is separable in line with the identifiability criteria under AASB 138 *Intangible Assets*. The fair value on the date of acquisition has been determined by applying the cost approach.

12. Impairment assessment

(a) Impairment of Goodwill

(i) Recognition and measurement

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. This allocation is consistent with the lowest level within the Group at which the goodwill is monitored for internal management purposes.

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. The recoverable amounts is the higher of its value in use or its fair value less cost of disposal. 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.

(ii) Impairment testing

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 and North America CGUs were tested for impairment since the Europe CGU also contains goodwill on acquisition of Megaport (Deutschland) GmbH and the North America contains the goodwill recognised on acquisition of InnovoEdge (refer to Note 22).

The carrying amount of goodwill is as follows:

CGU	Note	2022 $'000	2021 $'000
Europe		1,497	1,566
North America		18,386	-
Total goodwill	11	**19,883**	**1,566**

(a) Impairment of Goodwill (continued)

Goodwill is tested for impairment annually. The Group performed its annual impairment test using the carrying value as at 30 June 2022 (2021: carrying value as at 30 June 2021).

The recoverable amount of the CGU's have 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:

	2022	2021
Pre-tax discount rate	14.38%	14.20%
Terminal growth rate	1.2%	1.7%
Cash flows beyond the next financial year are extrapolated using a growth rate of:		
Revenue growth (years 2 – 5)	32%	39%
Direct network costs (years 2-5)	15%	30%
Partner commissions (years 2 – 5)	23%	30%*
Operational expenses growth (years 2 – 5)	10%	10%
Labour expenses growth (years 2 – 5)	8%	14%
Travel & Marketing expenses growth (years 2 – 5)	10%	16%

*Previously included in COGS projections

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

	2022
Pre-tax discount rate	12.95%
Terminal growth rate	1.2%
Cash flows beyond the next financial year are extrapolated using a growth rate of:	
Revenue growth (years 2 – 5)	57%
Direct network costs (years 2-5)	15%
Partner commissions (years 2 – 5)	23%
Operational expenses growth (years 2 – 5)	10%
Labour expenses growth (years 2 – 5)	8%
Travel & Marketing expenses growth (years 2 – 5)	10%

- *Revenue, using the budgeted revenue for the year ended 30 June 2023 and projections for a further four years.*

(a) Impairment of Goodwill (continued)

- *Expenses, using the budgeted expenses for the year ended 30 June 2023 and projections for a further four years. Cash outflow projections relating to expenses have been disaggregated into direct network costs, partner commissions, operational labour, travel and marketing expenses as the projected spend is not uniform. Effects of COVID-19 have been considered in applying the projection.*
- *Terminal value, calculated based on inflation trends and target GDP growth rate, lower than prior years due to the COVID-19 pandemic impact.*

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 each CGU considering the impacts that the 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 any CGU. As a result of impairment testing performed, no impairment expense was recognised for the year ended 30 June 2022 (30 June 2021: nil).

(b) 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. For the year ended 30 June 2022, no indicators of impairment were noted.

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.

(c) Critical accounting estimates and judgements – impairment assessment on goodwill

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 the 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 2023 and a further four-year projection based on management estimates of revenue, expenses, capital expenditure and cash flows for each CGU. The budget is management's best estimate of the future business performance and outlook. It is based on projected key performance indicators that include number of services, number of products sold, customer numbers, achievement of monthly recurring revenue (MRR), installed data centres, product mix, sales mix between direct and indirect channels as well as foreign currency exposure.
- Corporate expenses and corporate assets whose function is to support the operations of the CGUs (including other CGUs to which goodwill has not been allocated) are allocated to the CGUs on the basis of their carrying value. The relative carrying amounts of the CGUs are a reasonable indication of the proportion of the corporate support provided to each CGU.
- 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.

13. Leases

The Group has lease contracts for various items of network equipment and properties used in its operations. All leases have terms between 1 year and 5 years.

The Group also has certain leases of network equipment with lease terms of 12 months or less. The Group applies the "short-term lease" recognition exemptions for these leases.

The Consolidated Statement of Financial Position includes the following amounts relating to leases:

(a) Right-of-use assets*

	2022 $'000	2021 $'000
Network equipment	9,007	5,931
Properties	4,061	1,754
Total right-of-use assets	**13,068**	**7,685**

*Included in the line item 'Property, plant and equipment' in the Consolidated Statement of Financial Position, refer to Note 10.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Network equipment $'000	Properties $'000	Total $'000
As at 1 July 2020	9,210	2,977	12,187
Additions	3,084	-	3,084
Depreciation expense	(4,809)	(1,110)	(5,919)
Terminations	(1,761)	-	(1,761)
Exchange differences	207	(113)	94
As at 30 June 2021	**5,931**	**1,754**	**7,685**
Additions	9,886	4,830	14,716
Depreciation expense	(6,346)	(1,731)	(8,077)
Terminations	(290)	(847)	(1,137)
Exchange differences	(174)	55	(119)
As at 30 June 2022	**9,007**	**4,061**	**13,068**

(b) Lease liabilities

	2022 $'000	2021 $'000
Current	6,509	4,734
Non-current	7,080	3,345
Total lease liabilities	**13,589**	**8,079**

The Group had total cash outflows for leases of $9.9 million in 2022 (2021: $8.1 million) The future cash outflows relating to leases that have not yet commenced are disclosed in Note 27.

