Appendix 4E

Annual Report

For the financial year ended
30 June 2023

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 2023.

The information provided in the Appendix 4E is based on the 30 June 2023 Annual Report, which has been prepared in accordance with the Corporations Act 2001, and Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board.

The Group lodged its Appendix 4D and Half-year Report for the half-year ended 31 December 2022 in US Dollars. During April 2023, the Board reassessed the appropriate reporting currency based on the transactions and balances that make up the Group's financial information, the users of the Group's financial information, and the overall organisational strategic focus which was driven by the change in the Group's Key Management Personnel during the year. As a result of the reassessment, the Group is reverting to Australian Dollars ('$') as its reporting currency for the year ended 30 June 2023 onwards. Therefore, this Appendix 4E and Annual Report provides figures in Australian Dollars.

This Appendix 4E covers the reporting period from 1 July 2022 to 30 June 2023. The previous corresponding period is 1 July 2021 to 30 June 2022.

Results for Announcement to the Market

Summary of Financial Information

	1 July 2022 to 30 June 2023 $'000	1 July 2021 to 30 June 2022 $'000	Change $'000	Change %
Revenue from ordinary activities	153,083	109,731	43,352	40%
Loss from ordinary activities after tax attributable to members	(9,774)	(48,495)	38,721	80%
Net loss for the year attributable to members	(9,774)	(48,495)	38,721	80%

Dividends

No dividend has been proposed or declared for the year ended 30 June 2023.

Commentary on the Results for the Year

Refer to the ASX Announcement titled 'FY23 Full Year Investor Presentation' lodged with the ASX on 22 August 2023 and the Director's Report 'Review of Operations' section in the 30 June 2023 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 2023 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 2023 Annual Report).

Net Tangible Asset Backing

	30 June 2023 cents	30 June 2022 cents
Net tangible asset backing per ordinary share^	46.51	60.85

^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 2023 is 158,593,166 (2022: 157,949,016).

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

There are no material entities where control has been gained or lost during the year (2022: The Group acquired 100% of the issued share capital of InnovoEdge, Inc).

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 can be found as part of the Financial Statements.

Annual Report 2023

Megaport

Contents

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.

FY23 Highlights

REVENUE	GROSS PROFIT[1]	NORMALISED EBITDA[2]	NET CASH FLOW[3]
$153.1M	$103.9M	$20.2M	($34.5M)
$43.4M	$35.6M	$30.4M	$15.4M
+40%	+52%		+31%

1. Gross Profit is revenue less direct network costs (comprising data centre power and space, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance), and partner commissions which are directly related to generating revenue.
2. Normalised Earnings Before Interest Tax Depreciation and Amortisation (EBITDA), which represents Reported EBITDA adjusted (reduced) for certain one-off accrual reversals. Reported EBITDA represents operating results excluding equity-settled employee and related costs, foreign exchange gains and losses, gains and losses on disposal of property, plant and equipment, and certain non-recurring non-operational expenses including the costs of one-time redundancy charges of approximately $4.9M for FY23.
3. Net Cash Flow is defined as the movement in Net Cash, which is cash at bank less debt including the vendor financing liability, and excludes the $10.4M (US$7.5M) cash purchase price for InnovoEdge in FY22.

Dear Shareholder,

I am honoured to present you with the Financial Year 2023 Chairman's Report for Megaport Limited.

Ten years ago a handful of talented and passionate people set about building a business that we believed could transform the way enterprise customers connect to the cloud. We saw there was an opportunity to build a platform that was so unique, that no one had ever considered it possible. Our vision? To do for networking what Amazon has done for compute. Totally automated, virtualised, and on-demand. From these humble beginnings in a small office in Fortitude Valley, we started executing on that vision.

Fast forward ten years and that startup is today an ASX200 company generating $178.6 million in annual recurring revenue, and connecting to all the major cloud providers around the world. This little Australian company pioneered Network as a Service (NaaS) and is today the leading independent provider of NaaS services worldwide.

The past ten years have been extraordinary, filled with so many amazing stories, supported by so many remarkable people. As they say, "It's often more about the journey than the destination." In our case, there was no path to follow; we were leading the way in almost every respect. So the journey has been difficult at times, but also incredibly rewarding as we delivered on our vision. It almost seems fitting and ironic that for me, our tenth year as a company has been the most challenging, yet simultaneously, possibly the most inspiring.

But above all, FY23 for Megaport has been a year of transformation.

Today we find ourselves with a business that is EBITDA positive, generating cash, and with a new streamlined, focused, and invigorated Executive team. We delivered a significant upgrade in earnings outlook and trajectory, an annual $30M cash flow improvement in less than six months, and our first net cash positive quarter in history.

In March, the Company appointed a proven technology and SaaS leader, Michael Reid, as Chief Executive Officer. Since commencing his role as CEO in May, Michael has already had a significant impact on Megaport. His experience and energy are greatly welcomed by the team along with his openness and inclusive leadership style.

A big thanks to the Megaport team who worked tirelessly to implement the transformation over the past year. On behalf of the Board and shareholders, thank you. I'd also like to thank you, our shareholders, for your ongoing support and belief in our business as we continue to revolutionise the way the world connects to and through the cloud.

Finally, I would like to personally thank our Board. I genuinely am humbled by the extraordinary people around our Board table. Thank you for your trust and support.

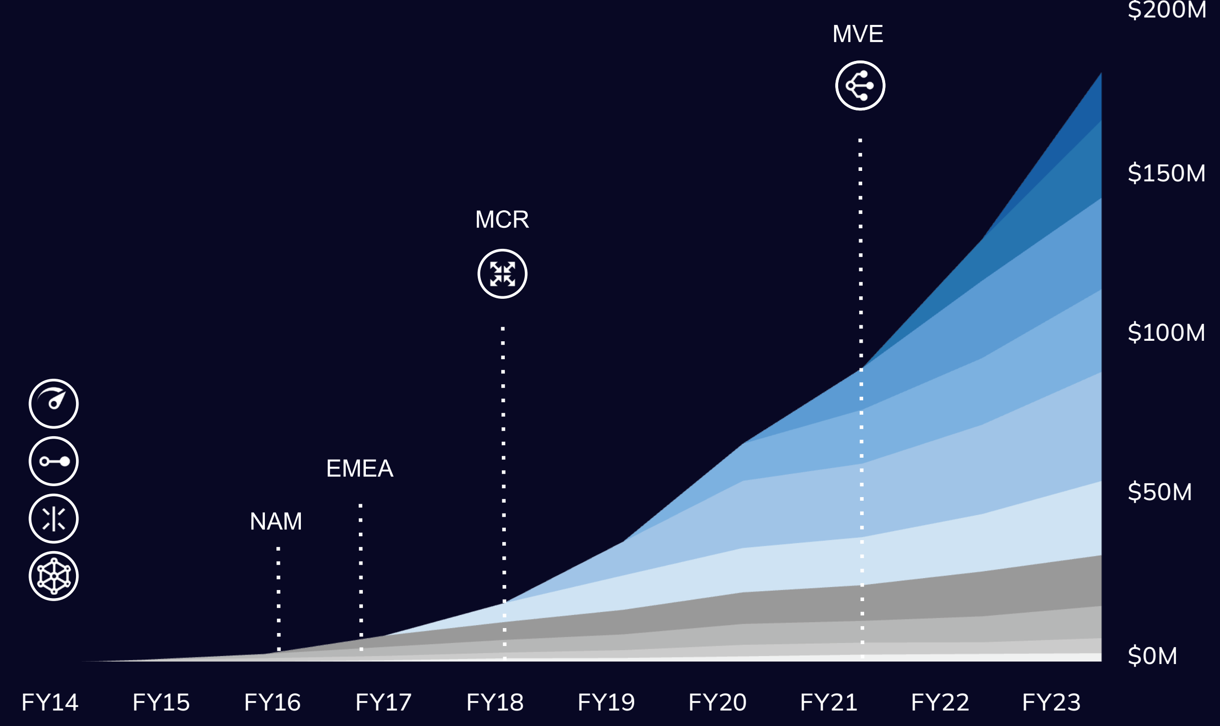
Bevan Slattery

Founder and Non-Executive Chairman
Megaport Limited | 22 August 2023

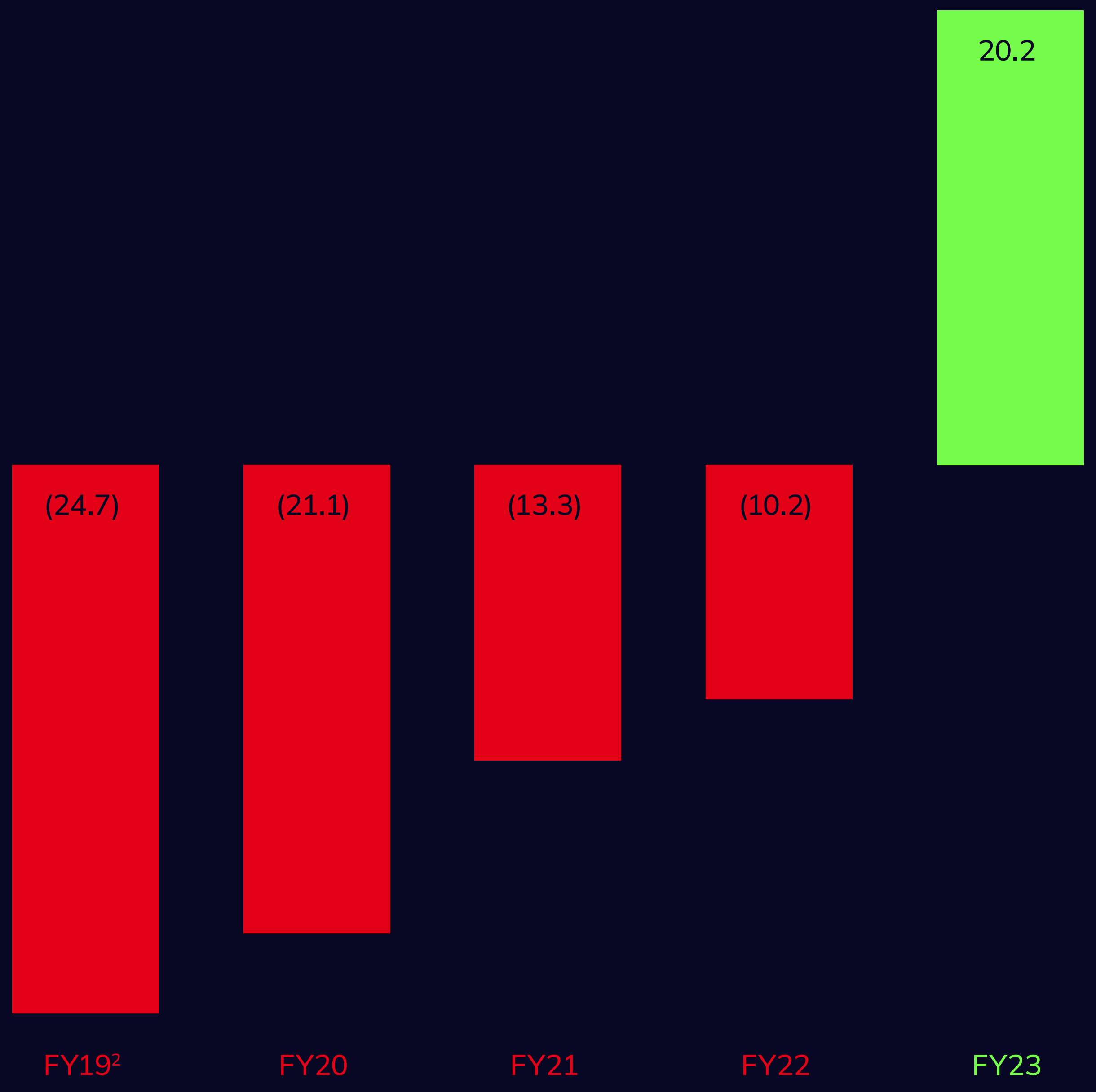
In 2023 we delivered transformational improvements in EBITDA, Costs, and Net Cash Flow as well as record Annual Recurring Revenue.

ARR CONTRIBUTION BY COHORT

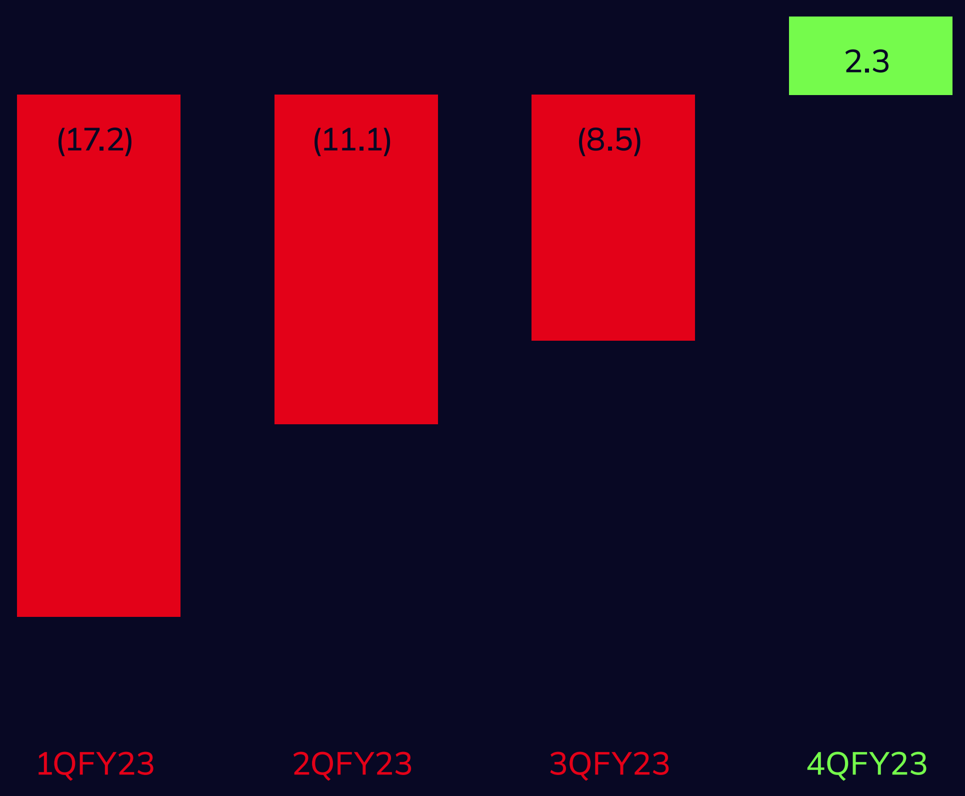
EACH CUSTOMER COHORT CONTRIBUTES TO ARR GROWTH YEAR AFTER YEAR



Normalised EBITDA[1]: Highest on Record



NET CASH FLOW[3]



NET CASH FLOW[4] POSITIVE Q4: $2.3M

INCLUDES REDUNDANCY PAYOUTS OF $2.6M

NET CASH[4] POSITION: $33.3M

1. Normalised Earnings Before Interest Tax Depreciation and Amortisation (EBITDA), which represents Reported EBITDA adjusted (reduced) for certain one-off accrual reversals. Reported EBITDA represents operating results excluding equity-settled employee and related costs, foreign exchange gains and losses, gains and losses on disposal of property, plant and equipment, and certain non-recurring non-operational expenses including the costs of one-time redundancy charges of approximately $4.9M for FY23.
2. Excludes any adjustments relating to IFRIC agenda decisions of March-2019 and April 2021 - Change in accounting policy in accounting for Software-as-a-Service arrangements.
3. Net Cash Flow is defined as the movement in Net Cash, which is cash at bank less debt including the vendor financing liability, and excludes proceeds from capital raisings & expenditure on acquisitions.
4. Net Cash as at 30-Jun-23 comprises cash at bank of $48.5M less amounts owing under the vendor financing facility of $15.2M

Dear Shareholder,

Over a decade ago, Megaport disrupted the market, inventing the Cloud Interconnect and Network as a Service space. We have since built out an unrivalled global platform in 800+ data centres, across more than 150 cities, spanning 25 countries, with 284 cloud on-ramps, servicing 2,856 diverse customers.

In FY23, the world faced a challenging macro environment. Yet Megaport proved to be a 'must-have technology,' with low customer churn and strong expansion as an essential component of our customers' digital infrastructure. This saw us celebrate record Annual Recurring Revenue of $178.6 million, up 39% YoY, and an incredible $20.2 million of Normalised EBITDA, our first ever positive year. Strong revenue growth coupled with improved operating efficiencies resulted in a tremendous turnaround for the company's financial position. In Q4, we announced our first-ever quarter of positive net cash flow and, more importantly, guided that FY24 will be cash flow positive, excluding any strategic investments.

Since signing on in March, I was welcomed by a passionate, world-class team with an unwavering belief in the transformative value Megaport brings to our customers. Megaport's SaaS management and NaaS automation platform combines power and simplicity in an elegant solution that delights our customers and is evidenced by robust product-led growth.

In FY24, our product and engineering team will continue to innovate and enhance our platform even further, continuing to push the boundaries of what is possible. With the recent announcement of Megaport Reach, you will see us expand into new data centres, sustainably opening up new markets.

We are moving quickly to help our customers capitalise on the AI revolution, providing fast, private network connections to GPU farms via the Megaport platform in less than 60 seconds.

I'm honoured and grateful for the privilege to lead the Megaport team through this pivotal next chapter to solve complex problems for our customers, scale through an untapped expanding market, and ultimately drive profitable, sustainable growth for our shareholders.

Thank you to all our staff for your dedication to executing through the transformation, which saw us enjoy a strong finish to FY23. On behalf of us, I want to extend a sincere thank you to you, our shareholders, for your support.

The best is yet to come!

