# Appendix 4E

Annual Report

30 June 2016

# Megaport Limited

ABN: 46 607 301 959

Appendix 4E Annual Report

For the period 27 July 2015 to 30 June 2016

## Appendix 4E

The following information sets out the requirements of the Appendix 4E of Megaport Limited ('the Company') with the stipulated information either provided here or cross referenced to the 2016 Annual Financial Report.

This Appendix 4E covers the reporting period from 27 July 2015 to 30 June 2016. There is no previous corresponding period as the Company was incorporated on 27 July 2015.

## Results for Announcement to the Market

**Summary of Financial Information**

| | 27 July 2015 to 30 June 2016 | Change $ | Change % |
|---|---|---|---|
| Revenue from ordinary activities | 2,679,410 | N/A | N/A |
| Profit/(loss) from ordinary activities after tax attributable to members | (21,345,210) | N/A | N/A |
| Net profit/(loss) for the period attributable to members | (21,345,210) | N/A | N/A |

**Explanation of revenue and profit/(loss) from ordinary activities**

Refer to Media Release – FY16 Full Year Results and Global Update, the Review of Operations detailed in the Directors Report, and notes 3 – 5 and 7 in the Annual Report for commentary on the results for the period and explanations to understand the Group's revenue and profit/(loss) from ordinary activities.

**Dividends**

No dividend has been proposed or declared in respect of the period ended 30 June 2016.

**Financial Statements**

Refer to the 2016 Annual Report for the Consolidated Financial Statements and the accompanying notes, including the following specific disclosures:

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

Each statement includes note references to disclosures prepared in accordance with Megaport's Statement of Compliance (refer to Note 1(b) in the 2016 Annual Report).

**Net tangible asset backing**

| | 2016 cents |
|---|---|
| Net tangible asset backing per ordinary share | 22.48 |

The number of Megaport shares on issue at 30 June 2016 is 70 million.

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

Refer to note 23 of the 2016 Annual Report for details of entities for which control has been gained during the period.

There are no entities over which control has been lost during the period.

There are no associates or joint ventures of the Company.

The information provided in the Appendix 4E is based on the 2016 Annual Report, which has been prepared in accordance with Australian Accounting Standards.

The 2016 Annual Report accounts have been audited and is not subject to audit dispute or qualification.

# ANNUAL REPORT
30 JUNE 2016

ABN: 46 607 301 959

Megaport

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# CHAIRMAN'S LETTER

Dear Shareholders,

**It is my privilege to present you with the inaugural Chairman's report for Megaport Limited. Megaport's vision is to be the global leader in elastic interconnection services.**

The 2016 financial year has been a landmark year for Megaport. Over the past twelve months Megaport has expanded its business from four countries and six markets within Asia to now extend into North America and Europe, both through organic expansion and through the recent acquisition of PEERING GmbH (ECIX) and OM-NIX in Europe. These acquisitions have leapfrogged Megaport's coverage and capability throughout Europe and provided a terrific foundation for our continued expansion and operation. We welcome the teams from ECIX and OM-NIX to the Megaport family and look forward to their contribution towards our goals.

Megaport has also signed strategic agreements with some of the world's largest data centre companies who will be integrating our platform into their service offerings for their customers. These providers understand the power and flexibility the Megaport platform provides in connecting to some of the world's largest cloud providers and carriers that form part of Megaport's rich ecosystem of customers.

Our investment in the Megaport software stack, the technology at the heart of our platform, is increasing as we continue to deliver innovation through more streamlined interconnection capabilities for our customers and partners. We are working to make sure that our position as the world's leading elastic interconnectivity provider is not only maintained, but extended further.

With all this, perhaps our most important milestone was the Initial Public Offering of Megaport on the ASX and welcoming new shareholders keen to invest in an Australian company's vision to take our technology to the world, and to create a global business. The funds raised in the IPO allowed Megaport to expand into North America and Europe as well provide further expansion opportunities in Asia.