Refer to Note 19 for undiscounted potential future rental payments that are included in the lease term.

There is a lease contract that includes extension options which is further discussed below. The option is negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether the extension option is reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	Within five years $'000	More than five years $'000	Total $'000
2021			
Extension options expected not to be exercised	-	-	-
Termination options expected to be exercised	-	-	-
Total as at 30 June 2021	**-**	**-**	**-**

	Within five years	More than five years	Total
	$'000	$'000	$'000
2022			
Extension options expected not to be exercised	677	5,482	6,159
Termination options expected to be exercised	-	-	-
Total as at 30 June 2022	**677**	**5,482**	**6,159**

(c) Recognition and measurement

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 and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

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

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.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use 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 within property, plant and equipment in the Consolidated Statement of Financial Position.

(c) Critical accounting estimates and judgements

(i) Determining the incremental borrowing rate for leases

Judgment is exercised in determining the incremental borrowing rate when the interest rate implicit in a lease cannot be readily determined. 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.

14. Trade and other payables

	Notes	2022 $'000	2021 $'000
Current			
Trade payables	(i),(iii)	10,255	4,055
Employee entitlements	(ii)	8,903	8,188
Accrued expenses		13,030	5,660
Goods and services tax payable		2,604	2,357
Other payables	(iii)	345	456
Total trade and other payables		**35,137**	**20,716**

Notes:

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

(ii) Employee entitlements includes 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.

(iii) Includes amounts due to related parties (Note 23(e)) and an amount of $263,000 accrued for employee share plan (2021: $245,000) (Note 20(e)).

(a) Recognition and measurement

Trade and other payables 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.

Employee entitlements include the following**:**

(i) 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.

(ii) 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.

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

(b) 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 19.

15. Provisions

	2022 $'000	2021 $'000
Current		
Annual leave provision	4,727	3,123
	4,727	**3,123**
Non-current		
Long service leave provision	371	277
	371	**277**
Total provisions	**5,098**	**3,400**

Recognition and measurement
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.

Short-term employee obligations
Liabilities for annual leave and any accumulating sick leave accrued up until the reporting date that are expected to be settled within 12 months 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. Liabilities for unpaid wages and salaries including non-monetary benefits are recognised as employee entitlements under trade and other payables.

Long-term employee 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.

Section 4: Capital and financial risk management

This section outlines our capital structure that includes equity and debt, policies and procedures that management applies in capital management as well as financial risks that we are exposed to and how we manage those risks.

16. Issued capital

Ordinary shares	Number of shares		$'000	
	2022	2021	2022	2021
Fully paid	157,949,016	156,598,437	407,405	395,935
Total issued capital	**157,949,016**	**156,598,437**	**407,405**	**395,935**

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.

The movement in fully paid ordinary shares is summarised below:

	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**
InnovoEdge consideration shares	161,233	2,718
Shares issued – employee share plan	16,013	232
Shares issued – employee share options exercised	1,173,333	5,232
Transfer from equity-settled employee benefits reserve	-	3,288
Balance at 30 June 2022	**157,949,016**	**407,405**

17. Reserves

The components of the Group's reserves balance is as below.

	Note	2022 $'000	2021 $'000
Foreign currency translation reserve		(6,121)	2,469
Employee share option reserve		5,788	6,940
Employee restricted stock units reserve		1,127	-
Contingent consideration shares reserve	22	7,476	-
Total reserves		**8,270**	**9,409**

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	Employee restricted stock units reserve $'000	Contingent consideration shares reserve $'000	Total $'000
Balance at 1 July 2020	**(4,058)**	**13,435**	**-**	**-**	**9,377**
Exchange differences arising on translation of foreign operations	6,527	-	-	-	6,527
Share options reserve release to share capital	-	(12,659)	-	-	(12,659)
Share options expense	-	6,164	-	-	6,164
Balance at 30 June 2021	**2,469**	**6,940**	**-**	**-**	**9,409**
Exchange differences arising on translation of foreign operations	(8,590)	-	-	-	(8,590)
Share options reserve release to share capital	-	(3,288)	-	-	(3,288)
Share options expense	-	2,136	-	-	2,136
RSU expense	-	-	1,127	-	1,127
Contingent consideration of shares at 16 August 2021 (date of acquisition)	-	-	-	10,194	10,194
Issue of shares on completion of Milestone 1	-	-	-	(2,718)	(2,718)
Balance at 30 June 2022	**(6,121)**	**5,788**	**1,127**	**7,476**	**8,270**

17. Reserves (continued)

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 and employees of its subsidiaries under the employee share option plan ('ESOP General'). Amounts are transferred out of the reserve into issued capital when the options are exercised. The current year transfer out of the employee share options reserve represents the fair value of the exercised options from the inception of the plans to date. Further information about employee share option plans is set out in Note 20.