Michael Reid
CEO
Megaport Limited | 22 August 2023

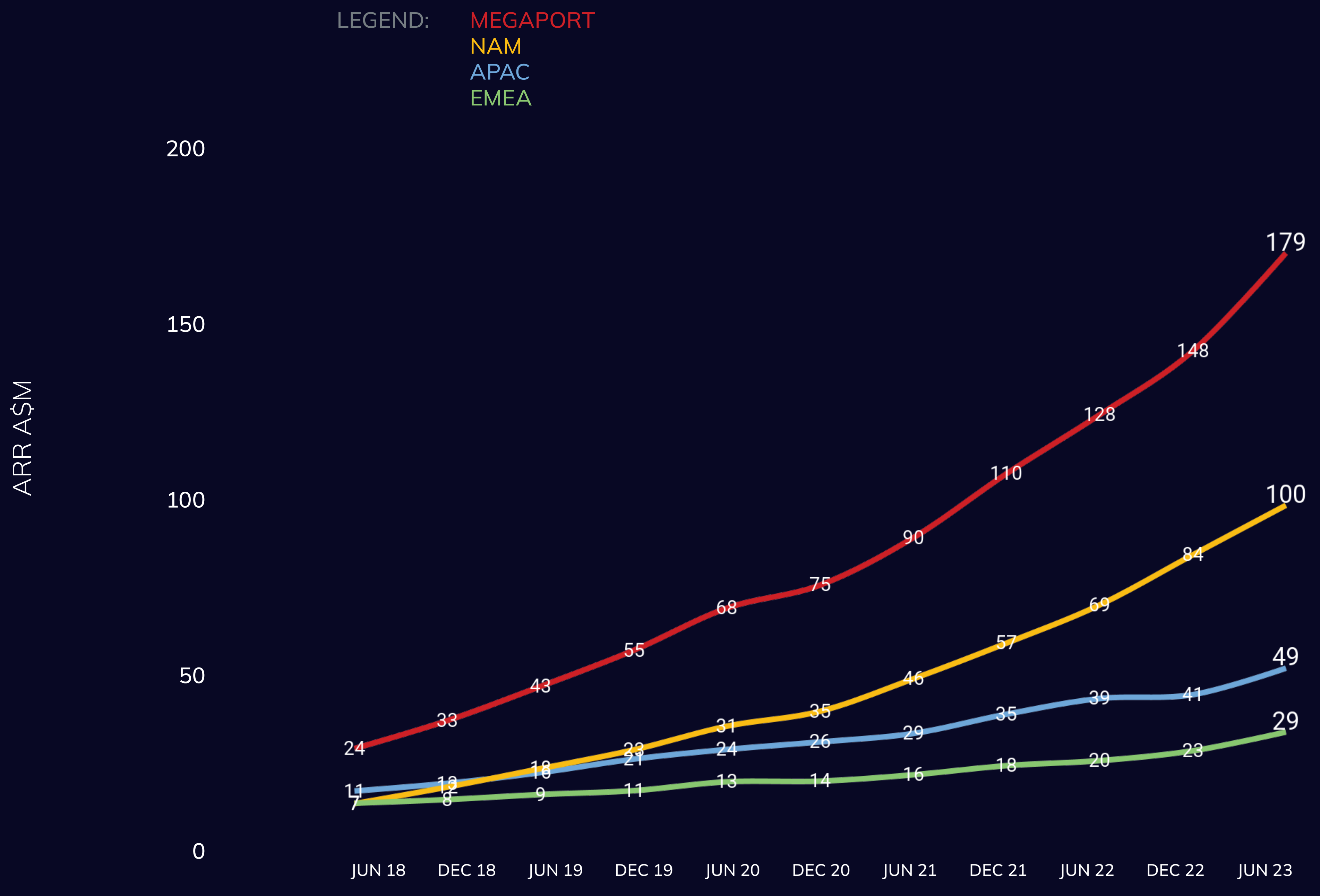
The financial results demonstrate Megaport's pivot during the year towards sustainable, profitable growth and cash generation.

1. Aggregate Customer Lifetime Value is calculated as Average Customer Lifetime multiplied by the closing customer count.

Annual Recurring Revenue[1]

REVENUE GROWTH

YoY ARR[1] GROWTH	JUN 23
GROUP	39%
NAM	45%
APAC	25%
EMEA	46%



1. Annual Recurring Revenue (ARR) in A$ is the recurring revenue expected over a 12 month period, calculated as revenue (excluding one-off and non-recurring revenue) for the last month of the period multiplied by 12.

Directors Report

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 2023.

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
- Michael Reid (Appointed 15 May 2023)
- Jay Adelson
- Naomi Seddon
- Michael Klayko
- Melinda Snowden
- Glo Gordon
- Vincent English (Ceased 7 March 2023)

Emily McCaffery commenced as Company Secretary from 14 September 2022 until her resignation date of 3 March 2023. Celia Pheasant was the Company Secretary from 1 July to 14 September 2022 and was subsequently reappointed on 3 March 2023.

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 398 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 sells its services directly to end-user customers and indirectly through or from external partner resellers. One of Megaport's indirect sales channels, PartnerVantage is aimed at driving revenue and business growth via channel sales. PartnerVantage enables indirect channel partners to sell and provision Megaport services on behalf of their customers, with all the requisite materials, commercial terms and conditions, 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 812 Enabled Data Centres in key global locations.

Key performance metrics

	Half-Yearly Performance				Yearly Performance		
	Dec-21	Jun-22	Dec-22	**Jun-23**	FY22	**FY23**	**YoY % Change**
Enabled Data Centres[1]	768	787	802	**812**	787	**812**	**3%**
Installed Data Centres[2]	411	423	423	**400**	423	**400**	**(5%)**
Cloud Onramps	240	278	282	**284**	278	**284**	**2%**
Customers	2,455	2,643	2,739	**2,856**	2,643	**2,856**	**8%**
Customer Ports[3]	7,555	8,473	8,902	**9,172**	8,473	**9,172**	**8%**
MCR	603	731	768	**848**	731	**848**	**16%**
Megaport Virtual Edge ('MVE')	40	73	94	**159**	73	**159**	**118%**
Total Services[4]	24,359	27,383	29,088	**30,516**	27,383	**30,516**	**11%**
Monthly Recurring Revenue ('MRR') in millions[5]	$9.2	$10.7	$12.4	**$14.9**	$10.7	**$14.9**	**39%**
Annual Recurring Revenue ('ARR') in millions[6]	$109.9	$128.3	$148.3	**$178.6**	$128.3	**$178.6**	**39%**
Revenue in millions	$51.2	$58.6	$70.7	**$82.4**	$109.7	**$153.1**	**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 Customer ports are total ports less cloud service provider ports.

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 relevant period.

6 Annual Recurring Revenue is the recurring revenue expected over a 12 month period, calculated as Monthly Recurring Revenue for the last month of the period x 12, and excludes any non-recurring or one-off revenue.

In June 2023, Megaport reached 2,856 customers across 812 Enabled Data Centres in 151 cities (2022: 145 cities) and generated ARR of $178.6M. Of these Data Centres, 138 were located in Asia Pacific, 450 in North America, and 224 in Europe.

The total Ports on the Group's Network at 30 June 2023 was 9,963, up 4% compared to a year earlier.

During the year ended 30 June 2023 ('FY23'):

- Megaport implemented an increase in the price of its Cloud VXC's in March 2023 to align pricing with the respective increased costs.
- Megaport appointed Michael Reid as the Chief Executive Officer, who commenced 15 May 2023 and brings 19 years of industry experience. Michael joined Megaport from Thousand Eyes, a subsidiary of Cisco, where he was Chief Revenue Officer (based in San Francisco).
- Megaport completed an operational review of the business to ensure the focus was on profitable sustainable growth. As part of this review, the Group reshaped its cost base, including a 16% reduction in headcount and an effective cost out program that together will improve annualised cash flow by around $30 million per annum[7].
- Megaport achieved two financial reporting milestones, achieving its first ever full financial year EBITDA positive result with an EBITDA of $25.2 million. Megaport was also operating cashflow positive for the financial year for the first time with net cash flows from operating activities of $10.2 million.
- Megaport continued to expand its Network footprint to new cities while deepening its reach within existing metros, with 812 enabled locations globally via 400 points of presence. As part of the operational efficiency review, underperforming sites were removed from the footprint, to ensure resources could be focused on growing profitable routes and sites.
- Megaport furthered its leadership position in cloud networking by enabling 6 new cloud on-ramps globally.

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.

7 Represents improvement in cash flow from initiatives from the cost-out program only, and does not include cash outflows from the investment in quota bearing direct sales team and other initiatives.

Financial Performance

Reported revenue by operating segment for FY23 and the year ended 30 June 2022 ('FY22') is set out below:

Operating segment	FY23 $M	FY23 %	FY22 $M	FY22 %
North America	85.4	55.8	57.8	52.7
Asia Pacific	43.4	28.3	33.5	30.5
Europe	24.3	15.9	18.4	16.8
Total	**153.1**	**100.0**	**109.7**	**100.0**

During the year ended 30 June 2023, Megaport drove strong growth across key metrics over the previous reported period, including the number of Installed Data Centres, Customers, Ports, Services, MVE and MCR. The Group's revenue for the period was $153.1 million (2022: $109.7 million), an increase of $43.4 million or 40%. Revenue for North America grew by 48%, Asia Pacific by 30%, and Europe by 32%.

Gross profit was $103.9 million, up 52% compared to the corresponding previous year of $68.3 million. Reflecting both revenue growth as well as the renewed focus on operational efficiency, particularly in the second half of the financial year.

Reported EBITDA[8] for the year was a profit of $25.2 million (2022: loss of $12.3 million).

The Group's net loss for the year amounted to $9.8 million (2022: $48.5 million).

Financial Position

Megaport continues to maintain a strong financial position with net current assets of $27.0 million (2022: $49.8 million), cash and cash equivalents of $48.5 million (2022: $82.5 million), net cash[9] of $33.3 million (2022: $67.8 million) and total equity of $127.9 million (2022: $142.2 million).

Strategy and future performance

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

- Build sales momentum by investing in the direct sales team to maximise sales opportunities;
- Connect to new locations, partners, and enterprises;
- Continue to close out the cost-out program that commenced during the year and operational efficiencies as a result; and
- Strengthen its position as the leading innovator in global Network as a Service.

8 Reported Earnings Before Interest Tax Depreciation and Amortisation ('Reported EBITDA') represents operating results excluding equity-settled employee costs, foreign exchange gains and losses, gains and losses on disposal of property, plant and equipment, and certain non-recurring non-operational expenses. Refer Note 1 to the Financial Statements for the reconciliation from Reported EBITDA to the net loss for the year.

9 Net cash comprises cash at bank less amounts owing under the vendor financing facility.

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 (not exhaustive or in order of materiality):

- *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*: Megaport has developed a SDN solution that is the first of its kind. Due to operating in an industry that is continually evolving, there is a risk that 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 for strategic purposes:* Whilst Megaport's business is not capital intensive in nature, the continued growth of the Group relies on the development of new products, new locations, customer acquisition, retention investment, and ongoing maintenance of existing infrastructure and software platforms. Revenue and margins are now sufficient to fund this expenditure, however Megaport may need to consider access to capital to fund any future strategic initiatives.

- *Risk of Major Global Economic Downturn*: Megaport operates in 25 countries and is therefore exposed to the flow on effects of macroeconomic trends globally. As a result, there is a risk that 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, challenges maintaining an EBITDA positive result and achieving 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 Group has initiatives to mitigate this risk, particularly focusing roles in the most efficient geographical location possible, 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.

- *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.

- *Major Network Hardware or Software Failure*: As a Network as a Service provider Megaport is reliant on a combination of network hardware and software. There is a risk that Megaport suffers a major outage or service interruption resulting from a network hardware or software failure.

- *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, Brazil, 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. 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. 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 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 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.

- *Reliance on renewal of key contracts*: There is a risk that Megaport is unable to negotiate, re-negotiate, or 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*: Megaport operates across multiple jurisdictions, each with their own privacy regulatory requirements. Failure to comply with global privacy regulatory requirements could result 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.

- *Climate change*: Megaport considers the strategic and financial impacts of climate change. Whilst not considered an immediate material risk for Megaport with its current operations, it may impact corporate strategies, investor decisions, governance and future prospects as the regulatory and reporting environment as well as investor expectations evolve.

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

During the financial year, the Company issued 644,150 ordinary shares which is broken down as follows:

	No. of ordinary shares
InnovoEdge consideration shares – Milestone 2	161,233
Shares issued – employee share plan	29,866
Shares issued – employee share options exercised	178,334
Shares issued – restricted stock units settlement	274,717
Total issued during the year	**644,150**

Events since the end of the financial year

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 2023 financial year saw strong revenue growth from Megaport services, which was aided in organic growth as well as the revenue price increase on cloud virtual cross connects from 1 March 2023. Underlying growth 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.

The International Sustainability Standards Board ('ISSB') issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. For further information and the expected impact on the Group, refer to Section 1 e) of the Financial Statements.

The Group published its Environmental Social and Governance Report in September 2022 which can be found on Megaport's website at https://www.megaport.com/investor/leadership-governance/.

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

BEVAN SLATTERY
CHAIRMAN & NON-EXECUTIVE DIRECTOR

Bevan Slattery has been successfully building IT and telecommunications businesses in Australia for nearly 20 years. Bevan's entrepreneurial success is highlighted in having listed five companies on the ASX including PIPE Networks (ASX:PWK), NEXTDC (ASX:NXT), Megaport (ASX:MP1) and Superloop (ASX:SLC).

Now the founder and Chief Executive Officer of Soda, Bevan is driving Australian innovation and prosperity through digital infrastructure, environmental sustainability and investment in Australian grown businesses.

Bevan has received many industry awards including the EY Champion of Entrepreneurs Award in 2016, the National Charles Todd Medal, and the Pearcey Foundations Benson Award, and he was inducted into the Commsday Hall of Fame in 2017.

OTHER CURRENT ASX DIRECTORSHIPS:

None

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

Superloop Limited (ASX:SLC) (resigned 28 October 2021)

SPECIAL RESPONSIBILITIES:

» Chairman

» Member of the Innovation Committee

» Interim Chief Executive Officer (appointed 7 March 2023, resigned 15 May 2023)

INTERESTS IN SHARES AND OPTIONS:

» 7,070,940* fully paid ordinary shares (held directly)

» 33,334 options over ordinary shares (held directly)

» 6,027 contractual rights to receive shares ('deferred shares')

* Includes 2,000,000 shares beneficially held by Bevan Slattery that have been pledged as security under a structured option and loan facility

MICHAEL REID
CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR (APPOINTED 15 MAY 2023)

Michael Reid brings over 19 years of industry expertise and experience to Megaport. Michael Reid joined Megaport from Cisco, where he led the pure SaaS Network Visibility Business, ThousandEyes, as Chief Revenue Officer. In that role, he transformed the go-to-market strategy, scaling the team from 150 to nearly 400, expanding into many new countries, and growing annual recurring revenue by 2.4 times, making it the largest Cloud, SaaS, and Internet Visibility platform in the world.

Previously, Michael spearheaded multiple acquisitions as Cisco's World-Wide Head of Sales based in California, USA. Prior to this, he led Cisco sales in Queensland, the Northern Territory and Papua New Guinea and, before that, led Cisco sales to Australia's largest financial services customers.

Michael is known for his passionate and transformative sales and global go-to-market leadership, focusing on culture, people and execution.

Michael holds a degree in Aerospace Engineering from QUT and was CEO Magazine Sales Executive of the Year 2019.

OTHER CURRENT ASX DIRECTORSHIPS:

None

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

None

SPECIAL RESPONSIBILITIES:

None

INTERESTS IN SHARES AND OPTIONS:

» AUD 2,000,000 worth of short term incentives in the form of performance restricted stock units (held directly)*

» AUD 2,250,000 worth of long term incentives in the form of performance restricted stock units (held directly)*

* Subject to shareholder approval which will be sought at Annual General Meeting scheduled on 1 November 2023.

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

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 Audit & Risk Committee (appointed 1 October 2022)

» Member of the Remuneration & Nomination Committee

» Member of the Diversity & Inclusion Advisory Board (resigned 1 October 2022)

INTERESTS IN SHARES AND OPTIONS:

» 6,027 contractual rights to receive shares ('deferred shares')

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 Virgin Pulse and Star Compliance and is a board member of 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

» Member of the Audit & Risk Committee (appointed 1 October 2022)

INTERESTS IN SHARES AND OPTIONS:

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

» 6,027 contractual rights to receive shares ('deferred shares')

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 workplace equity, diversity and inclusion. In addition to her professional legal work, Naomi is a non-executive director of Transmax Pty Ltd, Endometriosis Australia, Surrogacy Australia and United Stages.

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 (resigned 1 October 2022)

INTERESTS IN SHARES AND OPTIONS:

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

» 6,027 contractual rights to receive shares ('deferred shares')

MELINDA SNOWDEN
NON-EXECUTIVE DIRECTOR

Melinda has 28 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 Temple & Webster and Newmark Property REIT. Melinda is also currently Chair of LLS Fund Services.

Melinda has held previous non-executive director roles at Best & Less Group Holdings Ltd, WAM Leaders, 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:

» Temple & Webster Limited (ASX:TPW) (appointed 1 June 2023)

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

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

» Best & Less Group Holdings Ltd (ASX:BST) (resigned 11 July 2023)

» WAM Leaders Limited (ASX:WLE) (resigned 1 June 2023)

» Sandon Capital Investments Limited (ASX:SNC) (resigned 2 March 2022)

SPECIAL RESPONSIBILITIES:

» Chair of the Audit & Risk Committee

» Member of the Diversity & Inclusion Advisory Board

INTERESTS IN SHARES AND OPTIONS:

» 11,000 fully paid ordinary shares

» 6,027 contractual rights to receive shares ('deferred shares')

JAY ADELSON
NON-EXECUTIVE DIRECTOR

Jay Adelson has over 30 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 (resigned 1 October 2022)

» Member of the Remuneration & Nomination Committee

INTERESTS IN SHARES AND OPTIONS:

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

» 6,027 contractual rights to receive shares ('deferred shares')

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 served as Company Secretary for Megaport between 2015 and September 2022, and was reappointed to the role in March 2023. Celia is responsible for the corporate governance of Megaport's subsidiaries in over 20 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.

VINCENT ENGLISH
CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR (CEASED 7 MARCH 2023)

Vincent English is the former Chief Executive Officer of Megaport and also a former 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. Mr English ceased as Chief Executive Officer on 7 March 2023.

OTHER CURRENT ASX DIRECTORSHIPS:

None

FORMER ASX DIRECTORSHIPS IN LAST 3 YEARS:

None

SPECIAL RESPONSIBILITIES:

» Member of the Innovation Committee (ceased 7 March 2023)

INTERESTS IN SHARES AND OPTIONS:

» 883,944 fully paid ordinary shares (held directly) at the date of cessation; 7 March 2023)

EMILY MCCAFFERY
COMPANY SECRETARY (APPOINTED 14 SEPTEMBER 2022, RESIGNED 3 MARCH 2023)

Emily McCaffery holds degrees in Law and Commerce from the University of Auckland and a graduate diploma of Applied Corporate Governance from the Governance Institute of Australia. Emily is a Solicitor of the Supreme Court of New South Wales and a Fellow of the Governance Institute of Australia.