As Founder I look back at a company that started as an idea in 2013 and I marvel at the incredible growth and acceleration from an idea, to a product, and now a global platform. This could not have been achieved without a talented management team, a highly experienced and committed Board, great customers, and you - our loyal shareholders.

Looking forward, the team lead by CEO Denver Maddux is working to build on these amazing achievements. Our focus remains on continued expansion of the Megaport Platform into more markets around the world and importantly, even more emphasis is on growing the ecosystems in every market we are in today. Ultimately this is what will drive customer and shareholder value.

On behalf of the Board, Management, and the team at Megaport, I would like to express our gratitude to our shareholders, for your support of the Company, and our vision. I look forward to hopefully meeting you at our upcoming Annual General Meeting.

Yours faithfully,

**Bevan Slattery**
*Executive Chairman*
Megaport Limited

25 August 2016

# LETTER FROM THE CEO

Dear Shareholders,

First and foremost, I would like to thank you for being a shareholder of Megaport Limited. Megaport is the world's first and leading provider of elastic bandwidth. Our vision is to become the global leader in elastic interconnectivity. We are well on our way to accomplishing this, in many ways thanks to your investment.

The past year has seen the Company focused on growing the number of locations where our customers can connect to our services, increasing our geographic footprint by expanding into new markets, as we have done in North America and Europe. Importantly, we are building the Megaport team and culture to provide our customers with the best customer experience and exceptional products.

The Company has been on an incredible journey of rapid growth and I invite you to read through the Annual Report, as well as the Company's announcements, to see evidence of our achievements.

I would like to take a moment to highlight a number of key achievements that, I am proud to have led the Company through in my capacity as CEO. Over the past year we have taken Megaport public on the Australian Stock Exchange in a very successful IPO to help fund our growth strategy, which in turn has enabled us to build a strong team of people who have been key in accomplishing our goals. We have completed our initial network expansion in North America and Europe, bringing Megaport from 34 locations in four countries to 102 locations across 17 countries. Additionally, the funds from the IPO enabled us to complete one acquisition in Europe before the end of June. In August, we completed an additional acquisition in Germany, Peering GmbH, which added an additional 30 locations in seven markets to the Megaport network, including 28 in Germany. This is a net growth of 98 new locations globally where customers can now connect to Megaport, nearly quadrupling our total locations in the eight months since our IPO.

I am also pleased to report that we have successfully completed a round of capital raising on the back of our two acquisitions in Europe. These funds will significantly increase our ability to seek out further acquisitions that bring value and capability to Megaport. It also allows us to further invest in our people and our network for long-term economic benefit to our customers and shareholders. This was accomplished through a private placement of $17.85 million, followed by a Share Purchase Plan for our existing shareholders which raised an additional $13.15 million.

I would like to acknowledge the strong support of our team at Megaport and our strategic business partners, all of whom are working with us to ensure that we excel at delivering on the promises that we have made to our customers.

Growth at this rapid pace would not be possible without the unwavering support of our Company's Founder, Bevan Slattery, and our incredible Board of Directors who have provided guidance in achieving the outcomes we are so proud of. It is their ability to provide assistance, strategic support, and vision where needed that make us a stronger company and team.

Globally, Elastic bandwidth continues to experience significant growth in need and adoption. More than ever I believe that our continued focus and investment on Megaport's core vision and these areas we have spent the most time and energy on represent a great opportunity for Megaport shareholders. By building an incredible team, expanding our services globally, and growth through acquisition that bring not only accretive growth to our revenues, but also to our capabilities, I am convinced that we are laying the foundations for a very exciting future.

Lastly, I would also like to thank all of my team at Megaport for their ongoing contribution to our business. Our people are our greatest asset and I look forward to leading them to the best outcomes we can find for our customers, and for Megaport shareholders.