(iii) Employee restricted stock units reserve ('RSU')

The employee restricted stock units reserve relates to restricted stock units granted by the Company to its employees and employees of its subsidiaries under RSU General. Amounts are transferred out of the reserve into issued capital when the RSUs are exercised. Further information about employee share option plans is set out in Note 20.

(iv) Contingent consideration shares

The contingent consideration shares reserve relates to equity consideration of up to 604,626 ordinary shares in Megaport Limited as partial consideration for the acquisition of InnovoEdge, Inc on 16 August 2021. Further information about contingent shares is set out in Note 22.

18. 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.

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 when 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.

	Notes	2022 $'000	2021 $'000
At amortised cost			
Current			
Lease liabilities	13, (a)	6,509	4,734
Other borrowings	(b)	6,591	4,709
		13,100	**9,443**
Non-current			
Lease liabilities	13, (a)	7,080	3,345
Other borrowings	(b)	7,092	2,969
		14,172	**6,314**
Total borrowings		**27,272**	**15,757**

Notes:

(a) Lease liabilities are recognised at fair value and subsequently at amortised cost using the effective interest method. Refer to Note 13 for further information.

(b) During the year, the Group increased the vendor financing facility to $20.5 million (2021: $15.8 million) vendor financing to fund the purchase of network equipment and payment of software licenses. This is governed by a number of Instalment Purchase Agreements. These agreements do not carry interest and are separately repayable via equal instalments over 36 months from each drawdown date. The agreements are collectively secured by a bank guarantee charged over $5.7M in cash and cash equivalents. At inception the fair value of the loan is recognised using an estimate of a market borrowing rate.

18. Borrowings (continued)

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

	Lease liabilities $'000	Other borrowings $'000	Total $'000
Balance at 1 July 2020	12,451	8,792	21,243
Additions (cash)	-	3,024	3,024
Additions (non-cash)	3,084	-	3,084
Fair value adjustment on initial recognition (non-cash)	-	(261)	(261)
Interest accretion	621	489	1,110
Repayment (cash)	(6,451)	(4,366)	(10,817)
Terminations (non-cash)	(966)	-	(966)
Exchange differences	(660)	-	(660)
Balance at 30 June 2021	**8,079**	**7,678**	**15,757**
Additions (cash)	-	14,394	14,394
Additions (non-cash)	14,716	-	14,716
Fair value adjustment on initial recognition (non-cash)	-	(1,251)	(1,251)
Interest accretion	802	790	1,592
Repayment (cash)	(8,582)	(6,771)	(15,353)
Terminations (non-cash)	(1,238)	(1,157)	(2,395)
Exchange differences	(188)	-	(188)
Balance at 30 June 2022	**13,589**	**13,683**	**27,272**

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.

	2022 $'000	2021 $'000
Total borrowings*	27,272	15,757
Total equity	142,248	180,412
Gearing ratio	**19.2%**	**8.7%**

*Total borrowings include lease liabilities accounted for under AASB 16 *Leases*. At 30 June 2022, other external borrowings comprised the $13.7 million vendor financing agreements (2021: $7.7 million).

19. 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	2022 $'000	2021 $'000
Financial assets – at amortised cost			
Cash and cash equivalents	7	82,545	136,312
Trade and other receivables	8	15,508	10,272
Deposits and bonds	9	423	426
Total financial assets		**98,476**	**147,010**
Financial liabilities – at amortised cost			
Trade and other payables	14	35,137	20,716
Borrowings	18	27,272	15,757
Total financial liabilities		**62,409**	**36,473**

(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), European Union Euro (EUR) and British Pound Sterling (GBP) 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, the Euro and the GBP 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.

(i) Foreign exchange risk (continued)

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.

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	2022 $'000	2021 $'000
Australian Dollar (AUD)	51,782	87,771
American Dollar (USD)	11,919	25,071
European Union Euro (EUR)	5,993	8,448
New Zealand Dollar (NZD)	3,023	1,490
Swiss Franc (CHF)	2,893	907
British Pound Sterling (GBP)	2,181	9,228
Hong Kong Dollar (HKD)	1,562	844
Singapore Dollar (SGD)	569	619
Canadian Dollar (CAD)	275	188
Others	2,348	1,746
Total cash and cash equivalents	**82,545**	**136,312**

The Group manages foreign currency risk by:

- Forecasting of future cash flows; and
- Monitoring natural hedges arising from trading operations.

The forecasting process ensures that the appropriate amount 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 2022, where balances are not denominated in the functional currency of the subsidiary.

	Effect on net profit/(loss)	
10% strengthening/weakening of AUD	**2022 $'000**	**2021 $'000**
USD	405/(405)	1,175/(1,175)
Euro	147/(147)	96/(96)

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 7).

Sensitivity

At 30 June 2022, 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 $1,149,375 higher/$1,149,375 lower (2021: $555,000 higher/$555,000 lower), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk mainly arises from cash and cash equivalents and trade 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 7), is held at financial institutions with the following credit ratings:

	2022		2021	
	$'000	**Credit Rating***	**$'000**	**Credit Rating***
Australia	40,079	AA-	65,418	AA-
Australia	16,165	A+	36,516	A+
Australia	-	A-	-	A-
North America	6,491	A+	7,223	A+
North America	62	A-	1,330	A-
Asia	5,432	AA-	2,611	AA-
Asia	401	A	406	A
Asia	-	A-	-	A-
Europe	-	AAA	875	AAA
Europe	771	AA-	797	AA-
Europe	12,516	A+	20,849	A+
Europe	-	A-	-	A-
Europe	628	BBB	287	BBB
Total cash and cash equivalents	**82,545**		**136,312**	

* In determining the credit quality of these financial assets, Megaport Limited has used the long-term rating from Standard & Poor's as of June 2022 (2021: June 2021).