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 2023, 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	9	9	*	*	*	*	1	3	*	*
Michael Reid	1	1	*	*	*	*	*	*	*	*
Jay Adelson	9	9	1	1	8	8	3	3	*	*
Naomi Seddon	9	9	1	1	8	8	*	*	4	4
Michael Klayko	7	9	6	6	*	*	2	3	*	*
Melinda Snowden	9	9	7	7	*	*	*	*	4	4
Glo Gordon	8	9	4	6	6	8	*	*	1	1
Vincent English	5	5	*	*	*	*	3	3	*	*

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

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:

	2023 $
Advisory in establishment of risk management framework	95,316
Total remuneration for non-audit services	**95,316**

Auditor's independence declaration

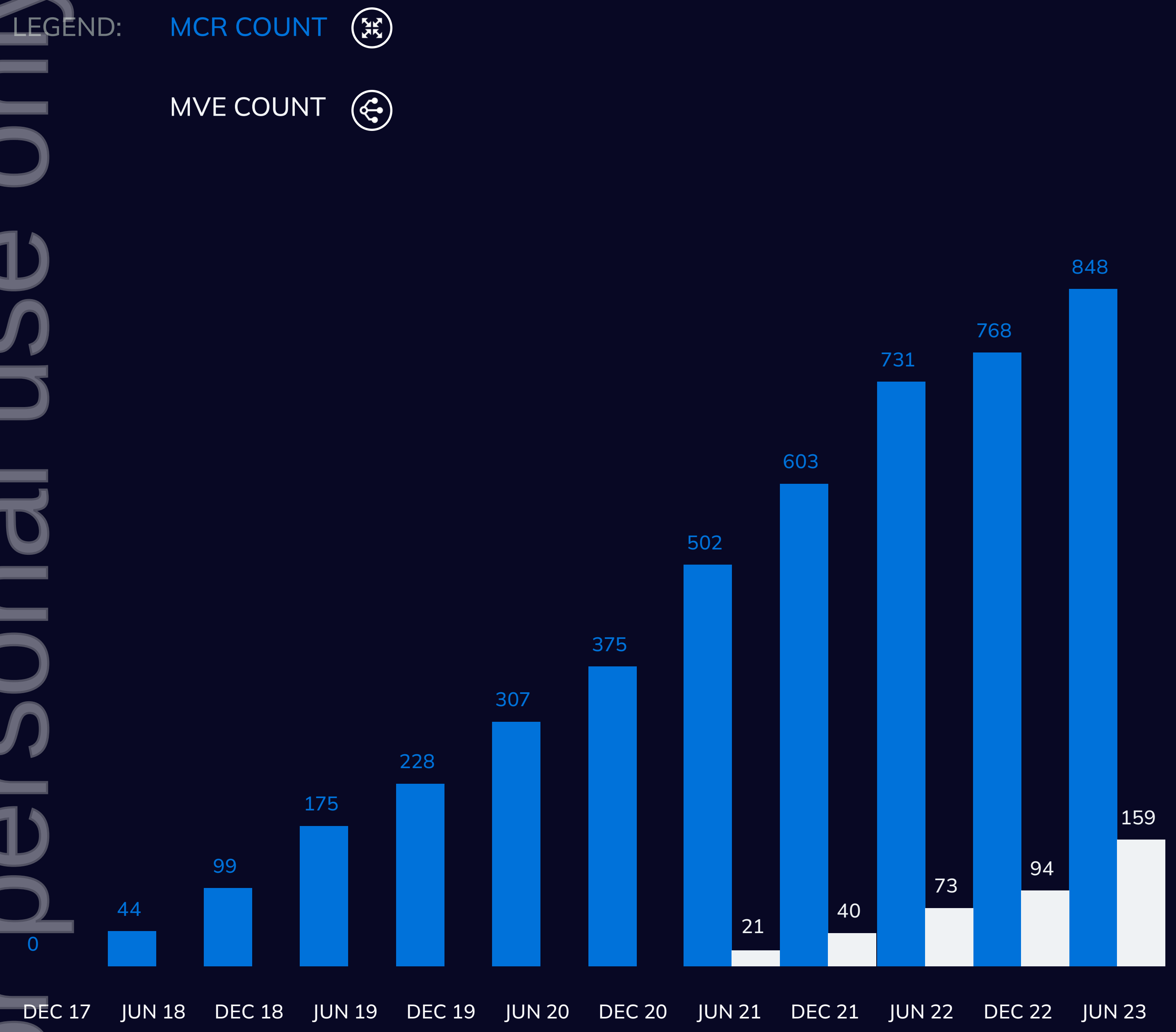
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out after the Directors' Report.

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/.

Megaport Cloud Router + Megaport Virtual Edge



JUN 23 AVERAGE SERVICES PER CUSTOMER[1]	JUN 23 AVERAGE APR PER CUSTOMER[1, 2]
9.6 JUN 22: 9.5 1% YoY PORT ONLY CUSTOMER	$54K JUN 22: $43K +28% YoY PORT ONLY CUSTOMER
15.1 JUN 22: 14.9 1% YoY MCR CUSTOMER	$96K JUN 22: $77K +25% YoY MCR CUSTOMER
20.5 JUN 22: 17.9 1% YoY MVE CUSTOMER	$172K JUN 22: $144K +19% YoY MVE CUSTOMER

1. All metrics measured at period end.
2. Represents June 2023 ARR divided by relevant customer count at 30 June 2023.

Remuneration Report

Letter from the Chair of the Remuneration & Nomination Committee

To our shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for Megaport Limited ("Megaport" or "the Company") for the year ended 30 June 2023 (FY23).

FY23 was a year of significant change for the Company as we transitioned from negative to positive operating cashflow. We successfully navigated through a challenging environment, particularly for those in the technology sector, to deliver our first full year positive EBITDA result.

Our key outcomes for the year are:

- We achieved positive EBITDA ($25.2m) for the first time, and revenue growth of 40%. In a rising interest rate environment, this is a significant financial milestone, which balances our growth strategy with profitability. Over 80% of our revenue continues to be derived outside of Australia, with over 50% derived in North America, our primary growth market.

- Notwithstanding us achieving positive EBITDA in FY23, we recognise that our total shareholder return (TSR) over the past three years has been negative. However, over FY23, our TSR has recovered by approximately 38%, despite the market sentiment surrounding technology companies in the past 18 months.

- In FY23, we completed an operational review of our business to ensure the focus was on profitable, sustainable growth. As part of this review, we have reshaped our cost base, including a 16% reduction in headcount and an effective cost out program that together will improve annualised cash flow by around $30 million per annum.

- A number of key changes to our executive team were made. Following the departure of our Chief Executive Officer ("CEO"), Mr Vincent English, we have appointed Cisco executive, Mr Michael Reid, to the role.

We believe Michael's prior experience in the software-as-a-service industry and in technology sales will place Megaport in a strong position for future growth. As part of his role, Michael has relocated from San Francisco to the Company's headquarters in Australia.

See Section 3 for more detail on Mr Reid's remuneration arrangements. We are also undertaking a search for a new permanent CFO, following the departure of Mr Sean Cassidy during the year.

Changes to Remuneration for FY23

As Megaport becomes an established ASX 200 company, the Board is cognisant of the need for our remuneration framework to continue to mature and be fit for purpose. Following a review of our remuneration framework, the Board introduced a more formal structure in FY23 to ensure we remain competitive with the markets we wish to employ in.

The following changes were made:

- A new remuneration framework has been developed for our new CEO which is heavily weighted towards equity. Fixed remuneration is the only cash component; and

- For other executives, the introduction of a formal long-term incentive (LTI) plan, delivered in Performance Restricted Stock Units (PRSUs). In addition, Restricted Stock Units (RSUs) were granted to some of our senior executives, operating alongside the short-term incentive (STI) and LTI, to build their shareholding in the Company and preserve cash for Megaport's future growth. The CEO did not receive any service-based RSUs.

Please see Section 2 of this report for more detail on our FY23 remuneration framework.

A review of Non-executive Director (NED) fees was also conducted, resulting in the Board making some adjustments to our base member fees and Committee Chair and member fees. Our fees aim to reflect the workload of our Directors as

Megaport grows in size and to enable us to attract NEDs globally, with over half of our Directors based in the US.

See Section 7 for more detail on NED remuneration arrangements.

Remuneration Outcomes

Given the changes which have occurred in key management personnel (“KMP”) in FY23, the CEO (former and new) and Chief Financial Officer (former) were not eligible to receive an STI.

The Chief Revenue Officer’s STI outcome was 100% of target.

We have also enhanced the readability and transparency of disclosures in our Remuneration Report this year, to acknowledge feedback received from shareholders and proxy advisors at the 2022 AGM.

We hope that you find this Remuneration Report informative and we welcome your feedback at the 2023 AGM.

Naomi Seddon

Chair of the Remuneration & Nomination Committee

The Remuneration Report forms part of the Directors’ Report and outlines information about the remuneration framework and outcomes of Megaport’s Key Management Personnel (“KMP”) during the year ended 30 June 2023 (“FY23”).

This Report has been prepared in accordance with Section 300A of the Corporations Act 2001 (“Corporations Act”).

Contents

1. Introduction to Key Management Personnel

In this report, KMP are those personnel who had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

Our KMP for FY23 are outlined below.

Name	Position	Term as KMP
Non-executive Directors		
Bevan Slattery	Chair and Former Interim CEO[1]	Full year
Jay Adelson	Non-Executive Director	Full year
Naomi Seddon	Non-Executive Director	Full year
Michael Klayko	Non-Executive Director	Full year
Melinda Snowden	Non-Executive Director	Full year
Glo Gordon	Non-Executive Director	Full year
Executive KMP		
Michael Reid	Chief Executive Officer (“CEO”)	Part year from 15 May 2023
Jeff Tworek	Chief Revenue Officer (“CRO”)	Part year from 21 November 2022
Former KMP		
Vincent English	Former CEO	Part year until 6 March 2023
Sean Cassidy	Former Chief Financial Officer (“CFO”)[2]	Part year until 27 March 2023

[1] Bevan Slattery held the interim CEO role between 7 March 2023 and 15 May 2023 until the commencement of Mr Reid as CEO. He held the Chair role for the entire year.
[2] Ms Leticia Dorman has been appointed Interim CFO following Mr Sean Cassidy’s departure. She was not deemed to be a member of KMP in FY23.

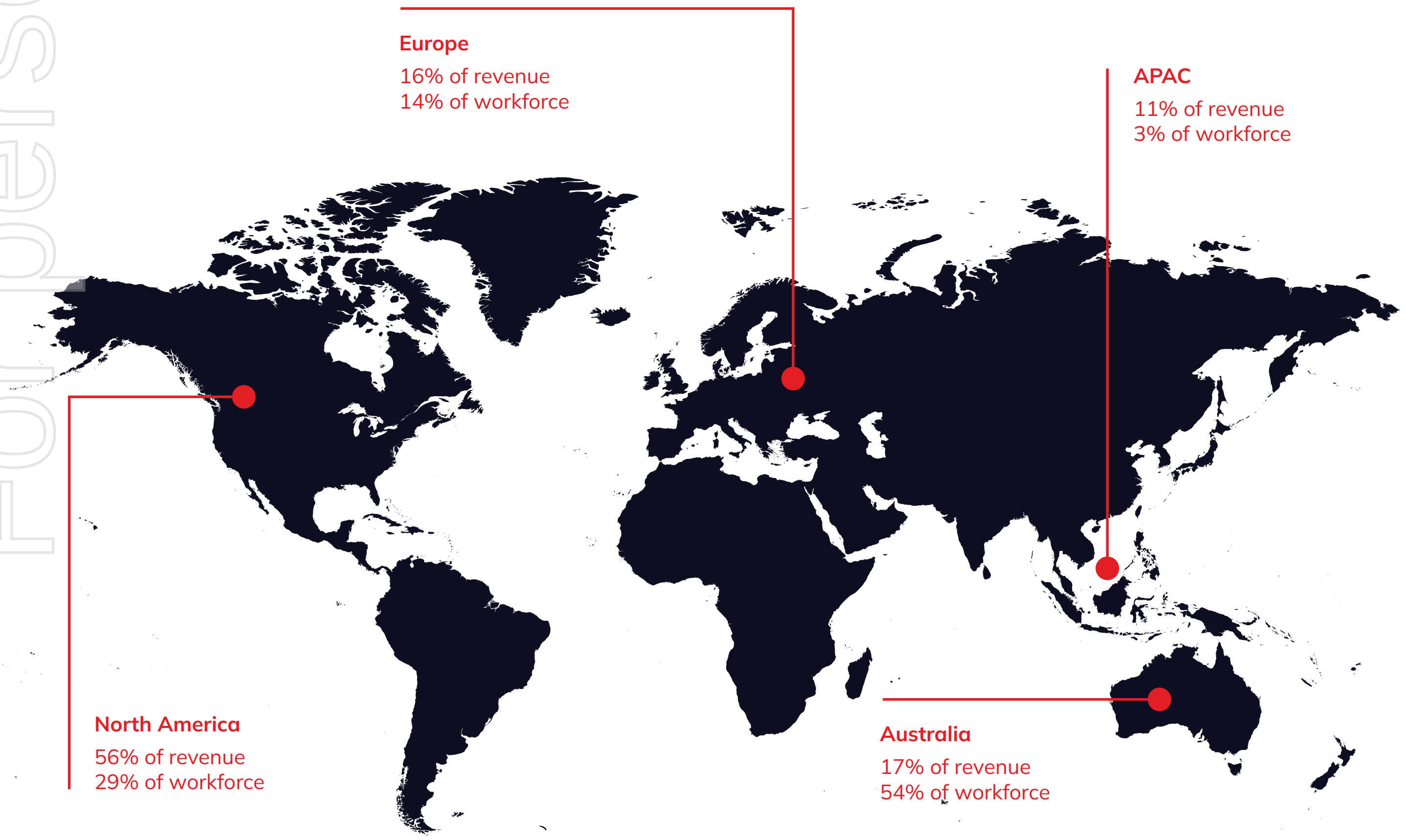
2. Snapshot of the Remuneration Framework

As Megaport transitions from a negative to positive operating cash flow ASX 200 company, we have outlined the key drivers of our remuneration strategy below, which underpin our remuneration framework.

Rewarding Executives for the Financial Growth of the Business	Market Competitive	Recognition of our ASX-listed Status	Providing 'Skin in the Game' by Increasing Shareholdings
Providing competitive remuneration which rewards executives for delivering on our financial targets.	Being competitive in the locations we hire for talent, primarily Australia and North America.	Consideration of Australian stakeholder expectations and market practice.	Creating shareholder alignment by providing a significant portion of remuneration via equity.

Following an external review of our remuneration arrangements, we have introduced a more formal executive remuneration framework in FY23 which aims to evolve our remuneration practices into something that is fit-for-purpose for Megaport, as well as addressing concerns raised at the 2022 AGM.

As we compete for talent internationally, with over 80% of revenue generated outside of Australia and over 40% of our workforce based overseas, our remuneration framework needs to be cognisant of Australian and North American remuneration practices. A snapshot of our operations is illustrated below.



A summary of our framework is outlined below, with further detail in Section 5. Given our former CEO and CFO ceased employment in FY23, only the new CEO and CRO were KMP as at 30 June 2023.

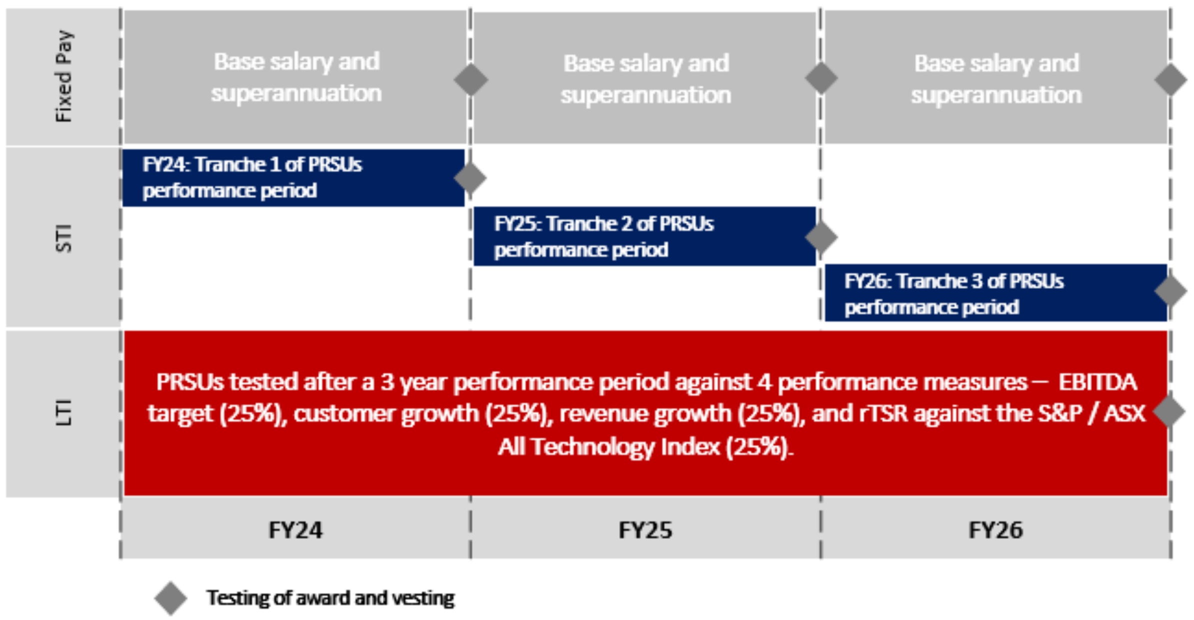
Component	CEO (commenced 15 May 2023)	CRO (from 21 November 2022)	Rationale
Fixed Remuneration (FR)	Comprises of base salary and benefits (including superannuation and local equivalent as applicable). Fixed remuneration is benchmarked against market data, considering experience, role responsibilities and geographic location.		To provide market competitive salary to attract and retain a high calibre of executive talent.
RSUs	Not applicable.	RSUs vesting subject to continued service only. Vesting occurs in 3 equal tranches after Year 1 (1/3), Year 2 (1/3) and Year 3 (1/3).	To build executives' shareholdings to ensure alignment with shareholders and to preserve cash for the Company's future growth.
STI	Performance Restricted Stock Units (PRSUs) assessed each financial year (from 1 July 2023 to 30 June 2026) against the following measures: Revenue growth (25%) EBITDA target (25%); Customer growth (25%); and Relative total shareholder return (rTSR) (against the S&P/ASX All Technology Index) (25%). These measures' targets are set by the Board for each assessment year.	Cash award assessed on a quarterly basis based on Total Revenue quota attainment against a quarterly quota: For up to 100% quota attainment, 1% of on target commissions ("OTC") for every 1% of quota attainment; At 100% quota attainment, 100% of OTC will be paid; For every 1% of quota attainment over 100%, the employee will earn 4% of OTC; and There are no caps on maximum achievement.	To reward executives for achieving goals which contribute to the long-term achievement of growing profitably. STI is delivered in cash (except for the CEO), noting the RSUs deliver an equity component.
LTI	PRSUs assessed over 3 years (from 1 July 2023) against the following measures: Revenue growth (25%); EBITDA target (25%); Customer growth (25%); and rTSR (against the S&P/ASX All Technology Index) (25%). These measures' targets are based on longer term business plans and will be tested at the end of the 3-year assessment period.	PRSUs assessed over 3 years (from 1 July 2022) against the following measures: EBITDA target (25%); Customer growth (25%); and rTSR (against the S&P/ASX All Technology Index) (50%).	To reward executives for the achievement of long-term financial goals focused on profitability and shareholder returns. Delivery in equity aims to create alignment between executives and shareholder interests.