(ii) Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. 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 2022, 80% of the trade receivable balance was due from 360 customers (2021: 379). Also, no one customer accounts for more than 10% 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 $82.5 million (2021: $136.3 million).

The Group manages liquidity risk by monitoring cash flows and estimating future operational draws on cash reserves. At 30 June 2022, the Group had external debt of $13.7 million (2021: $7.7 million) excluding lease liabilities (refer to Note 18). There were no other debt facilities at 30 June 2022.

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 2022.

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	-	21,113	14,024	-	-	35,137	35,137
Lease liabilities	6.0	735	1,965	4,220	7,632	14,552	13,589
Other borrowings	6.0	597	1,194	5,145	6,976	13,918	13,683
Total at 30 June 2022		**22,445**	**17,183**	**9,365**	**14,608**	**63,607**	**62,409**
Trade and other payables	-	15,951	4,765	-	-	20,716	20,716
Lease liabilities	6.0	495	1,420	3,327	3,302	8,544	8,079
Other borrowings	6.0	421	843	3,671	3,201	8,136	7,678
Total at 30 June 2021		**16,867**	**7,028**	**6,998**	**6,503**	**37,396**	**36,473**

Section 5: Equity-settled employee benefits

This section provides information about our equity-settled benefits.

20. Equity-settled employee benefits and related expenses

(a) Recognition and measurement

Equity-settled employee benefit transactions and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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.

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.

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.

(b) 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 specific to that employee's option plan agreement and is granted at the Board's discretion. The options reward executives and employees subject to meeting agreed 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 2022:

Option series	Number of outstanding options	Grant date	Vesting date	Expiry date	Exercise price $	Fair value at grant date $
Series 2018-1	150,000	02-Jul-18	02-Jul-22	02-Jul-23	3.22	1.87
Series 2018-6	25,000	29-Nov-18	31-Oct-21	31-Oct-22	2.72	1.91
Series 2019-11	3,334	04-Mar-19	04-Mar-22	04-Mar-23	3.24	1.75
Series 2019-3	33,334	20-Aug-19	20-Aug-22	20-Aug-23	5.90	3.20
Series 2019-5	66,667	22-Nov-19	22-Nov-21 to 22-Nov-22	22-Nov-22 to 22-Nov-23	8.43	2.85 to 3.29
Series 2020-7	150,000	20-Jan-20	20-Jan-22 to 20-Jan-23	20-Jan-23 to 20-Jan-24	8.49	4.39 to 4.85
Series 2020-1	200,000	01-Jul-20	01-Jul-21 to 01-Jul-23	01-Jul-22 to 01-Jul-24	12.08	3.21 to 4.67
Series 2020-3	1,000,000	23-Oct-20	01-Jul-21 to 01-Jul-22	01-Jul-22 to 01-Jul-23	14.50	3.16 to 4.07
Series 2020-4	25,000	07-Dec-20	07-Dec-21 to 07-Dec-22	07-Dec-22 to 07-Dec-23	13.32	3.05 to 3.89
Series 2021-5	100,000	01-Feb-21	01-Feb-22	01-Feb-23	13.48	2.63
Series 2021-1	25,000	08-Nov-21	08-Nov-22 to 08-Nov-24	08-Nov-23 to 08-Nov-25	19.70	3.64 to 5.83
	1,778,335					

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 $3.72 (2021: $3.20). 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 behavioural 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:

Number of options	Grant date share price $	Exercise price $	Expected volatility %	Expected option life Years	Dividend yield %	Risk-free interest rate* %
25,000	19.46	19.70	38.26	1.5 – 3.5	-	1.15 – 1.92

*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:

	2022		2021	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Balance at beginning of the year	3,226,668	9.48	5,344,001	4.11
Granted during the year	25,000	19.70	1,700,000	14.04
Forfeited during the year	(300,000)	13.48	(495,000)	7.63
Expired during the year	-	-	-	-
Exercised during the year^	(1,173,333)	4.56	(3,322,333)	3.48
Balance at end of the year	**1,778,335**	**12.19**	**3,226,668**	**9.48**

^ The weighted average share price at the date of grant of these options was $6.48 (2021: $4.93).

The number of options that have vested and become exercisable in the current reporting year was 1,457,500 (2021: 2,851,667). No options expired during the current year (2021: nil).

On 1 July 2022, 550,000 number of options expired and 500,000 number of options were forfeited.

(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 $12.19 (2021: $9.48), and a weighted average remaining contractual life of 396 days (2021: 524 days).

(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 2022, 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 2021 to eligible employees at 1 June 2021.