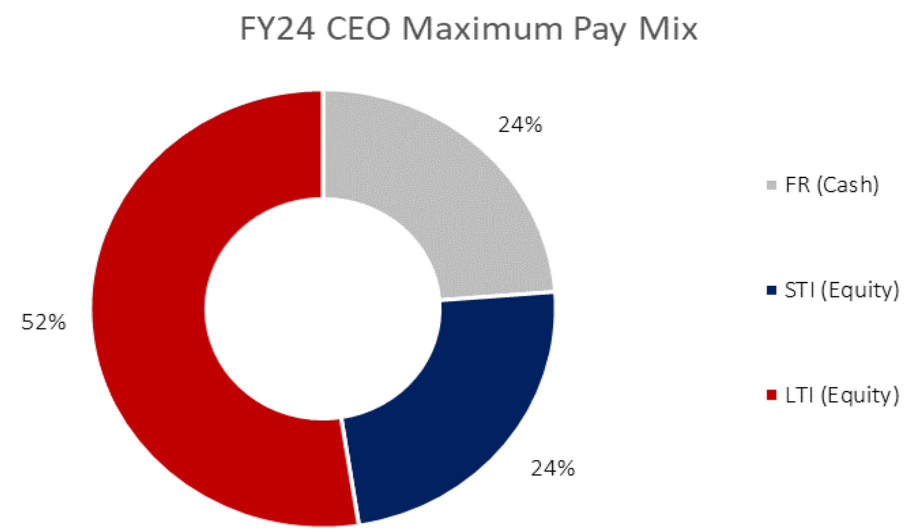
3. New CEO's Remuneration

Our new CEO, Mr Michael Reid, commenced in his role on 15 May 2023 following the departure of our previous CEO, Mr Vincent English. Recognising that Mr Reid holds significant experience in the technology sector, having been externally appointed from Thousand Eyes, a subsidiary of Cisco where he was Chief Revenue Officer (based in San Francisco), the Board has provided him with a remuneration package which aims to recognise the experience he brings to Megaport and that incentives from his previous employer were foregone upon joining us.

He has been provided with a fixed remuneration package inclusive of superannuation of AUD$1,000,000, which is 2.3% lower than our previous CEO. This is the only cash component of his package, with the remainder delivered in performance-tested equity comprising of a large upfront grant upon commencement, with performance testing to occur between 1 July 2023 and 30 June 2026. Mr Reid's equity grant is subject to shareholder approval, which will be sought at the 2023 AGM.

We have outlined the new CEO's FY24-FY26 remuneration framework and pay mix below, noting the majority of remuneration is weighted on long-dated equity and he does not participate in the RSU plan.



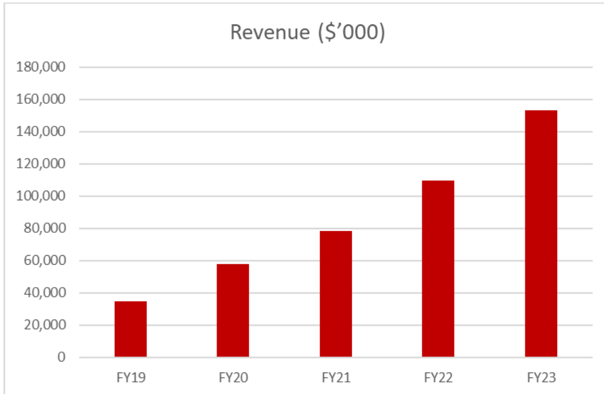


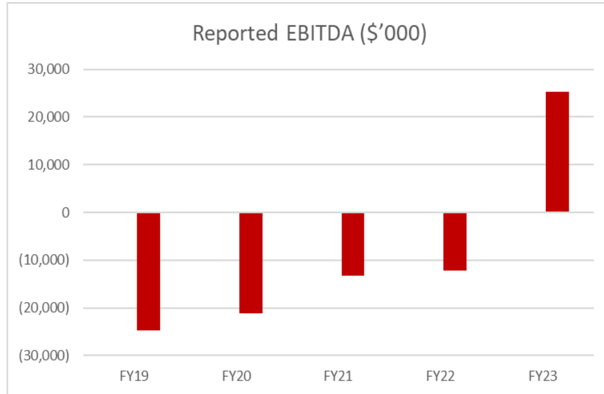
4. Company Performance and FY23 Remuneration Outcomes

4.1 5-year Financial Performance

The table below summarises Megaport's financial performance over the previous five financial years.

Measure	FY23	FY22	FY21	FY20	FY19
Revenue ($'000)	153,083	109,731	78,281	58,040	35,065
Reported EBITDA ($'000)	25,208	(12,270)	(13,320)	(21,063)	(24,695)
Net profit (loss) before tax ($'000)	(9,932)	(38,175)	(61,645)	(49,194)	(33,555)
Net profit (loss) after tax ($'000)	(9,774)	(48,495)	(55,000)	(48,711)	(33,564)
Share price at start of year	$5.45	$18.43	$12.08	$6.53	$3.95
Share price at end of year	$7.22	$5.45	$18.43	$12.08	$6.53
Dividends	Nil	Nil	Nil	Nil	Nil
Basic / diluted earnings (loss) per share ($)	(0.06)	(0.31)	(0.35)	(0.34)	(0.27)





4.2 FY23 STI Outcomes

Only the CRO was eligible to receive an STI award in FY23. The new CEO, former CEO and former CFO were not eligible for an STI in FY23.

We have provided disclosure on the CRO's performance outcomes relative to targets, resulting in an achievement of 100% of target opportunity.

Measure and Rationale	Outcome	Further Detail on Performance
Quarterly reported revenue *To assess the financial growth in market share of our business*	100%	It was assessed that the CRO had achieved his revenue targets 'at target' achievement in FY23, for the period he was in the role. Megaport's FY23 revenue achieved was $153m. Total reported revenue for 4Q FY23 excluded the impact of any repricing during the year.

Executive KMP	STI earned		STI forfeited	
	$	% of target opportunity	$	% of target opportunity
J Tworek[2]	320,029	100	-	-

4.3 FY23 Equity Award Outcomes

As a formal LTI plan was only introduced in FY23, there are no LTI awards due for testing and no legacy awards vested for KMP.

5. Details of the FY23 Remuneration Framework

5.1 Fixed Remuneration ("FR")

Fixed remuneration comprises of base salary, superannuation (as applicable) and other benefits.

The base salary 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.

The below figures are inclusive of superannuation for Australian KMP.

Executive KMP	FY23 Contractual Fixed Remuneration
Michael Reid	$1,000,000
Jeff Tworek	$484,352[3]

5.2 STI Plan

In addition to the information provided in Section 2, further detail on the STI plan is provided below.

The CEO is only eligible to participate in the STI from FY24 onwards.

Feature	CEO	CRO
Opportunity	Maximum opportunity: • 100% of FR (tested at end FY24); • 50% of FR (tested at end FY25); and • 50% of FR (tested at end FY26), as per the ASX announcement. No further STI grants are currently being contemplated until FY27.	Target opportunity: 108% of FR.
Allocation methodology	100% PRSUs, allocated at the lower of: • $4.346, which is the volume weighted average price (VWAP) for the 10 trading days prior to (and excluding) 28 March 2023 (being the date of execution of Mr Reid's employment agreement); or • The VWAP for the 10 trading days after (and excluding) the date of release to ASX of Megaport's FY23 Full Year results.	N/A – cash payment.
	PRSUs convert to fully paid ordinary shares in Megaport at the end of the performance period where performance conditions are met.	

[2] As Mr Tworek commenced in his KMP role on 21 November 2022, his FY23 STI has been pro-rated to reflect this period.
[3] This figure has been converted from USD to AUD using the 12-month average exchange rate of USD/AUD of $0.6710 for the year ended 30 June 2023.

5.3 RSU Plan

The CRO was the only member of KMP to participate in the RSU plan. In addition to the information provided in Section 2, further detail on the RSU plan is provided below.

Feature	Details
Opportunity	CRO: 25% of FR.
Allocation Methodology	VWAP for the 10 trading days prior to the commencement of the performance period on 1 July 2022, being $5.332. The RSUs convert to fully paid ordinary shares in Megaport at the end of the relevant vesting period subject to meeting service conditions.

5.4 LTI Plan

In addition to the information provided in Section 2, further detail on the LTI plan is provided below.

The CEO is only eligible to participate in the LTI from FY24 onwards. Further details on the CEO's LTI performance targets will be disclosed at the 2023 AGM.

Feature	Details
Opportunity	CEO: 225% of FR CRO: 71% of FR
Measures and Targets	We have provided further detail on each LTI measure below for the CRO, for which targets are set at the start of the 3-year performance period. **EBITDA Target (25%)** EBITDA targets have been set to ensure our growth is achieved profitably over a multi-year period. **Hurdles** – **Vesting outcome** Below threshold – Nil Threshold – Break-even profitability and 5% improvement on cash flow generation – 50% Between threshold and maximum – Straight line pro-rata vesting between 50% and 100% Maximum – 10% above break-even profitability and a 10% improvement on cash flow – 100% **Customer Growth (25%)** Customer growth has been selected to ensure we grow and diversify our customer base in the long-term. **Hurdles** – **Vesting outcome** Below threshold – Nil Threshold – 5% increase p.a. in total number of customers – 50% Between threshold and maximum – Straight line pro-rata vesting between 50% and 100%

<table>
<tr><td></td><td>
<table>
<tr><td>Maximum – 10% increase p.a. in total number of customers</td><td>100%</td></tr>
</table>
rTSR (50%)
rTSR has been selected to assess management's ability to deliver long-term shareholder returns, relative to our peers in the S&P/ASX All Technology Index (XTX).
<table>
<tr><th>Hurdles</th><th>Vesting outcome</th></tr>
<tr><td>Below threshold</td><td>Nil</td></tr>
<tr><td>Threshold – Meets Index performance</td><td>50%</td></tr>
<tr><td>Between threshold and maximum</td><td>Straight line pro-rata vesting between 50% and 100%</td></tr>
<tr><td>Maximum – Exceeds the Index by 7.5 percentage points p.a. (equivalent to 24.2 percentage points over the 3-years)</td><td>100%</td></tr>
</table>
</td></tr>
<tr><td>Allocation Methodology</td><td>
The VWAP for the 10 trading days prior to the start of the performance period on 1 July 2022, being $5.332.
For the new CEO's FY24 LTI grant only, the VWAP will be the lower of:

The VWAP for the 10 trading days prior to (and excluding) 28 March 2023 (being the date of execution of Mr Reid's employment agreement), being $4.346; or
The VWAP for the 10 trading days after (and excluding) the date of release to ASX of Megaport's FY23 Full Year results.

</td></tr>
</table>

5.5 Other Provisions

Further details on the STI, RSU and LTI plans are provided below.

Feature	Details
Leaver Provisions	The Board will maintain overarching discretion to determine an alternate treatment however the intention is that an employee that has received or provided notice of termination will forfeit their unvested awards. In addition, where the individual is a bad leaver, Megaport may recoup vested or paid awards to the extent permitted under applicable law. Where the STI is allocated as a cash payment, subject to the CEO's overriding discretion, an employee may be eligible to receive a pro-rata payout. An employee will not receive any STI relating to periods after the employee's separation date, nor based on revenue received by Megaport after the employee's separation date, regardless of the reason for separation.
Dividend Entitlements	No dividend entitlement for unvested equity awards until RSUs and PRSUs vest and convert to shares.
Malus & Clawback	In the event of serious misconduct, the Board has the discretion to reduce, cancel, or clawback remuneration, including unvested RSUs and PRSUs and amounts deemed to be overpayments.

6. Executive KMP Contractual Terms

6.1 Outgoing Arrangements of Vincent English (former CEO)

Mr English ceased to perform the role of CEO on 6 March 2023. Mr Bevan Slattery commenced in the interim CEO role on 7 March 2023.

Mr English was ineligible for an FY23 STI and all unvested on-foot incentives were forfeited.

6.2 Outgoing Arrangements of Sean Cassidy (former CFO)

Mr Cassidy ceased to perform the role of CFO on 27 March 2023. Ms Leticia Dorman has been appointed interim CFO as the Company undertakes a global search for a new CFO. As Ms Dorman is only acting in an interim capacity, she is not considered KMP for FY23.

All statutory entitlements were paid to Mr Cassidy, he was ineligible for an FY23 STI and all unvested on-foot incentives were forfeited.

6.3 Executive KMP Service Agreements

Details of the service agreements for Megaport's current KMP are outlined below.

	CEO	CRO
Employment agreement	An ongoing service agreement with no fixed term. Mr Reid is subject to certain post-employment restrictive covenants, including: • 9-months non-compete restriction, and • 12-months non-solicitation restriction.	An ongoing service agreement with no fixed term.
Termination by the Executive	3-months' written notice to the Company is required by Mr Reid. No severance benefits are payable if Mr Reid resigns.	No notice period is required by the individual. No severance benefits are payable if Mr Tworek resigns.
Termination by the Company without cause	Megaport is required to provide Mr Reid 3-months' written notice. If Megaport terminates Mr Reid without cause, this entitles Mr Reid to a severance payment equal to nine months' fixed remuneration.	No notice period is required by the Company. If Megaport terminates Mr Tworek without cause, this entitles Mr Tworek to be paid out any accrued, untaken or unpaid annual leave, calculated on the CRO's base salary.
Termination by the Company with cause	Megaport may terminate employment without notice or payment in lieu of notice for serious misconduct or other specific circumstances warranting summary dismissal.	

7. FY23 Non-Executive Director (NED) Remuneration

7.1 NED Fees

Megaport seeks to provide fair remuneration that is competitive to attract and retain NEDs with the required level of experience, knowledge and skills.

Our NEDs are paid a fee for sitting on the Board and additional fees for their participation in any committees. Directors may be paid additional remuneration where they perform additional work or services outside the scope of their role and are entitled to be reimbursed for travel, training and other expenses incurred while carrying out their duties as a Megaport Director.

We made changes to our NED fees in FY23 as outlined in the table below including reducing our Board member fee for FY23 (to recognise that a NED equity grant was made in FY23 to preserve cash) and increasing our committee fees (to recognise the time and workload required of our Directors). Our fee levels are set to recognise that we seek to attract Director talent internationally, with more than half our Non-Executive Directors based in the US.

Following the departure of the former CEO in FY23, Mr Slattery held the role of interim CEO from 7 March 2023 to 15 May 2023, until the commencement of the permanent new CEO. During this period, he was paid a fixed salary of $82,500 (including superannuation) per month for serving in the role. He did not participate in any performance-based remuneration plans.

The total fee pool for NED fees in FY23 is $1,500,000. The table below sets out the NED cash fees payable in FY23, inclusive of superannuation.

Fees	FY23		FY22	
	Chair	Member	Chair	Member
Board	250,000	150,000	250,000	175,000
Audit & Risk Committee	25,000	15,000	15,000	10,000
Remuneration & Nomination Committee	25,000	15,000	15,000	10,000
Innovation Committee[4]	25,000	15,000	15,000	10,000
Diversity & Inclusion Advisory Board[4]	15,000	10,000	15,000	10,000

7.2 NED FY23 Equity Grants

At the 2022 AGM, shareholder approval was obtained for a grant of equity to NEDs under Listing Rule 10.14. Our Directors do not participate in any of our executive incentive plans or any other performance-based incentive plans however this equity grant sought to:

- Ensure our Directors maintain a meaningful shareholding in the Company; and
- Ensure total remuneration (cash and equity) is set at a competitive level to attract and retain a high calibre of Directors internationally.

Details of the equity grants made to each of our Directors are outlined below.

Feature	Details
Quantum	$50,000 (or 6,027 shares) to each of the six Directors.
Allocation Methodology	The VWAP for the 10 trading days commencing the day after the release of Megaport's full-year results for FY22. The VWAP was $8.297.
Issue Date	• 1/3 issued on the first anniversary of the 2022 AGM. • 1/3 issued on the second anniversary of the 2022 AGM. • 1/3 issued on the third anniversary of the 2022 AGM.

[4] Committee meetings were paused from May 2023 and are expected to recommence during FY24.

7.3 NED Statutory Remuneration

The total remuneration paid to NEDs in FY22 and FY23 is disclosed below.

We note that a portion of Options granted in previous years vested to some Directors in FY23. No new Options were granted in FY23.

Directors	Year	Short-term benefits		Post-employment benefits	Equity-settled benefits and rights			
		Salary and fees	Non-monetary benefits	Superannuation benefits	Deferred Shares	RSUs	Options[5]	Total
B Slattery[6]	FY23	181,712	-	19,080	11,459	-	14,511	226,762
	FY22	237,273	-	22,727	-	-	55,397	315,397
J Adelson	FY23	199,905	33,492	-	16,689	-	-	250,086
	FY22	210,000	-	-	-	-	35,915	245,915
N Seddon	FY23	181,250	9,156	-	16,689	-	-	207,095
	FY22	215,000	22,657	-	-	-	35,915	273,572
M Klayko	FY23	187,822	-	-	16,689	-	-	204,511
	FY22	185,000	-	-	-	-	-	185,000
M Snowden	FY23	157,994	1,699	16,589	16,689	-	-	192,971
	FY22	184,091	-	15,909	-	-	-	200,000
G Gordon	FY23	192,822	-	-	16,689	-	-	209,511
	FY22	195,000	5,000	-	-	-	-	200,000
Total remuneration	FY23	1,101,505	44,347	35,669	94,904	-	14,511	1,290,936
	FY22	1,226,364	27,657	38,636	-	-	127,227	1,419,884

[5] 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.

[6] This table excludes payments made to Mr Slattery during his time as interim CEO, these are disclosed in section 9.1.

8. Remuneration Governance

8.1 Roles and Responsibilities

The following diagram illustrates the roles and responsibilities for governing Executive and Director remuneration at Megaport.

BOARD

The Board holds ultimate responsibility for the approval of the Director and Executive KMP remuneration strategy, framework and policies, and remuneration outcomes, based on the recommendations of the Remuneration & Nomination Committee.

REMUNERATION & NOMINATION COMMITTEE

The Committee is responsible for developing the remuneration strategy, reviewing frameworks and policies, and reviewing remuneration outcomes. It makes recommendations to the Board for approval on remuneration matters.