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) Restricted Stock Units General Plan ('RSU General')

During the year, the parent entity introduced a restricted stock units (RSU) plan for executives and employees of the Company and its subsidiaries. The number of RSUs granted is specific to that employee's RSU plan agreement and is granted at the Board's discretion. The RSUs reward executives and employees subject to meeting agreed service conditions or performance conditions specific to the individual's agreement.

The RSUs are equity settled and are settled in full on the vesting date. The number of shares granted in the future will equal a fixed monetary amount. The RSUs carry neither rights to dividends nor voting rights.

The following arrangements under the RSU General were in existence as of 30 June 2022. All RSUs were granted during the current year. The fair value is determined based on the fixed monetary amount to be received discounted for the time value of money.

(d) Restricted Stock Units (RSU) (continued)

The following arrangements under the RSU General were in existence as of 30 June 2022:

RSU series	Number of employees	Grant date	Settlement date	Total fair value at grant date $
Mar 2022-1	7	01-Mar-22	01-Mar-23	1,736,481
Mar 2022-2	7	01-Mar-22	01-Mar-24	1,696,857
Mar 2022-3	7	01-Mar-22	01-Mar-25	3,288,176
Jun 2022-1	70	01-Jun-22	01-Jun-23	134,171
Jun 2022-2	70	01-Jun-22	01-Jun-24	131,109
Jun 2022-3	70	01-Jun-22	01-Jun-25	254,067
Total				**7,240,861**

The following reconciles the total fair value of RSU's outstanding at the beginning and end of the year

	Fair value at grant date	
	2022	**2021**
Restricted Stock Units		
Balance at beginning of the year	-	-
Granted during the year	7,296,972	-
Forfeited during the year	(56,111)	-
Balance at end of the year	**7,240,861**	**-**

(e) 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:

	2022 $'000	**2021 $'000**
Options issued under ESOP General	2,136	6,164
Employee Share Plan (ESP)	254	245
Restricted Stock Units (RSU)	1,127	-
Share related costs	112	351
Other employee share plan tax and other related costs	801	3,068
Total expense	**4,430**	**9,828**

(f) Critical accounting estimates and judgements – Fair value measurements of equity settled employee benefits

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of options issued under ESOP General, the Group uses a Black-Scholes model.

Section 6: Group structure and related party transactions

This section provides information on our Group structure, controlled entities, ownership interest of the Group subsidiaries and the parent entity information. It outlines the accounting policies applied in accounting for the Group transactions including the basis of consolidation. Other information detailed here include disclosures on related party transactions in the year and balances outstanding at the reporting date.

21. Interest in other entities

(a) Group subsidiaries

The Group's subsidiaries at 30 June 2022 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 2022 %	2021 %
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
InnovoEdge, Inc.	(b)	United States of America	100	-
Megaport Networks Mexico S.A. de C.V.	(d)	Mexico	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		Germany	100	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		Republic of Bulgaria	100	100
Eastern Voice Link EOOD	(c)	Republic of Bulgaria	100	100
Megaport (France) SaS		France	100	100

(a) These entities are a part of the Australia tax-consolidated group with the head entity, Megaport Limited.
(b) Refer to Note 22 for further details on acquisition of InnovoEdge, Inc.
(c) The entity was under de-registration process as at 30 June 2022.
(d) The entity was incorporated on 19 October 2021.

(b) Deed of cross guarantee

The Company, Megaport (Australia) Pty Ltd and Megaport (Services) Pty Ltd are parties to a deed of cross guarantee ('the Deed') under which each company guarantees the debts of the others. By entering into the Deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*. The Deed was entered into on 9 March 2022.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed that are controlled by Megaport Limited, they also represent the 'Extended Closed Group'.

Set out on the following page is a Consolidated Statement of Comprehensive Income, a Consolidated Statement of Financial Position and a Summary of Movements in Consolidated Accumulated Losses for the year ended 30 June 2022 of the Closed Group:

Consolidated Statement of Profit or Loss and Other Comprehensive Income	**2022 $'000**
Continuing operations	
Revenue	21,660
Direct network costs	(3,666)
Partner commissions	(62)
Profit after direct network costs and partner commissions	**17,932**
Other income	4,332
Management fee income	27,773
Employee expenses	(19,650)
Professional fees	(3,416)
Marketing expenses	(734)
Travel expenses	(885)
IT costs	(2,725)
Employee share plan costs	(2,200)
Depreciation and amortisation expense	(9,192)
Finance costs	(1,325)
Foreign exchange gains	2,582
Other expenses	(4,271)
Management fee expense	(19,468)
Loss before income tax	**(11,247)**
Income tax expense	(6,980)
Loss for the year	**(18,227)**
Other comprehensive loss, net of tax	
Total other comprehensive loss, net of income tax	-
Total comprehensive loss for the year	**(18,227)**

(b) Deed of cross guarantee (continued)