Its responsibilities include:

- Reviewing the Group's remuneration policies and procedures;
- Succession planning and appointment of roles at the Board, CEO and senior executive level;
- Reviewing the performance and remuneration of the CEO and senior executives annually;
- Reviewing and reporting on diversity metrics annually on the Group's employees;
- Reviewing employee benefits, workplace policies, practices and making recommendations to the Board on policy and benefits changes, in-line with market trends;
- Overseeing the performance of Directors;
- Reviewing the remuneration of Directors annually; and
- Formally assessing the balance of skills, experience and diversity required on the Board and overseeing the performance of 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**.

MANAGEMENT

On a day-to-day basis, management are responsible for preparing relevant information and analysis to the Remuneration & Nomination Committee and the Board to support their decision-making.

The Committee may request materials from management to inform the decision-making of Directors. Management may seek external advice on market trends and benchmarking data from time-to-time as required.

EXTERNAL ADVISORS

The Committee may request advice from external advisors to support its decision-making. In FY23, the Committee sought advice from SW Corporate on its remuneration framework and market trends.

Where a remuneration recommendation is provided, as defined by the *Corporations Act 2001*, all advice is provided directly to the Chair of the Committee to ensure it is free from the influence of management.

No remuneration recommendations were made in FY23.

8.2 Hedging Policy and Securities Trading Policy

A securities 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.

Participants in Megaport's equity plans are prohibited from entering into hedging arrangements or using financial products to mitigate their exposure to risks associated with their unvested awards, unless the participant has received written clearance in accordance with the Securities Trading Policy.

9. Statutory Disclosures

The following tables outline the statutory accounting disclosures required under the Corporations Act 2001 (Cth) for KMP.

9.1 Executive KMP Statutory Remuneration

The total remuneration paid to Executive KMP for FY22 and FY23 is disclosed below.

Given all current executive KMP only served their roles for part of FY23, their remuneration has been pro-rated accordingly.

		Short-term benefits			Post-employment benefits		Long-term benefits	Equity-settled benefits and rights					
	Year	Salary and fees[7]	STI award	Non-monetary benefits	Superannuation benefits	Termination benefits	Long-service leave	Shares	Deferred shares	RSUs	PRSUs	Options[8]	Total
Executive Director													
B Slattery[9]	FY23	217,992	-	-	22,889	-	-	-	5,230	-	-	-	246,111
	FY22	-	-	-	-	-	-	-	-	-	-	-	-
M Reid[10]	FY23	133,148	-	-	6,323	-	2,144	-	-	-	-	-	141,615
	FY22	-	-	-	-	-	-	-	-	-	-	-	-
Other current KMP													
J Tworek[11]	FY23	300,653	320,029	15,312	11,224	-	-	-	-	62,123	58,065	-	767,406
	FY22	-	-	-	-	-	-	-	-	-	-	-	-
Former KMP													
V English[12]	FY23	750,000	-	149,315	18,969	-	-	-	-	-	-	(2,033,031)	(1,114,747)
	FY22	1,000,000	300,000	6,371	23,568	-	50,979	-	-	-	-	1,212,894	2,593,812
S Cassidy[13]	FY23	400,000	-	85,136	18,969	85,000	-	-	-	-	-	(246,016)	343,089
	FY22	362,500	87,117	7,990	27,443	-	1,371	1,000	-	-	-	258,240	745,661
Rodney Foreman[14]	FY23	-	-	-	-	-	-	-	-	-	-	-	-
	FY22	375,401	-	-	17,177	643,379	-	-	-	-	-	30,864	1,066,821
Total remuneration	FY23	1,801,793	320,029	249,763	78,374	85,000	2,144	-	5,230	62,123	58,065	(2,279,047)	383,474
	FY22	1,737,901	387,117	14,361	68,188	643,379	52,350	1,000	-	-	-	1,501,998	4,406,294

[7] 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.
[8] 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 accounting value may be negative, for example, when an Executive's options are forfeited during the year.
[9] Mr Slattery held the role of interim CEO from 7 March 2023 to 15 May 2023. During this period, he was paid a fixed salary of $82,500 (including superannuation) per month for serving in the role. He did not participate in any performance-based remuneration plans. This table excludes payments made to Mr Slattery during his time as a NED, these are disclosed in section 7.3.
[10] Mr Reid commenced in his role as CEO on 15 May 2023. His remuneration has been pro-rated to reflect the period served.
[11] Mr Tworek commenced in his role as CRO on 21 November 2022. His remuneration has been pro-rated to reflect the period served.
[12] Mr English ceased in his role as CEO on 6 March 2023. His remuneration has been pro-rated to reflect the period served.
[13] Mr Cassidy ceased in his role as CFO on 27 March 2023. His remuneration has been pro-rated to reflect the period served.
[14] Mr Foreman ceased in his role as CRO on 20 May 2022. His remuneration has been pro-rated to reflect the period served.

9.2 Valuation of Outstanding Equity Awards

The value of outstanding awards under legacy equity plans are outlined below. No awards vested in FY23 and no additional grants were made under the legacy arrangements.

Option series	Outstanding options	Grant date	Grant date fair value $	Exercise price $	Vesting date	Expiry date
ESOP – series 2019 – 5	33,334	22-Nov-19	3.29	8.43	22-Nov-22	22-Nov-23

RSU series	Outstanding units	Grant date	Grant date fair value $	Vesting date
PRSU-Dec 2022	64,310	1-Dec-22	273,737	1-Sep-25
RSU-Dec 2022-1	7,571	1-Dec-22	46,948	1-Sep-23
RSU-Dec-2022-2	7,571	1-Dec-22	46,948	1-Sep-24
RSU-Dec-2022-3	7,571	1-Dec-22	46,948	1-Sep-25
	87,023		**414,581**	

Deferred shares	Outstanding units	Grant date	Grant date fair value per share $	Total fair value at grant date $	Vesting date
Tranche 1	12,054	23-Nov-22	8.297	100,000	23-Nov-23
Tranche 2	12,054	23-Nov-22	8.297	100,000	23-Nov-24
Tranche 3	12,054	23-Nov-22	8.297	100,000	23-Nov-25
	36,162			**300,000**	

Movement in Equity Awards

The following table details the movements in RSUs, PRSUs, Deferred Shares and Options during the financial year.

Name	Opening balance at 1 Jul 2022	Awards Granted during FY23	Grant date	Forfeited in FY23	Expired in FY23	Closing balance on 30 Jun 2023	Awards vested and exercisable at 30 Jun 2023	Total fair value of Awards at Grant Date
Directors								
B Slattery	66,667	6,027	23-Nov-22	-	(33,333)	39,361	33,334	159,687
J Adelson	-	6,027	23-Nov-22	-	-	6,027	-	50,000
N Seddon	-	6,027	23-Nov-22	-	-	6,027	-	50,000
M Klayko	-	6,027	23-Nov-22	-	-	6,027	-	50,000
M Snowden	-	6,027	23-Nov-22	-	-	6,027	-	50,000
G Gordon	-	6,027	23-Nov-22	-	-	6,027	-	50,000
Executive KMP								
M Reid	-	-	-	-	-	-	-	-
J Tworek	-	87,023	1-Dec-22	-	-	87,023	-	509,879
V English	1,000,000	234,434	1-Dec-22	(734,434)	(500,000)	-	-	-
S Cassidy	200,000	103,150	1-Dec-22	(253,150)	(50,000)	-	-	-

9.3 KMP Shareholdings

KMP	Balance at 01 July 2022	Shares Acquired	Shares Disposed	Net other changes during the year	Balance at 30 June 2023
Directors					
Bevan Slattery	8,165,940	-	(1,000,000)	-	7,165,940
Jay Adelson	18,000	-	-	-	18,000
Naomi Seddon	24,000	-	-	-	24,000
Michael Klayko	25,000	-	-	-	25,000
Melinda Snowden	-	11,000	-	-	11,000
Glo Gordon	-	-	-	-	-
Executive KMP					
Michael Reid	-	-	-	-	-
Jeff Tworek	-	-	-	-	-
Vincent English	1,608,124	-	(700,205)	(23,345)	884,574[15]
Sean Cassidy	3,567	1,500	-	137	5,204[16]

10. Loans and Other Transactions

10.1 Loans to KMP

No loans were made to Directors of Megaport Limited or other KMP of the Group, including their close family members and entities related to them, for the financial year ended 30 June 2023 (2022: nil).

[15] Mr English ceased employment on 6 March 2023. His balance as at this date is shown.
[16] Mr Cassidy ceased employment on 27 March 2023. His balance as at this date is shown.

10.2 Transactions and Balances with KMP of the Group

		2023 $	2022 $
Sales and purchases of goods and services			
Purchase of shared services from entities controlled by key management personnel	(i)	152,739	173,457
Purchase of direct network costs from entities related to key management personnel	(ii)	-	187,524
Legal services from entities controlled by key management personnel		27,245	-
Sale of network related services to entities related to key management personnel	(ii)	5,400	44,410
Sale of network equipment to entities related key management personnel		81,516	-
Other transactions			
Employee compensation of associates to key management personnel		68,057	97,375

(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 plus a margin of 20%, 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 (Relevant to 2022 only)

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.

10.3 Outstanding balances arising from entities related to key management personnel

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

	2023 $	2022 $
Amounts owed by related parties		
Entities related to key management personnel	29,700	4,236
	29,700	**4,236**
Amounts owed to related parties		
Entities related to key management personnel	27,627	-
	27,627	**-**

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.

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

On behalf of the Board of Directors

Michael Reid

Executive Director and Chief Executive Officer

Brisbane

22 August 2023

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Level 23, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000
Australia

Phone: +61 7 3308 7000
www.deloitte.com.au

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

22 August 2023

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 2023, 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

Richard Wanstall
Partner
Chartered Accountants

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

	Notes	2023 $'000	2022 $'000
Continuing operations			
Revenue	2	153,083	109,731
Direct network costs	3	(31,503)	(29,727)
Partner commissions	3	(17,655)	(11,745)
Gross profit		**103,925**	**68,259**
Interest income		698	122
Employee expenses		(61,522)	(58,712)
Professional fees		(6,594)	(6,774)
Marketing expenses		(4,361)	(2,524)
Travel expenses		(2,240)	(2,351)
IT costs		(3,470)	(3,411)
Equity-settled employee costs and related tax costs	5, 20	(3,513)	(4,430)
Depreciation and amortisation expense	5	(36,301)	(29,969)
Finance costs		(2,419)	(1,883)
Foreign exchange gains	5	11,315	10,055
Other expenses		(5,450)	(6,557)
Loss before income tax		**(9,932)**	**(38,175)**
Income tax benefit/(expense)	4(a)	158	(10,320)
Net loss for the year		**(9,774)**	**(48,495)**
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	(6,540)	(8,590)
Total other comprehensive loss, net of income tax		**(6,540)**	**(8,590)**
Total comprehensive loss for the year		**(16,314)**	**(57,085)**

Loss per share		**$**	**$**
Basic and diluted loss per share	6	(0.06)	(0.31)

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 2023

	Notes	2023 $'000	2022 $'000
Assets			
Current assets			
Cash and cash equivalents	7	48,455	82,545
Trade and other receivables and contract assets	8	25,974	15,508
Income tax receivable	4(b)	258	253
Other assets	9	3,767	4,599
Total current assets		**78,454**	**102,905**
Non-current assets			
Property, plant and equipment	10	53,903	60,612
Intangible assets	11	54,170	46,138
Deferred tax assets	4(c)	11,887	10,729
Other assets	9	3,812	-
Total non-current assets		**123,772**	**117,479**
Total assets		**202,226**	**220,384**
Liabilities			
Current liabilities			
Trade and other payables	14	36,292	35,137
Borrowings	18	11,212	13,100
Provisions	15	3,578	4,727
Income tax payable	4(b)	72	142
Other liabilities		343	39
Total current liabilities		**51,497**	**53,145**
Non-current liabilities			
Trade and other payables	14	2,436	-
Borrowings	18	8,747	14,172
Provisions	15	341	371
Deferred tax liabilities	4(c)	11,278	10,448
Total non-current liabilities		**22,802**	**24,991**
Total liabilities		**74,299**	**78,136**
Net assets		**127,927**	**142,248**
Equity			
Issued capital	16	412,844	407,405
Reserves	17	(4,281)	8,270
Other equity		(11,914)	(11,914)
Accumulated losses		(268,722)	(261,513)
Total equity		**127,927**	**142,248**

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 2023

	Notes	Issued capital $'000	Reserves $'000	Other equity^ $'000	Accumulated losses $'000	Total equity $'000
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		-	(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**
Balance at 1 July 2022		407,405	8,270	(11,914)	(261,513)	142,248
Loss for the year		-	-	-	(9,774)	(9,774)
Other comprehensive loss		-	(6,540)	-	-	(6,540)
Total comprehensive loss for the year		**-**	**(6,540)**	**-**	**(9,774)**	**(16,314)**
Transactions with owners in their capacity as owners:						
Issue of ordinary share capital	16	746	-	-	-	746
InnovoEdge – Milestone 2	16, 17	2,718	(2,718)	-	-	-
Transfer from equity-settled employee benefits reserves	16, 17	1,975	(4,540)	-	2,565	-
Equity settled share based payments	17, 20	-	1,247	-	-	1,247
Balance at 30 June 2023		**412,844**	**(4,281)**	**(11,914)**	**(268,722)**	**127,927**

^ 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 2023

	Notes	2023 $'000	Restated[#] 2022 $'000
Cash flows from operating activities			
Receipts from customers		158,372	115,589
Payments to suppliers and employees		(153,357)	(122,917)
Transaction costs relating to acquisition of subsidiary		-	(642)
Interest received		720	53
Income taxes paid		(125)	(68)
Vendor financing proceeds		8,082	-
Payment of vendor financing instalments		(3,502)	-
Net cash flows from/(used) in operating activities	7	**10,190**	**(7,985)**
Cash flows from investing activities			
Payments for property, plant and equipment		(17,594)	(25,996)
Payments for intangible assets		(15,200)	(13,882)
Proceeds from disposal of property, plant and equipment		68	21
Payments for acquisition of subsidiary		-	(10,401)
Net cash flows used in investing activities		**(32,726)**	**(50,258)**
Cash flows from financing activities			
Proceeds from issue of new shares	16	562	5,232
Share issue transactions costs		(23)	-
Proceeds from borrowings	18	4,210	14,394
Repayment of borrowings		(7,236)	(5,981)
Payment of principal portion of lease liabilities		(7,471)	(7,780)
Interest and other costs of finance paid		(1,964)	(1,845)
Transaction costs related to loans and borrowings		(447)	-
Net cash flows (used in)/from financing activities		**(12,369)**	**4,020**
Net decrease in cash and cash equivalents held		(34,905)	(54,223)
Effects of exchange rate changes on cash and cash equivalents		815	456
Cash and cash equivalents at beginning of the year		82,545	136,312
Cash and cash equivalents at end of the year	7	**48,455**	**82,545**

Refer to 'Overview' section for further details

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 2023.

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, interest received and interest paid have been classified as cash flows from operating activities and cash flows used in financing activities respectively in the Consolidated Statement of Cash Flows in order to provide improved transparency and alignment with the substance of the underlying cash flows in accordance with the requirements of AASB 107 *Statement of Cash Flows*. In the prior year financial statements, interest received and interest paid were presented as cash flows from investing activities and cash flows used in operating activities respectively. Historical financial information has been restated to account for the impact of the change in accounting policy, as below.

In $'000 **Financial statement item**	**30 June 2022 Inflow/(Outflow)** Interest and other costs of finance paid	Interest received
Consolidated Statement of Cash Flows		
Net cash flows from operating activities	1,845	53
Net cash flows used in investing activities	-	(53)
Net cash flows used in financing activities	(1,845)	-

The restatement did not have an impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, or the Consolidated Statement of Changes in Equity.

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.

Presentation currency

The Group lodged its financial statements for the half-year ended 31 December 2022 in US Dollars. During April 2023, the Board reassessed the appropriate reporting currency based on the transactions and balances that make up the Group's financial information, the users of the Group's financial information, and the Group's overall organisational strategic focus which was driven by the change in the Group's Key Management Personnel during the year. As a result of the reassessment, the Group is reverting to Australian Dollars ('$') as its reporting currency for the year ended 30 June 2023 onwards. Therefore, all amounts in these financial statements are presented in Australian dollars ('$'), 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 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.

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.

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
Impairment of assets	12
Determining the incremental borrowing rates for leases	13
Fair value measurements of equity-settled employee benefits	20

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

In the current year, the Group has applied the below amendments to Australian Accounting Standards issued by the Australian Accounting Standards Board that are effective for the Group's annual reporting period that began on 1 July 2022:

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments

The annual improvements amend the following standards:

- AASB 1 *First-time Adoption of International Financial Reporting Standards* to permit a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRS Accounting Standard.
- AASB 9 *Financial Instruments* to clarify that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes 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.
- AASB 16 *Leases* to amend Illustrative Example 13 to remove the illustration of the reimbursement of leasehold improvements by the lessor.
- AASB 141 *Agriculture* to remove the requirement to exclude cash flows for taxation when measuring the fair value of a biological asset using a present value technique.

The application of the amendments did not have a material impact on the Group's consolidated financial statements, as the amendments either do not affect the Group's existing accounting policies, or apply to situations, transactions and events that the Group does not undertake.

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

Amendments to AASB 3 *Business Combinations*

The amendments update AASB 3 so that it refers to the Conceptual Framework for Financial Reporting. They also add to AASB 3 a requirement that, for obligations within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies AASB 137 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of Interpretation 21 *Levies*, the acquirer applies Interpretation 21 to determine whether the obligation event that gives rise to a liability to pay the levy has occurred by the acquisition date.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. As there are no acquisitions in the current financial year, the application of amendments has not impacted the Group in the current financial year.

Property, Plant and Equipment – Proceeds before Intended Use

The amendments to AASB 116 *Property, Plant and Equipment* prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'.

AASB 116 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others or for administrative purposes.

The amendments have been applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management or on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The application of the amendment has not materially impacted on the Group's accounting policies in respect of the construction of assets.

Onerous Contracts – Cost of Fulfilling a Contract

The amendments to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* specify that the `cost of fulfilling' an onerous contract comprises the `costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The application of the amendments did not have a material impact on the Group's consolidated financial statements.

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 2023. 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:

d) New standards and interpretations not yet adopted (continued)

Effective for annual reporting periods beginning on or after	Standard/Amendment
1 January 2023	AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*
1 January 2023	AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
1 January 2023	AASB 2022-7 *Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards*
1 January 2024	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* and AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants*

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

Specifically, AASB 2021-2 amends:

- AASB 7 *Financial Instruments*: Disclosures, to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements;
- AASB 101 *Presentation of Financial Statements*, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates;
- AASB 134 *Interim Financial Reporting*, to identify material accounting policy information as a component of a complete set of financial statements;
- AASB *Practice Statement 2 Making Materiality Judgements*, to provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures.