Consolidated Statement of Financial Position	2022 $'000
Assets	
Current assets	
Cash and cash equivalents	56,244
Trade and other receivables	2,353
Other assets	1,917
Amounts due from related parties	2,902
Total current assets	**63,416**
Non-current assets	
Investment in subsidiaries	20,315
Property, plant and equipment	19,569
Intangible assets	20,077
Amounts due from related parties	287,809
Total non-current assets	**347,770**
Total assets	**411,186**
Liabilities	
Current liabilities	
Trade and other payables	8,940
Provisions	2,058
Borrowings	7,832
Amounts due to related parties	48,323
Total current liabilities	**67,153**
Non-current liabilities	
Provisions	371
Borrowings	10,372
Deferred tax liabilities	2,131
Total non-current liabilities	**12,874**
Total liabilities	**80,027**
Net assets	**331,159**
Equity	
Paid-up capital	407,405
Reserves	14,389
Accumulated losses	(90,635)
Total equity	**331,159**

(b) Deed of cross guarantee (continued)

Movement in accumulated losses	2022 $'000
Accumulated losses as at beginning of the financial year	**(72,408)**
Net loss	(18,227)
Accumulated losses as at end of the financial year	**(90,635)**

(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.

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 in 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.

22. Business combinations

(i) Acquisition of 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.

a) Acquisition of InnovoEdge, Inc (continued)

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

	Note	$'000
Identifiable assets acquired and liabilities assumed at fair value		
Identifiable intangible assets	11	2,576
Other net assets acquired		20
Deferred tax liabilities	4	(541)
Goodwill arising on acquisition	11	18,540
Total identifiable assets acquired and liabilities assumed at fair value		**20,595**
Purchase consideration		
Cash paid		10,401
Contingent consideration arrangement (i)		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 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.

b) Acquisition-related costs

Acquisition-related costs amount of $875,861 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.

On 16 February 2022, 161,233 of ordinary shares with a value of $2,718,388 were issued due to the first milestone been met. Refer to Note 17 for the reconciliation of the carrying amount of the contingent consideration reserve.

d) Goodwill

The goodwill of $18.5 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 across all segments. None of the goodwill is expected to be deductible for income tax purposes. Refer to Note 11 for reconciliation of goodwill.

e) Impact of acquisition on the results of the Group

Included in the year end loss before tax for the Group is a $1,118,000 loss attributable to InnovoEdge. InnovoEdge did not contribute any revenue in the year ended 30 June 2022.

Had the acquisition of InnovoEdge occurred on 1 July 2021, the revenue of the Group from continuing operations for the year ended 30 June 2022 would have remained unchanged, and the loss before tax from continuing operations would have been $38,268,000.

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 *Financial Instruments*, 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.

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.

f) Critical accounting estimates and judgments

(i) Accounting for contingent consideration

Contingent consideration resulting from business combinations is measured at fair value at the acquisition date. The full amount of the milestone achievement payments approximates the fair value of contingent consideration recognised on the date of acquisition.

23. 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 of the Group is Megaport Limited.

(b) Subsidiaries

Interest in subsidiaries are set out in Note 21.

(c) Compensation of key management personnel

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

	2022 $	2021 $
Short-term benefits	3,393,400	2,599,492
Post-employment benefits	106,824	131,241
Long-term benefits	52,350	34,978
Termination benefits	643,379	179,453
Equity-settled employee costs	1,630,225	3,718,167
Total	**5,826,178**	**6,663,331**

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	2022 $	2021 $
Sales and purchases of goods and services			
Purchase of shared services from entities controlled by key management personnel	(i)	173,457	143,506
Purchase of direct network costs from entities related to key management personnel	(ii)	187,524	870,287
Legal services from entities controlled by key management personnel		-	4,373
Sale of network related services to entities related to key management personnel	(ii)	44,410	85,604
Other transactions			
Employee compensation of associates to key management personnel		97,375	30,716

(i) Shared services agreement

The Company entered into a shared services agreement with Capital B Pty Ltd CAN 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.

(d) Transactions with other related parties (continued)

(ii) Supplier agreement with Superloop

Megaport Australia Pty Ltd (“Megaport Australia”) and Megaport Singapore Pte Ltd (“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 Ltd (“Megaport Hong Kong”) entered into an “Indefeasible Rights of Use” (IRU) Agreement with Superloop Australia and Superloop (Hong Kong) Limited (Superloop Hong Kong) 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 giving written notice to Superloop Hong Kong no later than 3 months prior to the expiry of the term. These agreements also include a maintenance fee payable monthly.

On 28 October 2021, Bevan Slattery has stepped down from the Superloop Board as Chair. As of this date, Superloop ceased being a related party of the Group. The value of the transactions listed above for 2022 is only for the time that Superloop was considered a related party.

The total commitments for minimum payments in relation to Superloop supplier agreements payable in future as follows:

	2022^ **$**	**2021** **$**
Lease commitments including leases recognised as liabilities		
Within one year	-	100,141
After one year but not more than five years	-	77,410
	-	**177,551**
Other contractual service commitments		
Within one year	-	135,433
After one year but not more than five years	-	261,301
More than five years	-	54,438
	-	**451,172**
Total	**-**	**628,723**

^Note: On 28 October 2021, Bevan Slattery has stepped down from the Superloop Board as Chair. As of this date, Superloop ceased being a related party of the Group.

(e) Outstanding balances arising from other related parties

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

	2022 $	2021 $
Amounts owed by related parties		
Entities related to key management personnel	4,236	16,413
	4,236	**16,413**
Amounts owed to related parties		
Entities related to key management personnel	-	221,567
	-	**221,567**

(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.

24. Parent entity financial information

(a) Summary financial information

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

	2022 $'000	2021 $'000
Statement of Financial Position		
Current assets	47,452	104,420
Non-current assets	402,275	290,411
Total assets	**449,727**	**394,831**
Current liabilities	34,806	610
Total liabilities	**34,806**	**610**
Net assets	**414,921**	**394,221**
Shareholders' equity		
Issued capital	407,405	395,935
Reserves	14,389	6,940
Accumulated losses	(6,873)	(8,654)
Shareholders' equity	**414,921**	**394,221**
Net profit/(loss) for the year	**1,781**	**(15,662)**
Total comprehensive income/(loss) for the year	**1,781**	**(15,662)**

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2022 (2021: nil).

(c) Contractual commitments

The parent did not have any contractual commitments at 30 June 2022 (2021: nil).

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

Section 7: Other information

This section provides information on other required or voluntary disclosures not included in other sections.

25. 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:

	2022 $	2021 $
Deloitte Touche Tohmatsu Australia		
Audits and review of the financial reports – Group	309,750	194,775
Audits and review of the financial reports – Subsidiary entities	13,650	48,300
Advisory in establishment of risk management framework	151,369	-
Total remuneration of Deloitte Touche Tohmatsu Australia	**474,769**	**243,075**
Other Deloitte network firms:		
Audits of the subsidiary entities' financial reports	51,418	47,946
Total remuneration of Deloitte network firms	**51,418**	**47,946**

26. Contingencies

The Group had no contingent assets or liabilities as at 30 June 2022 (2021: nil).

27. Commitments

(a) Capital commitments

The Group had no commitments to purchase property, plant and equipment or intangible assets at 30 June 2022 (2021: nil)

(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:

	2022 $'000	2021 $'000
Within one year	1,223	488
After one year but not more than five years	922	-
Total	**2,145**	**488**

28. Events occurring after the financial year

On 14 July 2022, Management made the decision to reduce its workforce in order to reduce costs and prepare for rising prices and inflation across the Group's key markets. As a result, 35 positions across all regions of the Group were made redundant. The total amount paid to these employees was $1.6 million. The redundancies had not been announced at 30 June 2022 and the resulting costs were unable to be measured reliably. Therefore, no liability has been recognised in the Consolidated Statement of Financial Position.

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 Group's operations and results or state of affairs of the Group.

DIRECTORS' DECLARATION

In the Directors' opinion:

a. The financial statements and notes 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 2022 and 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.

c. At the date of this declaration, the Company is within the class of companies affected by *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each credit payment in full of any debt in accordance with the deed of cross guarantee.

   In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which *ASIC Corporations (Wholly owned Companies) Instrument 2016/785* applies, as detailed in Note 21 to the financial statements will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

Note (a) of Section 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(a)) of the *Corporations Act 2001*.

On behalf of the Board of Directors

V. English

Vincent English
Executive Director and Chief Executive Officer

Brisbane
9 August 2022

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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:

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 2022, 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:

- Giving a true and fair view of the Group's financial position as at 30 June 2022 and of their financial performance for the year then ended; and
- 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 & 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.

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<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>

Carrying value of cash generating units

Refer to Note 11 – Intangible assets and Note 12 – Impairment of goodwill.

An impairment assessment has been undertaken as at 30 June 2022 for cash generating units with indefinite life intangible assets (goodwill). As at year-end, the Group had goodwill of $1.6 million held within the Europe cash generating unit ("CGU") and $18.5 million held within in the North American CGU.

Management conducts annual impairment tests using a discounted cash flow model, to assess the recoverability of the carrying value of the Group's CGU's.

There are a number of key judgements made in determining the inputs into these models including:

- Identification of CGU's
- Future cash flows for the CGUs
- Discount rates; and
- Future and Terminal value growth rates.

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Our procedures included, but were not limited to:

- Evaluating the design and testing the implementation of relevant controls,
- Evaluating the appropriateness of management's identification of the Group's CGU's and management's processes around the development of the 'value in use' discounted cash flow model,
- In conjunction with our valuation specialists, challenging the key assumptions and methodology used by management in the impairment model including growth rates, discount rates and terminal growth rates,
- Evaluating the future projected cash flows used in the impairment model to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of each CGU tested,
- Performing sensitivity analyses over the key inputs to the model, including future cash flows, discount rates and future and terminal growth rates,
- 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 adequacy of the disclosures in Note 12 to the financial statements.

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Recoverability of deferred tax assets

Refer to Note 4 – Income tax benefit / (expense)

The Group has recognised $10.7 million of gross deferred tax assets as at 30 June 2022 which includes the recognition of certain available tax losses in a number of jurisdictions as disclosed in Note 4.

AASB 112 *Income taxes* requires deferred tax assets resulting from deductible temporary differences and available tax losses to be recognised to the extent that it is probable that future taxable profit will be available in the relevant jurisdictions against which the deductible temporary differences and unused tax losses can be utilised. Significant judgement is required to:

- Evaluate the availability of tax losses
- Evaluate projections of future taxable profit for relevant jurisdictions
- Consider the impact of tax structuring on taxable profit.