Except for the amendments to AASB Practice Statement 2 (which provide non-mandatory guidance and therefore do not have an effective date), the amendments are effective for annual periods beginning on or after 1 January 2023. The amendments to the individual Standards may be applied early, separately from the amendments to the other Standards, where feasible.

The directors of the Company do not anticipate that the amendments will have a material impact on the Group, but may change the disclosure of accounting policy information 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.

The Group currently accounts for deferred taxes arising from leases, decommissioning liabilities and similar items in respect of the transaction as a whole. For example, in respect of leases, the entity seeks to reflect the linkage between the right-of-use asset and the lease liability and recognise deferred tax on an aggregate temporary difference basis. On application of the amendments, deferred tax amounts will instead be recognised in respect of each separate part of the overall transaction, e.g. in respect of each of the right-of-use asset and lease liability.

d) New standards and interpretations not yet adopted (continued)

Therefore, the amendments will not impact the net assets of the Group, but may change the makeup of net deferred taxes recognised in the statement of financial position.

The amendments apply to annual reporting periods beginning on or after 1 January 2023.

AASB 2022-7 makes editorial corrections to six Australian Accounting Standards and AASB Practice Statement 2 *Making Materiality Judgements*. The corrections include corrections made by the IASB to IFRS Accounting Standards since June 2021. The amendment also repeals Australian Accounting Standards that have been superseded by other Standards but not formally repealed. It also repeals Standards that amend other Standards as their principal purpose but which have not been formally repealed, provided their Parliamentary disallowance period and legal commencement date have passed.

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:

- Introduce a definition of 'settlement' that makes it clear that settlement refers to the transfer to the counterparty of cash, other economic resources (such as goods or services) or an entity's own equity instruments;
- 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 (e.g. if management intends to settle the liability within 12 months after the reporting date;
- Specify the impact of covenants on an entity's right to defer settlement for at least 12 months (in that only covenants that must be relevant on or before the reporting date affect that right);
- Introduce a requirement to disclose information in the notes which enables users of the financial statements to understand the risk that non-current liabilities with covenants may become repayable within 12 months; and
- Defer the application of the amendments to financial reporting periods beginning on or after 1 January 2024.

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

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 26 June 2023, the International Sustainability Standards Board ('ISSB') issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

IFRS S1 sets out the core content requirements for a complete set of sustainability-related financial disclosures and requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The effect on the entity's prospects refers to the effect on the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

IFRS S2 requires an entity to provide information about its exposure to climate-related risks and opportunities. The standard sets out the requirements for the identification, measurement and disclosure of climate-related financial information.

e) IFRS sustainability developments (continued)

Furthermore, it 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.

In Australia, the Australian Government Treasury released a Climate-related financial disclosure consultation paper in June 2023 requesting feedback on proposed positions for the detail, implementation and sequencing of standardised, internationally-aligned requirements for the disclosure of climate-related financial risks and opportunities in Australia. The consultation paper proposes that mandatory climate-related financial disclosures be required to be included in an entity's financial report. The disclosures are to be closely aligned with the ISSB Sustainability Standards, the Australian equivalents will be set by the AASB which will take into consideration any Australian-specific requirements. The standards are expected to become effective using a phased approach based on prescribed size thresholds starting from the 2024-2025 financial year. Based on the proposed approach, it is expected the standards will become effective for the Group for the financial year ended 30 June 2028.

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 entity within the Group 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 individual entity within the Group 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.

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

(i) Foreign currencies (continued)

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 and use 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:

- **North America,** established in April 2016. There are now 209 installed data centres across the United States of America, Canada, Mexico, and Brazil (2022: 210).
- **Asia-Pacific,** including Australia, New Zealand, Hong Kong, Singapore and Japan. As of 30 June 2023, 100 installed data centres operate across Asia-Pacific (2022: 108).
- **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 91 installed data centres across Europe (2022: 105).
- **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, Gross profit, and Reported 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 2023 and 30 June 2022 are as follows:

2023	North America $'000	Asia-Pacific $'000	Europe $'000	Total operating segments $'000	Other[1] $'000	Total $'000
Revenue from direct sales channel[2]	56,553	28,696	16,070	101,319	-	101,319
Revenue from indirect sales channel[3]	28,893	14,661	8,210	51,764	-	51,764
Total revenue[4]	**85,446**	**43,357**	**24,280**	**153,083**	**-**	**153,083**
Gross profit	**51,448**	**34,233**	**18,244**	**103,925**	**-**	**103,925**
Reported EBITDA[5]	**33,750**	**25,676**	**8,106**	**67,532**	**(42,324)**	**25,208**
Interest income	7	168	-	175	523	698
Depreciation and amortisation expense	(9,688)	(6,221)	(3,602)	(19,511)	(16,790)	(36,301)
Equity-settled employee costs and related tax costs[6]	(750)	(1,346)	(236)	(2,332)	(1,181)	(3,513)
Finance costs	(70)	(934)	(94)	(1,098)	(1,321)	(2,419)
Foreign exchange (losses)/gains	5,077	(407)	2,809	7,479	3,836	11,315
Non-operating income/(expenses)[7]	(1,018)	(296)	(702)	(2,016)	(2,904)	(4,920)
Income tax benefit/(expenses)	1,876	525	775	3,176	(3,018)	158
Net profit/(loss) for the year	**29,184**	**17,165**	**7,056**	**53,405**	**(63,179)**	**(9,774)**
Additions to PPE and intangible assets[8]	15,618	4,918	2,841	23,377	11,986	35,363
As at 30 June 2023						
Segment assets	**84,801**	**49,660**	**25,433**	**159,894**	**42,332**	**202,226**

1. Other represents head office and group services costs, whose function is to support the operating segments and growth of the global business.
2. Revenue generated directly from end-user customers.
3. Revenue generated through or from external partner resellers.
4. Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the year ended 30 June 2023 and 30 June 2022.
5. Reported Earnings Before Interest Tax Depreciation and Amortisation ('Reported EBITDA') represents operating results excluding equity-settled employee costs and related tax costs, foreign exchange gains/(losses) and non-operating income/(expenses).
6. Equity-settled employee costs within operating segments relate to employee bonuses to be paid in the form of Restricted Stock Units, refer to Note 20 for further information.
7. Non-operating expenses represent restructuring costs, gain/loss on disposal/write off of intangible assets, property, plant ('PPE') and equipment and right of use assets.
8. Additions to PPE and intangible assets includes right-of-use assets.

1. Segment reporting (continued)

(c) Segment performance and position (continued)

2022	North America $'000	Asia-Pacific $'000	Europe $'000	Total operating segments $'000	Other[1] $'000	Total $'000
Revenue from direct sales channel[2]	38,180	22,105	12,137	72,422	-	72,422
Revenue from indirect sales channel[3]	19,668	11,388	6,253	37,309	-	37,309
Total revenue[4]	**57,848**	**33,493**	**18,390**	**109,731**	**-**	**109,731**
Gross profit	**30,146**	**25,834**	**12,279**	**68,259**	**-**	**68,259**
Reported EBITDA[5]	**10,774**	**17,703**	**3,148**	**31,625**	**(43,895)**	**(12,270)**
Interest income	-	8	-	8	114	122
Depreciation and amortisation expense	(7,972)	(5,266)	(3,719)	(16,957)	(13,012)	(29,969)
Equity-settled employee costs and related tax costs	-	-	-	-	(4,430)	(4,430)
Finance costs	(77)	(880)	(116)	(1,073)	(810)	(1,883)
Foreign exchange (losses)/gains	9,200	(931)	(1,611)	6,658	3,397	10,055
Non-operating income/(expenses)[6]	20	14	1	35	165	200
Income tax (expense)/benefit	(3,382)	(2,396)	357	(5,421)	(4,899)	(10,320)
Net profit/(loss) for the year	**8,563**	**8,252**	**(1,940)**	**14,875**	**(63,370)**	**(48,495)**
Additions to PPE and intangible assets[7]	32,370	25,758	4,557	62,685	16,451	79,136
As at 30 June 2022						
Segment assets	**69,907**	**53,355**	**29,292**	**152,554**	**67,830**	**220,384**

1. 'Other' represents head office and group services costs, whose function is to support the operating segments and growth of the global business.
2. Revenue generated directly from end-user customers.
3. Revenue generated through or from external partner resellers.
4. Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the year ended 30 June 2023 and 30 June 2022.
5. Reported Earnings Before Interest Tax Depreciation and Amortisation ('Reported EBITDA') represents operating results excluding equity-settled employee costs and related tax costs, foreign exchange gains/(losses) and non-operating income/(expenses).
6. Non-operating expenses represent InnovoEdge acquisition costs, gain/loss on disposal/write off of intangible assets, property, plant and equipment ('PPE') and right of use assets.
7. Additions to PPE and intangible assets includes right-of-use assets.

1. Segment reporting (continued)

(c) Segment performance and position (continued)

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

	2023		2022	
Location	**$'000**	**%**	**$'000**	**%**
United States of America	82,266	53.7	55,881	50.9
Australia	26,176	17.1	21,660	19.8
Germany	8,864	5.8	8,035	7.3
United Kingdom	8,584	5.6	6,336	5.8
Other countries	27,193	17.8	17,819	16.2
Total	**153,083**	**100.0**	**109,731**	**100.0**

No single customer contributed 10% or more to the Group's revenue for both the financial years ending 30 June 2023 and 30 June 2022.

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

	2023		2022	
Location	**$'000**	**%**	**$'000**	**%**
United States of America	49,525	45.8	45,461	42.6
Australia	40,915	37.9	39,645	37.1
Germany	3,287	3.0	3,662	3.4
United Kingdom	1,665	1.5	2,361	2.2
Other countries	12,681	11.8	15,621	14.7
Total	**108,073**	**100.0**	**106,750**	**100.0**

2. Revenue

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

	2023 $'000	2022 $'000
Direct sales channel – rendering of services^	101,319	72,422
Indirect sales channel – rendering of services*	51,764	37,309
Total revenue from contracts with customers	**153,083**	**109,731**

^ Revenue generated directly from end-user customers.
* Revenue generated through or from external partner resellers.

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.

2. Revenue (continued)

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. The Group has concluded that it is the principal in both direct and indirect sales arrangements as it provides and controls the services to which the revenue relates. 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. The network service provided to each customer comprises a combination of elements which are billed at the beginning of the month together in one invoice. Some elements of the overall service have a fixed monthly charge billed during the month in which the service is provided, and the remaining elements are billed in the following month once actual network usage by the customer for the month is known.

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, and network operation and maintenance, 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

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

(i) Major components of income tax benefit/(expense)

	2023 $'000	2022 $'000
Current income tax (expense)/benefit	(51)	137
Deferred income tax benefit/(expense)	209	(10,457)
Total income tax benefit/(expense)	**158**	**(10,320)**

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

	2023 $'000	2022 $'000
Accounting loss before income tax	(9,932)	(38,175)
Tax at the Australian tax rate of 30% (2022: 30%)	2,980	11,453
Non-deductible or non-taxable amounts	(477)	(267)
Recognition of temporary differences previously not brought to account	(1,400)	4,354
Difference in overseas tax rates	(899)	(2,057)
Unused tax losses recognised/(not recognised)	(334)	(21,609)
Minimum taxes/withholding taxes	(82)	(7)
Adjustment in respect of prior years	370	(2,187)
Total income tax benefit/(expense)	**158**	**(10,320)**

Income tax (continued)

(a) Income tax benefit/(expense) 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

	2023 $'000	2022 $'000
Income tax receivable	258	253
Income tax payable	(72)	(142)
Net current tax receivable/(payable)	**186**	**111**

(c) Deferred tax assets and liabilities

	2023 $'000	2022 $'000
Deferred tax assets	11,887	10,729
Deferred tax liabilities	(11,278)	(10,448)
Net deferred tax assets	**609**	**281**

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 $5.9 million (2022: $7.5 million), meaning the net deferred tax assets and liabilities for the Group are $6.0 million (2022: $3.3 million) and $5.4 million (2022: $3.0 million) respectively.

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.

4. Income tax (continued)

(c) Deferred tax assets and liabilities (continued)

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.

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 2023

Deferred tax assets	**Opening balance $'000**	**Recognised in profit or loss $'000**	**Exchange differences $'000**	**Closing balance $'000**
Intangible assets	34	-	11	45
Share issue costs and options	2,498	(907)	27	1,618
Accruals and other payables	2,883	821	(179)	3,525
Unrealised foreign exchange and others	3,367	1,791	(142)	5,016
Tax losses (non-capital)	1,947	(354)	90	1,683
Deferred tax assets	**10,729**	**1,351**	**(193)**	**11,887**

4. Income tax (continued)

(c) Deferred tax assets and liabilities (continued)

30 June 2023

Deferred tax liabilities	**Opening balance $'000**	**Recognised in profit or loss $'000**	**Exchange differences $'000**	**Closing balance $'000**
Intangible assets	(3,114)	(2,097)	(56)	(5,267)
Share issue costs and options	-	-	-	-
Accruals and other payables	(616)	(17)	153	(480)
Unrealised foreign exchange and others	(6,718)	971	216	(5,531)
Deferred tax liabilities	**(10,448)**	**(1,143)**	**313**	**(11,278)**

30 June 2022

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)
Deferred tax liabilities	**(65)**	**(9,729)**	**(541)**	**(113)**	**(10,448)**

A deferred tax asset in relation to unused tax losses is $1.7 million (2022: $1.9 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.

4. Income tax (continued)

(c) Deferred tax assets and liabilities (continued)

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

	2023 $'000	2022 $'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	72,174	69,620
Total deferred tax assets not recognised	**72,174**	**69,620**

The deferred tax asset not recognised above is the result of unused tax losses in the United States of America of $134.0 million (2022: $137.0 million), in Australia of $101.3 million (2022: $95.1 million), in the United Kingdom of $8.8 million (2022: $11.5 million), in Hong Kong of $6.1 million (2022: $6.5 million), in Germany of $4.6 million (2022: $9.2 million), in Singapore of $2.8 million (2022: $6.6 million), and in other countries totalling $40.2 million (2022: $28.1 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	2023 $'000	2022 $'000
Income and expenses			
Depreciation and amortisation:			
Depreciation of property, plant and equipment	10	19,030	15,923
Depreciation of right-of-use-assets	10, 13	7,584	8,077
Amortisation of intangible assets	11	9,687	5,969
		36,301	**29,969**
Equity-settled employee costs and related tax costs:			
Employee share option plans	20, (a)	(2,058)	2,136
Employee share plan – Employees	20	-	254
Deferred shares plan – Non-executive directors	20	100	-
Restricted stock units	20	5,444	1,127
Share related costs	20	9	112
Employee share plan tax and other related costs	20	18	801
		3,513	**4,430**
Other expense disclosures:			
Employees' superannuation expense		3,424	3,149
Foreign exchange gains	(b)	(11,315)	(10,055)
Interest expense on lease liabilities		784	802
Interest expense on other borrowings		790	790
Expense relating to short-term leases	(c)	435	1,350

Notes:

(a) During the year 600,000 unvested options were forfeited. Prior to being forfeited, the amount included in the employee share option reserve was $2.3 million, which was reversed through the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The expense of employee share option plans as the result of vesting of options was $0.2 million. As a result, the expense from employee share option plans for the year ended 30 June 2023 was a net benefit to the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(b) The Group provides funding support to subsidiaries to invest in network equipment and fund operating losses until they become established and self-funding. As a result, the Group may be subject to foreign currency gains or losses on intercompany receivables and payables, and cash balances held in foreign currencies. Refer to Note 19 for further details.

(c) During the year, a number of contracts with an initial fixed term of twelve months transitioned to a month to month contract. They therefore no longer met the definition of a short term lease under AASB 16, and are not included in this line item for the year ended 30 June 2023.

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:

	2023 $'000	2022 $'000
Net loss for the year attributable to owners of the Company	(9,774)	(48,495)
Loss used in the calculation of basic and diluted loss per share	**(9,774)**	**(48,495)**

	2023 No. of Shares	2022 No. of Shares
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	158,234,786	157,532,992

	2023 $	2022 $
Basic and diluted loss per share	(0.06)	(0.31)

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 204,168 (2022: 1,778,335) outstanding employee share options, 422,862 (2022: 593,670) equivalent outstanding restricted stock units issued to employees, 341,648 (2022: nil) outstanding restricted stock units issued to the executives and 36,162 deferred shares 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	2023 $'000	2022 $'000
Cash at bank	(a)	48,455	82,545
Total cash and cash equivalents		**48,455**	**82,545**

Notes:

(a) Included in cash at bank is an amount of $6,546,285 (2022: $6,594,456) 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 0.633% - 4.550% (2022: 0% - 0.30%). The weighted average interest rate for the year was 4.174% (2022: 0.074%).

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.

7. Cash and cash equivalents (continued)

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 from/(used in) operating activities

Cash flows from/(used in) operating activities	**Notes**	**2023 $'000**	**Restated* 2022 $'000**
Loss for the year		(9,774)	(48,495)
Adjustments for:			
Depreciation and amortisation	5	36,301	29,969
(Gain)/loss on disposal or write-off of non-current assets		32	(92)
Net foreign exchange differences	5	(11,315)	(10,055)
Equity-settled employee costs	20	3,513	3,263
Deferred income tax (benefit)/expense	4	(209)	10,457
Other non cash adjustment to operating profit		(785)	24
Finance costs		2,419	1,883
Operating cash flows before movements in working capital		**20,182**	**(13,046)**
Movements in working capital:			
Increase in trade and other receivables and contract assets		(10,096)	(5,343)
Increase in other assets		(2,980)	(1,557)
Increase in operating trade and other payables		4,377	10,909
Increase in tax assets and liabilities		(75)	(166)
Decrease/(increase) in other liabilities and provisions		(1,218)	1,218
Net cash from/(used in) operating activities		**10,190**	**(7,985)**

* Refer to 'Overview' section for further details

8. Trade and other receivables and contract assets

(a) Trade and other receivables and contract assets

	Notes	**2023 $'000**	**2022 $'000**
Trade receivables	(a)	18,119	10,202
Contract assets	(b)	8,911	5,908
Less: Allowance for expected credit losses	(c)	(1,129)	(699)
		25,901	**15,411**
Interest receivable		53	75
Other receivables		20	22
Total trade and other receivables and contract assets		**25,974**	**15,508**

8. Trade and other receivables and contract assets (continued)

(a) Trade and other receivables and contract assets (continued)

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 the first working day 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 and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

(b) Allowance for ECL

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.