</td><td>

Our procedures included, but were not limited to:

- Evaluating the availability of tax losses with reference to relevant tax legislation,
- Evaluating the scope of work undertaken by management's expert and the ability to rely on this work,
- Challenging the appropriateness of management's estimation of future taxable profit and assessing whether these estimates were consistent with the forecasts used as part of the impairment and going concern assessment, and
- Assessing the appropriateness and mathematical accuracy of the deferred tax calculation prepared by management in terms of relevant accounting standards, tax legislation and planned tax structuring which is to be implemented.

We also assessed the adequacy of the disclosures in Note 4 to the financial statements.

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</table>

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Accounting for business combinations *Refer to Note 22 – Business Combinations* On 16 August 2021, the Group acquired 100% of the issued share capital of InnovoEdge, Inc. ("InnovoEdge"), an AI-powered multi-cloud and edge application orchestration company. Total consideration was $20.6 million, consisting of $10.4 million in cash and a further $10.2 million in shares in Megaport Limited which is contingent on the achievement of certain milestones, which at acquisition date, the Group determined will be met. The acquisition has been accounted for as a business combination. A $2.6 million identifiable intangible asset (i.e. software) has been recognised with $18.5 million in goodwill, being the difference between identified net assets and consideration paid, also being brought to account. The acquisition has been accounted for using the acquisition method as provided by AASB 3 *Business Combinations*. The following are the significant judgments and estimates: - Identification and valuation of intangible assets including valuation techniques applied; - Accounting for and valuation of contingent consideration including probability of achievement and determination of whether it is a post-acquisition remuneration cost.	Our procedures included, but were not limited to: - Reviewing the executed agreement and any other associated contracts to obtain an understanding of the transaction, - Evaluating the appropriateness of the identification of identifiable intangible assets, - In conjunction with our valuation specialists, challenging the key assumptions and methodology used by management in the valuation of intangibles, - Evaluating the appropriateness of the accounting of contingent consideration as part of the business combination rather than as post acquisition remuneration, - Evaluating the appropriateness of the valuation of the contingent consideration, - Testing the mathematical accuracy of the purchase price allocation and resulting recognition of goodwill, and - Assessing the adequacy of the disclosures in Note 22 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 2022 (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 and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 53 of the Directors' Report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Megaport Limited, for the year ended 30 June 2022, 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, 9 August 2022

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable at 29 July 2022.

(a) Ordinary share capital

157,974,016 fully paid ordinary shares are held by 21,118 individual shareholders.
All issued ordinary shares carry one vote per share.

(b) Options

603,335 options are held by 8 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	13,646	-
1,001 – 5,000	5,700	1
5,001 – 10,000	1,126	-
10,001 – 100,000	606	4
100,001 and over	40	3
Total	**21,118**	**8**

The number of shareholders holding less than the marketable parcel of fully paid ordinary shares is 1,487.

(d) Substantial shareholders

Substantial 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		
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	32,481,183	20.56
CITICORP NOMINEES PTY LIMITED	21,524,557	13.63
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	19,596,833	12.41
NATIONAL NOMINEES LIMITED	10,947,871	6.93

(e) Equity security holders

Twenty largest quoted equity security holders

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

Name	Fully paid ordinary shares Number held	Percentage of issued shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	32,481,183	20.56
CITICORP NOMINEES PTY LIMITED	21,524,557	13.63
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	19,596,833	12.41
NATIONAL NOMINEES LIMITED	10,947,871	6.93
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	6,815,778	4.31
BNP PARIBAS NOMS PTY LTD <DRP>	5,921,799	3.75
MR BEVAN ANDREW SLATTERY	5,037,607	3.19
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,535,875	2.24
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,470,008	1.56
ARGO INVESTMENTS LIMITED	2,000,000	1.27
MR VINCENT ENGLISH	1,517,482	0.96
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	564,181	0.36
MR TIENAN LI	550,000	0.35
INTERCONTINENTAL PTY LIMITED	458,000	0.29
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	372,544	0.24
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	351,453	0.22
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	317,748	0.20
BEEBEE HOLDINGS PTY LTD	300,000	0.19
BNP PARIBAS NOMINEES PTY LTD <PITCHER PARTNERS DRP>	287,069	0.18
MRS CELIA MARGARET PHEASANT	261,603	0.17
	115,311,591	**73.01**

Unquoted equity securities

	Number on issue	Number of holders
Options issued under Employee Share Option Plan (ESOP General) to take up ordinary shares	603,335	8

	Fair value on issue	Number of holders
Restricted stock units under Restricted Stock Units General Plan (RSU General) to take up ordinary shares	7,081,525	71

CORPORATE DIRECTORY

Current directors	Bevan Slattery Vincent English Jay Adelson Naomi Seddon Michael Klayko Melinda Snowden Glo Gordon
Company Secretary	Celia Pheasant
Principal Registered Office in Australia	Level 3 825 Ann Street Fortitude Valley, QLD 4006
Share Register	Computershare Investor Services Pty Limited Level 1 200 Mary Street Brisbane, QLD 4000 Phone: 1300 850 505
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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