2023	**Not past due**	**1-30 days past due**	**31-60 days past due**	**61+ days past due**	**Total**
Gross	10,095	1,984	1,315	4,725	18,119
Past due but no ECL has been recognised	-	1,903	1,266	3,856	7,025
Allocation of ECL	130	81	49	869	1,129

2022	**Not past due**	**1-30 days past due**	**31-60 days past due**	**61+ days past due**	**Total**
Gross	7,252	1,631	358	961	10,202
Past due but no ECL has been recognised	-	1,560	332	421	2,313
Allocation of ECL	63	71	26	539	699

Movements in the allowance for ECL are as follows:

	2023 $'000	**2022 $'000**
Balance at beginning of the year	699	380
Additional allowances recognised	567	581
Amounts written off during the year as uncollectable	(102)	(235)
Exchange differences	(35)	(27)
Balance at end of the year	**1,129**	**699**

8. Trade and other receivables and contract assets (continued)

c) Recognition and measurement (continued)

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 receivables and 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.

9. Other assets

	2023 $'000	2022 $'000
Current		
Prepayments	3,478	4,176
Deposits and bonds	289	423
	3,767	**4,599**
Non-current		
Prepayments	3,812	-
	3,812	**-**
Total other assets	**7,579**	**4,599**

9. Other assets (continued)

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. Non-current prepayments relate to amounts paid upfront in relation to a support contract that was subsequently funded by a vendor financing arrangement. Refer to Note 14 for further information.

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	Undeployed equipment $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2023								
Opening net book amount	**35,910**	**75**	**778**	**160**	**13,068**	**3,393**	**7,228**	**60,612**
Additions	378	-	179	-	4,799	4,416	10,315	20,087
Transfers within property, plant and equipment	12,006	560	34	-	-	(2,491)	(10,109)	-
Disposals	(61)	-	(3)	-	(1,247)	-	(9)	(1,320)
Depreciation charge	(16,794)	(195)	(466)	(160)	(7,584)	(1,415)	-	(26,614)
Exchange differences	955	2	16	-	57	37	71	1,138
Net book value as at 30 June 2023	**32,394**	**442**	**538**	**-**	**9,093**	**3,940**	**7,496**	**53,903**
At 30 June 2023								
Cost	100,534	637	2,385	452	20,788	5,355	7,496	137,647
Accumulated depreciation	(68,140)	(195)	(1,847)	(452)	(11,695)	(1,415)	-	(83,744)
Net book value as at 30 June 2023	**32,394**	**442**	**538**	**-**	**9,093**	**3,940**	**7,496**	**53,903**

*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	Undeployed equipment $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2022								
Opening net book amount	**31,483**	**115**	**532**	**382**	**7,685**	**481**	**2,048**	**42,726**
Additions	-	26	557	-	14,716	7,521	20,628	43,448
Transfers within property, plant and equipment	19,246	-	76	-	-	(4,621)	(14,701)	-
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	1,105	4	13	9	(119)	12	27	1,051
Net book value as at 30 June 2022	**35,910**	**75**	**778**	**160**	**13,068**	**3,393**	**7,228**	**60,612**
At 30 June 2022								
Cost	85,307	294	2,212	704	23,738	3,393	7,228	122,876
Accumulated depreciation	(49,397)	(219)	(1,434)	(544)	(10,670)	-	-	(62,264)
Net book value as at 30 June 2022	**35,910**	**75**	**778**	**160**	**13,068**	**3,393**	**7,228**	**60,612**

*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
Undeployed equipment	4 years	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.

During the year, it was determined that certain undeployed equipment on hand, previously included in assets under construction had a reduced useful life as a result of technological advancements included in newer equipment. An accelerated depreciation charge has been recognised in the current year financial statements to measure the undeployed useful life based on its remaining useful life.

(c) Capital expenditure commitments

The Group had $2,158,462 of commitments to purchase property, plant and equipment at 30 June 2023 (2022: nil).

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 2023								
Opening net book amount	**14,971**	**141**	**-**	**2,049**	**357**	**19,883**	**8,737**	**46,138**
Additions	-	-	-	-	-	-	15,276	15,276
Transfers	13,179	-	-	-	115	-	(13,294)	-
Disposals	-	-	-	-	-	-	(73)	(73)
Amortisation charge	(9,146)	(53)	-	(428)	(60)	-	-	(9,687)
Exchange differences	255	12	-	79	3	2,060	107	2,516
Net book value as at 30 June 2023	**19,259**	**100**	**-**	**1,700**	**415**	**21,943**	**10,753**	**54,170**
At 30 June 2023								
Cost	40,822	705	883	4,340	716	21,943	10,753	80,162
Accumulated amortisation	(21,563)	(605)	(883)	(2,640)	(301)	-	-	(25,992)
Net book value as at 30 June 2023	**19,259**	**100**	**-**	**1,700**	**415**	**21,943**	**10,753**	**54,170**

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 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**

Additional information relating to software intangible assets
Qualifying costs relating to the software 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 2023 was $980,000 (2022: $1,245,000), 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.

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.

11. Intangible assets (continued)

(a) Recognition and measurement (continued)

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.

(c) Capital expenditure commitments

The Group had no commitments to purchase intangible assets at 30 June 2023 (2022: nil).

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 amount 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 as the Europe CGU contains goodwill on acquisition of Megaport (Deutschland) GmbH and the North America contains goodwill recognised on acquisition of InnovoEdge, Inc. (refer to Note 22).

The carrying amount of goodwill is as follows:

CGU	Note	2023 $'000	2022 $'000
Europe		1,620	1,497
North America		20,323	18,386
Total goodwill	11	**21,943**	**19,883**

The movement in goodwill between 30 June 2022 and 30 June 2023 is the result of movement in the foreign currency exchange rates of the functional currency which the goodwill is measured in.

Goodwill is tested for impairment annually. The Group performed its annual impairment test using the carrying value as at 30 June 2023 (2022: carrying value as at 30 June 2022).

12. Impairment assessment (continued)

(a) Impairment of Goodwill (continued)

The recoverable amount of the CGUs 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:

	2023	2022
Pre-tax discount rate	12.22%	14.38%
Terminal growth rate	1.25%	1.20%
Cash flows beyond the next financial year are extrapolated using a growth rate of:		
Revenue growth (years 2 – 5)	15%	32%
Direct network costs (years 2 – 5)	11%	15%
Partner commissions (years 2 – 5)	11%	23%
Operational expenses growth (years 2 – 5)	10%	10%
Labour expenses growth (years 2 – 5)	5%	8%
Travel & Marketing expenses growth (years 2 – 5)	10%	10%

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

	2023	2022
Pre-tax discount rate	12.01%	12.95%
Terminal growth rate	1.70%	1.20%
Cash flows beyond the next financial year are extrapolated using a growth rate of:		
Revenue growth (years 2 – 5)	25%	57%
Direct network costs (years 2 – 5)	19%	15%
Partner commissions (years 2 – 5)	19%	23%
Operational expenses growth (years 2 – 5)	10%	10%
Labour expenses growth (years 2 – 5)	5%	8%
Travel & Marketing expenses growth (years 2 – 5)	10%	10%

- *Revenue, using the budgeted revenue for the year ending 30 June 2024 and projections for a further four years.*
- *Expenses, using the budgeted expenses for the year ending 30 June 2024 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.*
- *Terminal value, calculated based on inflation trends and target GDP growth rate.*

12. Impairment assessment (continued)

(a) Impairment of Goodwill (continued)

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. 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 the impairment testing performed, no impairment expense was recognised for the year ended 30 June 2023 (30 June 2022: 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 such 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 2023, 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 to the extent 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 2024 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 products sold, achievement of annual recurring revenue ('ARR'), total revenue, gross margin, EBITDA, 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.

12. Impairment assessment (continued)

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

- 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 1.5 years and 10 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*

	2023 $'000	2022 $'000
Network equipment	6,740	9,007
Properties	2,353	4,061
Total right-of-use assets	**9,093**	**13,068**

*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 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**
Additions	4,799	-	4,799
Depreciation expense	(5,841)	(1,743)	(7,584)
Terminations	(1,247)	-	(1,247)
Exchange differences	23	34	57
As at 30 June 2023	**6,741**	**2,352**	**9,093**

(b) Lease liabilities

	2023 $'000	2022 $'000
Current	4,744	6,509
Non-current	4,924	7,080
Total lease liabilities	**9,668**	**13,589**

The Group had total cash outflows for leases of $8.7 million in 2023 (2022: $9.9 million).

13. Leases (continued)

(b) Lease liabilities (continued)

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
2023			
Extension options expected not to be exercised	677	5,482	6,159
Termination options expected to be exercised	-	-	-
Total as at 30 June 2023	**677**	**5,482**	**6,159**

	Within five years $'000	More than five years $'000	Total $'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**

The Group has various lease contracts that have not yet commenced as at 30 June 2023. The future lease payments for these non-cancellable lease contracts are $336,494 within one year and $336,494 within five years.

(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.

13. Leases (continued)

(c) Recognition and measurement

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.

(d) 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	2023 $'000	2022 $'000
Current			
Trade payables	(i), (iii)	2,703	10,255
Accrued expenses		18,498	12,321
Employee entitlements	(ii), (v)	8,962	9,612
Goods and services tax payable		3,761	2,604
Other payables	(iii)	231	345
Vendor financing – working capital	(iv)	2,137	-
		36,292	**35,137**
Non-current			
Vendor financing – working capital	(iv)	2,436	-
		2,436	**-**
Total trade and other payables		**38,728**	**35,137**

Notes:

- (i) Trade payables are non-interest bearing and are normally settled on terms ranging from 14 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)), the balance at 30 June 2022 included $263,000 accrued for the employee share plan, refer to Note 20 for further information.
- (iv) Vendor financing – working capital: represents the outstanding balance for support and maintenance costs and insurance premiums that have been prepaid on behalf of the Group via vendor financing agreements. The balance does not carry interest and is repayable via equal instalments over 36 months from each prepayment date. Due to the nature and timing of the services being received as well as the repayment life cycle of these agreements, these arrangements are considered part of the working capital used in the Group's normal operating cycle. The Group has therefore classified these costs under trade and other payables to reflect the substance of the arrangement. The associated cash inflows and outflows of the arrangement have been included in operating cash flows.
- (v) Includes an amount of $2,344,300, (2022: nil) for employee bonuses to be paid in the form of Restricted Stock Units, refer to Note 20 for further information.

14. Trade and other payables (continued)

(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. The bonus in relation to the year ended 30 June 2023 will be paid out in restricted stock units that will vest during September 2023 and March 2024.

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

	2023 $'000	2022 $'000
Current		
Annual leave provision	3,517	4,727
Long service leave provision	61	-
	3,578	**4,727**
Non-current		
Long service leave provision	341	371
	341	**371**
Total provisions	**3,919**	**5,098**

(a) 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.

15. Provisions (continued)

(a) Recognition and measurement (continued)

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.

(b) 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.

(c) 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**	
	2023	**2022**	**2023**	**2022**
Fully paid	158,593,166	157,949,016	412,844	407,405
Total issued capital	**158,593,166**	**157,949,016**	**412,844**	**407,405**

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 2021	156,598,437	395,935
InnovoEdge consideration shares – Milestone 1	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**
InnovoEdge consideration shares – Milestone 2	161,233	2,718
Shares issued – employee share plan	29,866	184
Shares issued – employee share options exercised	178,334	562
Shares issued – restricted stock units settlement	274,717	1,641
Transfer from equity-settled employee benefits reserve	-	334
Balance at 30 June 2023	**158,593,166**	**412,844**

17. Reserves

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

	Note	2023 $'000	2022 $'000
Foreign currency translation reserve	(i)	(12,661)	(6,121)
Employee share option reserve	(ii)	831	5,788
Employee restricted stock units reserve	(iii)	2,691	1,127
Contingent consideration shares reserve	(iv)	4,758	7,476
Directors' shares reserve	(v)	100	-
Total reserves		**(4,281)**	**8,270**

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	Directors shares reserve	Total $'000
Balance at 1 July 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**
Exchange differences arising on translation of foreign operations	(6,540)	-	-	-	-	(6,540)
Share options reserve release to share capital	-	(334)	-	-	-	(334)
Share options reserve released to retained earnings	-	(2,565)	-	-	-	(2,565)
Share options expense	-	(2,058)	-	-	100	(1,958)
RSU expense	-	-	3,205	-	-	3,205
RSU reserve release to share capital	-	-	(1,641)	-	-	(1,641)
Issue of shares on completion of Milestone 2	-	-	-	(2,718)	-	(2,718)
Balance at 30 June 2023	**(12,661)**	**831**	**2,691**	**4,758**	**100**	**(4,281)**

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 the RSU General and RSU Executive plans. 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 2022. Further information about contingent shares is set out in Note 22.

(v) Director shares reserve

The Director shares reserve relates to shares issued under the employee share plan ('ESP') to the Company's Directors. Amounts are transferred out of the reserve into issued capital when the shares are issued. Further information about the employee share plan is set out in Note 20.

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	2023 $'000	2022 $'000
At amortised cost			
Current			
Lease liabilities	13, (a)	4,744	6,509
Vendor financing – capital expenditure	(b)	6,468	6,591
		11,212	**13,100**
Non-current			
Lease liabilities	13, (a)	4,924	7,080
Vendor financing – capital expenditure	(b)	3,823	7,092
		8,747	**14,172**
Total borrowings		**19,959**	**27,272**

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) Vendor financing – capital expenditure: represents the outstanding balance of the drawn 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. The associated cash inflows and outflows of the arrangement have been included in financing cash flows. Arrangements relating to maintenance and support contracts are not included in this balance and are classified as trade and other payables, refer to Note 14 for further information.

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 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**
Additions (cash)	-	4,210	4,210
Additions (non-cash)	4,799	-	4,799
Fair value adjustment on initial recognition (non-cash)	-	(366)	(366)
Interest accretion	784	790	1,574
Repayment (cash)	(8,255)	(8,026)	(16,281)
Terminations (non-cash)	(1,295)	-	(1,295)
Exchange differences	46	-	46
Balance at 30 June 2023	**9,668**	**10,291**	**19,959**

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.

	2023 $'000	2022 $'000
Total borrowings*	19,959	27,272
Total equity	127,927	142,248
Gearing ratio	**15.6%**	**19.2%**

*Total borrowings include lease liabilities accounted for under AASB 16 *Leases*. At 30 June 2023, other external borrowings comprised the $10.3 million vendor financing agreements in relation to capital expenditure items (2022: $13.7 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	2023 $'000	2022 $'000
Financial assets – at amortised cost			
Cash and cash equivalents	7	48,455	82,545
Trade and other receivables and contract assets	8	25,974	15,508
Deposits and bonds	9	289	423
Total financial assets		**74,718**	**98,476**
Financial liabilities – at amortised cost			
Trade and other payables	14	38,728	35,137
Borrowings	18	19,959	27,272
Total financial liabilities		**58,687**	**62,409**

(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.

19. Financial Risk Management (continued)

(a) Market risk (continued)

(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	2023 $'000	2022 $'000
Australian Dollar (AUD)	18,500	51,782
United States Dollar (USD)	14,103	11,919
European Union Euro (EUR)	9,344	5,993
New Zealand Dollar (NZD)	1,470	3,023
Swiss Franc (CHF)	177	2,893
British Pound Sterling (GBP)	1,351	2,181
Hong Kong Dollar (HKD)	1,051	1,562
Singapore Dollar (SGD)	814	569
Canadian Dollar (CAD)	332	275
Others	1,313	2,348
Total cash and cash equivalents	**48,455**	**82,545**

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 2023, where balances are not denominated in the functional currency of the subsidiary.

	Effect on net profit/(loss)	
10% strengthening/weakening of AUD	**2023 $'000**	**2022 $'000**
USD	468/(468)	405/(405)
Euro	345/(345)	147/(147)

19. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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 2023, 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 $167,264 higher/$167,264 lower (2022: $1,149,375 higher/$1,149,375 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:

	2023		2022	
	$'000	**Credit Rating***	**$'000**	**Credit Rating***
Australia	7,713	AA-	40,079	AA-
Australia	16,906	A+	16,165	A+
North America	8,105	A+	6,491	A+
North America	-	A-	62	A-
Asia	5,216	AA-	5,432	AA-
Asia	359	A	401	A
Europe	778	AA-	771	AA-
Europe	8,756	A+	12,516	A+
Europe	622	BBB	628	BBB
Total cash and cash equivalents	**48,455**		**82,545**	

* In determining the credit quality of these financial assets, Megaport Limited has used the long-term rating from Standard & Poor's as of June 2023 (2022: Standard & Poor's as of June 2022).

19. Financial Risk Management (continued)

(b) Credit risk (continued)

(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 2023, 80% of the trade receivable balance was due from 290 customers (2022: 80% from 360 customers). Also, no single 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 $48.5 million (2022: $82.5 million).

The Group manages liquidity risk by monitoring cash flows and estimating future operational draws on cash reserves. At 30 June 2023, the Group had vendor financing in relation to working capital items (Note 14) and capital expenditure (Note 18) with an undiscounted total of $15.2 million (2022: $14.7 million) to manage liquidity risk. There were no other significant financing facilities (excluding lease liabilities) at 30 June 2023.

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 2023.

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	-	11,683	23,178	1,431	2,436	38,728	38,728
Lease liabilities	6.0	472	1,370	3,141	5,346	10,329	9,668
Other borrowings	6.0	601	1,202	5,102	3,956	10,861	10,291
Total at 30 June 2023		**12,756**	**25,750**	**9,674**	**11,738**	**59,918**	**58,687**
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	662	1,912	4,648	7,428	14,650	13,683
Total at 30 June 2022		**22,510**	**17,901**	**8,868**	**15,060**	**64,339**	**62,409**

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.

Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. Unexercised share options are transferred to retained earnings upon expiration.

(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.

20. Equity-settled employee benefits and related expenses (continued)

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

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

The following arrangements under the ESOP General were in existence as of 30 June 2023:

Option series	Number of outstanding options	Grant date	Vesting date	Expiry date	Exercise price $	Fair value at grant date $
Series 2019-3	33,334	20-Aug-19	20-Aug-22	20-Aug-23	5.90	3.20
Series 2019-5	33,334	22-Nov-19	22-Nov-22	22-Nov-23	8.43	3.29
Series 2020-7	100,000	20-Jan-20	20-Jan-23	20-Jan-24	8.49	4.85
Series 2020-4	12,500	07-Dec-20	07-Dec-22	07-Dec-23	13.32	3.89
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
	204,168					

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

There were no share options issued during the year. The weighted average fair value of the share options granted during the previous financial year was $3.72. 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.

(iii) Movements in share options during the year

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

	2023		2022	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the year	1,778,335	12.19	3,226,668	9.48
Granted during the year	-	-	25,000	19.70
Forfeited during the year	(650,000)	13.94	(300,000)	13.48
Expired during the year	(745,833)	13.51	-	-
Exercised during the year^	(178,334)	3.15	(1,173,333)	4.56
Balance at end of the year	**204,168**	**9.73**	**1,778,335**	**12.19**

^ The weighted average share price at the date of grant of these options was $3.93 (2022: $6.48).

The number of options that have vested and become exercisable in the current reporting year was 337,501 (2022: 1,457,500).

(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 $9.73 (2022: $12.19), and a weighted average remaining contractual life of 410 days (2022: 396 days).

20. Equity-settled employee benefits and related expenses (continued)

(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 of the relevant financial year are granted $1,000 in Megaport shares for no consideration. Shares are issued subsequent to year end to the eligible employees who are still employed and have not rendered their resignation on the issuance date. The Company will not be issuing any shares to employees under the ESP for the year ended 30 June 2023.

Once vested, 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) Deferred Shares Plan – Non-Executive Directors

On 23 November 2022, resolutions were passed by the shareholders in the FY22 Annual General Meeting to issue, transfer or allocate 6,027 Megaport shares worth $50,000 to each non-executive director in three tranches under the ESP for no consideration. The first tranche of shares will be issued on 23 November 2023. This grant of shares forms part of their remuneration for services provided as members of the Board.

The following arrangements under the Deferred Shares Plan to non-executive directors were in existence as of 30 June 2023:

Tranche	Number of shares	Grant date	Vesting date	Fair value at grant date^ $	Total fair value at grant date $
Tranche-1	12,054	23-Nov-22	23-Nov-23	8.297	100,000
Tranche-2	12,054	23-Nov-22	23-Nov-24	8.297	100,000
Tranche-3	12,054	23-Nov-22	23-Nov-25	8.297	100,000
	36,162				**300,000**

^Based on 10 trading days VWAP following the release of the Company's full year results in August 2022.

There are no deferred shares expired and forfeited during the year.

(e) Restricted stock units

The Company has 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 and carry neither rights to dividends nor voting rights.

20. Equity-settled employee benefits and related expenses (continued)

(e) Restricted stock units (continued)

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

During the year, the Company granted RSUs to employees under the plan with a fair value of $1,960,741. The number of shares granted in the future will equal a fixed monetary amount.

The following arrangements under the RSU General were in existence as of 30 June 2023. The fair value is determined based on the fixed monetary amount to be received discounted for the time value of money.

RSU series	Number of employees	Grant date	Settlement date	Total fair value at grant date $	Equivalent units^
Mar 2022 – 2	44	01-Mar-22	01-Mar-24	932,874	71,346
Mar 2022 – 3	44	01-Mar-22	01-Mar-25	1,807,725	142,689
Jun 2022 – 2	6	01-Jun-22	01-Jun-24	119,373	16,975
Jun 2022 – 3	6	01-Jun-22	01-Jun-25	231,323	33,953
Sept 2022 – 1	1	01-Sep-22	01-Sep-23	10,964	1,568
Sept 2022 – 2	1	01-Sep-22	01-Sep-24	10,493	1,568
Sept 2022 – 3	1	01-Sep-22	01-Sep-25	19,997	3,137
Oct 2022 – 1	30	01-Oct-22	30-Jun-23	646,809	85,246
Dec 2022 – 1	7	01-Dec-22	01-Dec-23	110,276	16,595
Dec 2022 – 2	7	01-Dec-22	01-Dec-24	105,532	16,595
Dec 2022 – 3	7	01-Dec-22	01-Dec-25	201,110	33,190
Total				**4,196,476**	**422,862**

^ Computed based on total fair value at grant date divided by equivalent VWAP at grant date.

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

	Fair value at grant date 2023	2022
Restricted Stock Units		-
Balance at beginning of the year	7,240,861	-
Granted during the year	1,960,741	7,296,972
Forfeited during the year	(3,378,838)	(56,111)
Exercised during the year	(1,626,288)	-
Balance at end of the year	**4,196,476**	**7,240,861**

(ii) Restricted stock units executive plan (RSU Executive)

During the year, the Company issued 825,415 RSUs over ordinary shares under its plan. The number of shares granted in the future will equal a fixed number of RSUs.

The following arrangements under the RSU Executive were in existence as of 30 June 2023.

RSU series	Number of employees	Grant date	Settlement date	No. of outstanding units	Fair value at grant date $
RSU-Dec 2022 – 1	5	01-Dec-22	01-Sep-23	33,056	6.89
RSU-Dec 2022 – 2	5	01-Dec-22	01-Sep-24	33,056	6.89
RSU-Dec 2022 – 3	5	01-Dec-22	01-Sep-25	33,056	6.89
PRSU-Dec 2022	5	01-Dec-22	01-Sep-25	121,242	6.89
PRSU-Dec 2022	5	01-Dec-22	01-Sep-25	121,238	4.10
Total				**341,648**	

20. Equity-settled employee benefits and related expenses (continued)

(e) Restricted stock units (continued)

(ii) Restricted stock units executive plan (RSU Executive) (continued)

The following reconciles outstanding RSU Executive units at the beginning and end of the year:

	Units	
	2023	**2022**
Balance at beginning of the year	-	-
Issued during the year	825,415	-
Forfeited during the year	(483,767)	-
Exercised during the year	-	-
Balance at end of the year	**341,648**	**-**

(i) Fair value of RSUs Executive granted in the year

The Group recognises the fair value at the grant date of equity settled securities above as an employee benefit expense proportionally over the vesting period with a corresponding increase in equity.

The fair value of RSUs with a service condition are based on the share price at the date of issue. The fair value of RSUs that contain a market vesting condition are measured at grant date using the Monte-Carlo simulation pricing model which is performed by an independent valuer and models the future security price of the Company's shares.

Non-market vesting conditions are determined with reference to the underlying financial or non-financial performance measures to which they relate.

Key inputs to the pricing models are shown in the table below:

	2023	**2022**
Volatility	60.00%	N/A
Risk-free interest rate	3.07%	N/A
Distribution yield	0%	N/A

(f) 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:

	Note	**2023 $'000**	**2022 $'000**
Options issued under ESOP General		(2,058)	2,136
Employee Share Plan (ESP)		-	254
Deferred Shares Plan		100	-
Restricted Stock Units (RSU)	(i)	5,444	1,127
Share related costs		9	112
Other employee share plan tax and other related costs		18	801
Total expense		**3,513**	**4,430**

(i) Included in this amount is $2,344,300 relating to employee bonuses to be paid in the form of RSUs in relation to the year ending 30 June 2023. This has been included under employee benefits payable in Note 14.

20. Equity-settled employee benefits and related expenses (continued)

(g) 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 the Group uses a Black-Scholes model for options under ESOP General and Monte-Carlo model for PRSUs attached to market conditions under the RSU Executive Plan.

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 2023 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 2023 %	2022 %
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.		United States of America	100	100
Megaport Networks Mexico S.A. de C.V.		Mexico	100	100
Megaport Telecomunicacoes Brasil Ltda.	(c)	Brazil	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	(b)	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) The entity was under de-registration process as at 30 June 2023.
(c) The entity was incorporated on 19 Dec 2022.

21. Interest in other entities (continued)

(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 below and 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 2023 of the Closed Group:

Consolidated Statement of Profit or Loss and Other Comprehensive Income	2023 $'000	2022 $'000
Continuing operations		
Revenue	26,176	21,660
Direct network costs	(4,171)	(3,666)
Partner commissions	(145)	(62)
Gross profit	**21,860**	**17,932**
Other income	13,426	4,332
Management fee income	25,753	27,773
Employee expenses	(19,491)	(19,650)
Professional fees	(3,722)	(3,416)
Marketing expenses	(1,544)	(734)
Travel expenses	(824)	(885)
IT costs	(2,549)	(2,725)
Equity settled employee costs and related tax costs	(945)	(2,200)
Depreciation and amortisation expense	(12,277)	(9,192)
Finance costs	(3,187)	(1,325)
Foreign exchange gains	2,611	2,582
Other expenses	(3,963)	(4,271)
Management fee expense	(14,416)	(19,468)
Profit/(Loss) before income tax	**732**	**(11,247)**
Income tax expense	(2,660)	(6,980)
Loss for the year	**(1,928)**	**(18,227)**
Other comprehensive loss, net of tax		
Total other comprehensive loss, net of income tax	-	-
Total comprehensive loss for the year	**(1,928)**	**(18,227)**

21. Interest in other entities (continued)

(b) Deed of cross guarantee (continued)

Consolidated Statement of Financial Position	2023 $'000	2022 $'000
Assets		
Current assets		
Cash and cash equivalents	24,620	56,244
Trade and other receivables and contract assets	2,826	2,353
Other assets	2,016	1,917
Amounts due from related parties	-	2,902
Total current assets	**29,462**	**63,416**
Non-current assets		
Investment in subsidiaries	21,350	20,315
Property, plant and equipment	16,290	19,569
Intangible assets	24,625	20,077
Other assets	2,741	-
Deferred tax assets	4,166	-
Amounts due from related parties	305,548	287,809
Total non-current assets	**374,720**	**347,770**
Total assets	**404,182**	**411,186**
Liabilities		
Current liabilities		
Trade and other payables	8,185	8,940
Provisions	1,707	2,058
Borrowings	7,627	7,832
Amounts due to related parties	36,837	48,323
Total current liabilities	**54,356**	**67,153**
Non-current liabilities		
Trade and other payables	2,436	-
Provisions	341	371
Borrowings	6,175	10,372
Deferred tax liabilities	9,025	2,131
Amounts due to related parties	698	-
Total non-current liabilities	**18,675**	**12,874**
Total liabilities	**73,031**	**80,027**
Net assets	**331,151**	**331,159**
Equity		
Paid-up capital	412,844	407,405
Reserves	8,380	14,389
Accumulated losses	(90,073)	(90,635)
Total equity	**331,151**	**331,159**

(b) Deed of cross guarantee (continued)

Movement in accumulated losses	2023 $'000	2022 $'000
Accumulated losses as at beginning of the financial year	**(90,635)**	**(72,408)**
Transfers from equity-settled employee benefits reserves	2,490	-
Net loss	(1,928)	(18,227)
Accumulated losses as at end of the financial year	**(90,073)**	**(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

There were no acquisitions during the financial year. Below are the details of the acquisition in 2022.

a) 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.

22. Business combinations (continued)

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. As at the date of this report, two milestones have been met resulting in $5,436,776 of ordinary shares being issued. The directors expect that the third milestone will be met and $4,757,224 represents the estimated fair value of the remaining obligation.

b) Acquisition-related costs

Acquisition-related costs amount of $875,861 was included in other expenses in the 2022 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.

As at the date of this report, 322,466 of ordinary shares with a value of $5,436,776 were issued due to the first and second milestones been met. Refer to Note 17 for the reconciliation of the carrying amount of the contingent consideration reserve.

22. Business combinations (continued)

d) Goodwill

The goodwill of $18.5 million is attributable to InnovoEdge, Inc.'s acquired workforce and technical capabilities and industry knowledge expected as part of the merging of operations into the Group's operations. The goodwill has been allocated to the North American operating segment. 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 2022 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.

22. Business combinations (continued)

e) Impact of acquisition on the results of the Group (continued)

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.

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.

23. Related party transactions (continued)

(c) Compensation of key management personnel

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

	2023 $	2022 $
Short-term benefits	3,517,437	3,393,400
Post-employment benefits	114,043	106,824
Long-term benefits	2,144	52,350
Termination benefits	85,000	643,379
Equity-settled employee costs	(2,044,214)	1,630,225
Total	**1,674,410**	**5,826,178**

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	2023 $	2022 $
Sales and purchases of goods and services			
Purchase of shared services from entities controlled by key management personnel	(i)	152,739	173,457
Purchase of direct network costs from entities related to key management personnel	(ii)	-	187,524
Legal services from entities controlled by key management personnel		27,245	-
Sale of network related services to entities related to key management personnel	(ii)	5,400	44,410
Sale of network equipment to entities related key management personnel		81,516	-
Other transactions			
Employee compensation of associates to key management personnel		68,057	97,375

(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 plus a margin of 20%, 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.

23. Related party transactions (continued)

(d) Transactions with other related parties (continued)

(ii) Supplier agreement with Superloop (Relevant to 2022 only)

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.

(e) Outstanding balances arising from other related parties

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

	2023 $	2022 $
Amounts owed by related parties		
Entities related to key management personnel	29,700	4,236
	29,700	**4,236**
Amounts owed to related parties		
Entities related to key management personnel	27,627	-
	27,627	**-**

(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:

	2023 $'000	2022 $'000
Statement of Financial Position		
Current assets	15,113	47,452
Non-current assets	427,837	402,275
Total assets	**442,950**	**449,727**
Current liabilities	7,466	34,806
Non-current liabilities	3,276	-
Total liabilities	**10,742**	**34,806**
Net assets	**432,208**	**414,921**
Shareholders' equity		
Issued capital	412,844	407,405
Reserves	8,380	14,389
Retained earnings/(accumulated losses)	10,984	(6,873)
Shareholders' equity	**432,208**	**414,921**
Net profit for the year	**15,300**	**1,781**
Total comprehensive income for the year	**15,300**	**1,781**

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2023 (2022: nil).

(c) Contractual commitments

The parent did not have any contractual commitments at 30 June 2023 (2022: 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:

	2023 $	2022 $
Deloitte Touche Tohmatsu Australia		
Audits and review of the financial reports – Group	435,513	309,750
Audits and review of the financial reports – Subsidiary entities	13,125	13,650
Advisory in establishment of risk management framework	95,316	151,369
Total remuneration of Deloitte Touche Tohmatsu Australia	**543,954**	**474,769**
Other Deloitte network firms:		
Audits of the subsidiary entities' financial reports	82,936	51,418
Total remuneration of Deloitte network firms	**82,936**	**51,418**
Other auditors and their related network firms:		
Audits of the subsidiary entities' financial reports	186,851	-
Total remuneration of other firms	**186,851**	**-**

26. Contingencies

The Group had no contingent assets or liabilities as at 30 June 2023 (2022: nil).

27. Events occurring after the financial year

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 2023 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

Michael Reid
Executive Director and Chief Executive Officer

Brisbane
22 August 2023

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Level 23, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000
Australia

Phone: +61 7 3308 7000
www.deloitte.com.au

Independent Auditor's Report to the Members of Megaport Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Megaport Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2023, 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 material accounting policy information and other explanatory information, 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 Company and Group's financial position as at 30 June 2023 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.

Deloitte.

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Capitalisation of costs to non-current assets *Refer to Note 10 – Property, Plant & Equipment and Note 11 – Intangible Assets* During the year \$10.3 million has been capitalised to Property, Plant & Equipment – Assets Under Construction in relation to the acquisition and installation of the Group's network hardware; and \$15.3 million has been capitalised to Software Under Development in relation to the ongoing development of the Group's proprietary service delivery software platform. These capitalised costs are amortised over the estimated useful lives of the equipment or software respectively. The capitalised costs comprise a combination of payments to external suppliers and internal employee costs. The Group capitalises those costs which meet the criteria for capitalisation under AASB 116 *Property, Plant & Equipment* or AASB 138 *Intangible Assets* respectively. Significant judgement is required to: • Identify and allocate the internal employee costs directly attributable to bringing network hardware equipment to the location and condition necessary for use; • Distinguish software development activities from research and ongoing maintenance activities; and • Identify and allocate the internal employee costs relating to software development activities.	Our procedures included, but were not limited to: • Developing an understanding of, and evaluating the Group's cost capitalisation policy; • Evaluating the design and testing the implementation of relevant controls; • Assessing the process implemented by the Group for the identification and measurement of capitalised costs; • Holding discussions with relevant project managers to understand and challenge the nature of the activities conducted, and the basis of management's assessment of the criteria for capitalisation of costs under Australian Accounting Standards; • For internal employee costs capitalised, on a sample basis we agreed employee cost data back to payroll and employee contract records, obtained evidence that the time recorded against capital projects had been reviewed and approved by an appropriate supervisor and recognised in accordance with the Group's accounting policy, and tested the accuracy of the calculations and accounting journals used to allocate the employee costs between amounts capitalised and amounts included in operating expenses; and • Agreed a sample of other capitalised costs to third party evidence. We also assessed the adequacy of the disclosures in Notes 10 and 11 of the financial statements.

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
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 2023 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 $20.3 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.	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.

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 2023, but does not include the financial report and our auditor's report thereon.

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

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

Deloitte.

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.

Deloitte.

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 37 to 56 of the Directors' Report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Megaport Limited, for the year ended 30 June 2023, 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

Richard Wanstall
Partner
Chartered Accountants

Brisbane, 22 August 2023

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable at 31 July 2023.

(a) Ordinary share capital

158,682,540 fully paid ordinary shares are held by 20,521 individual shareholders.
All issued ordinary shares carry one vote per share.

(b) Options

204,168 options are held by 5 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	12,701	-
1,001 – 5,000	5,868	-
5,001 – 10,000	1,203	-
10,001 – 100,000	701	5
100,001 and over	48	-
Total	**20,521**	**5**

The number of shareholders holding less than the marketable parcel of fully paid ordinary shares is 1,160.

(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	38,118,007	24.02
CITICORP NOMINEES PTY LIMITED	19,042,326	12.00
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	18,709,253	11.79

(e) Equity security holders

Twenty largest quoted equity security holders

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

	Fully paid ordinary shares	
Name	**Number held**	**Percentage of issued shares**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	38,118,007	24.02
CITICORP NOMINEES PTY LIMITED	19,042,326	12.00
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	18,709,253	11.79
BNP PARIBAS NOMS PTY LTD <DRP>	7,300,326	4.60
NATIONAL NOMINEES LIMITED	7,277,773	4.59
MR BEVAN ANDREW SLATTERY	5,037,607	3.17
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,311,674	2.09
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,658,824	1.68
ARGO INVESTMENTS LIMITED	2,000,000	1.26
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,997,383	1.26
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,793,053	1.13
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	882,643	0.56
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	651,714	0.41
TSOU ENTERPRISE PTY LTD	611,165	0.39
BNP PARIBAS NOMINEES PTY LTD <PITCHER PARTNERS DRP>	463,150	0.29
BNP PARIBAS NOMS(NZ) LTD<DRP>	403,881	0.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	383,059	0.24
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	300,299	0.19
BEEBEE HOLDINGS PTY LTD	300,000	0.19
MR LISHENG WANG	276,621	0.17
	111,518,758	**70.28**

Unquoted equity securities

	Number on issue	Number of holders
Options issued under Employee Share Option Plan (ESOP General) to take up ordinary shares	204,168	5
Restricted stock units under Restricted Stock Units Executive Plan (RSU Executive) to take up ordinary shares	208,460	3
Restricted stock units under Restricted Stock Units General Plan (RSU General) to take up ordinary shares	337,616	54

CORPORATE DIRECTORY

Current directors	Bevan Slattery Michael Reid 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).
Website Address	www.megaport.com
ABN	46 607 301 959

Level 3, 825 Ann St,
Fortitude Valley, 4006 – Australia

Phone +61 7 3088 5999
Fax +61 7 3088 5998
info@megaport.com

megaport.com

ASX: MP1
@megaportnetwork
@megaport