Sincerely,

**Denver Maddux**
*Executive Director and Chief Executive Officer*
Megaport Limited

25 August 2016

# DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Megaport Limited (Megaport) and the entities it controlled (referred to as 'the Group') at the end of, or during, the period ended 30 June 2016.

Megaport Limited is a newly formed company, incorporated on 27 July 2015 and gained admission to the ASX on 17 December 2015. As this is the first reporting period for the group, the report covers the period 27 July 2015 to 30 June 2016.

## Directors and Company Secretary

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

- Bevan Slattery (appointed on Incorporation)
- Denver Maddux (appointed on Incorporation)
- Celia Pheasant (appointed on Incorporation, resigned 26 October 2015)
- Drew Kelton (appointed 26 October 2015)
- Simon Moore (appointed 26 October 2015)
- Vijay Gill (appointed 26 October 2015, resigned 19 November 2015)

The Company Secretary at the end of the financial period is Celia Pheasant. Celia was appointed to the position of Company Cecretary on Incorporation (27 July 2015).

## Principal activities

During the period, the Group engaged in its principal activity, being the provisioning of on-demand elastic interconnection services to its customers, as well as continuing to expand the geographic footprint of its network and services fabric.

## Review of operations

### Group overview

Using Software Defined Networking, the Company's global platform enables customers to rapidly connect their network to other services across the Megaport Fabric. Services can be directly controlled by customers via mobile devices, their computer or our open Application Programming Interface (API). The Company's extensive footprint in Australia, Asia-Pacific, North America, and Europe provides a neutral platform that spans many key data centre providers across various markets.

The Group's business plan involves creating a unique configuration of network and cloud services, known as the ecosystem. Customers get access to this platform (the Megaport Fabric) by acquiring ports (a Megaport), have flexible control of their costs, commitments, and configuration of the services they require using the software capabilities of Megaport.

Megaport's vision is to be the global leader of elastic interconnection services.

**In the 2016 Financial Year, the Group has expanded to 102 locations across 29 markets in 17 countries. On 11 August the Group completed the acquisition of PEERING GmbH in Germany, adding a further 30 locations, seven markets and two countries. The Group now has a global presence of 132 locations, 36 markets, and 19 countries, of which Asia-Pacific has a regional presence of 42 locations, seven markets and four countries; North America of 33 locations, ten markets and two countries; and Europe of 57 locations, 19 markets and 13 countries.**

The total ports on the Group's network at the end of June 2016 was 736 (excluding acquisitions).

## Financial performance and position

**During the year, the Group experienced significant growth in the number of ports sold to customers, locations and monthly recurring revenues. The Group's Revenue for the period was $2,679,410. The majority of this revenue was generated in the Asia-Pacific business units, of which Australia accounts for 86%.**

The Group's Revenue in June 2016 was up 41% from the end of the December 2015.

The North American business units started generating revenue for the first time in May 2016. The European business units including the recent acquisitions will be revenue generating in the next financial year. The markets in Asia Pacific, specifically Australia and New Zealand continue to grow revenues and the products have experienced strong market adoption.

*"In the second half of the fiscal year, Megaport grew its revenue over 40% organically. This is before any acquisitions. We also achieved extensive global coverage with our expansion into North America and Europe, making us the most pervasive elastic interconnection fabric and cloud exchange, globally."*

Denver Maddux
*CEO*

This is the Group's first annual report for the eleven months ending 30 June 2016.

| Financials | 2016 | |
|---|---|---|
| | $ | $ |
| Revenue | | 2,679,410 |
| Profit/(loss) after direct network costs[1] | | (1,539,765) |
| Net profit/(loss) | | (21,345,210) |
| Less: acquisition-related transaction costs | (322,386) | |
| Less: corporate structure setup costs | (232,973) | |
| Less: ASX listing expenses | (455,634) | |
| Less: employee share scheme issue costs | (2,600,000) | |
| Net profit/(loss) adjusted for acquisition / non-recurring costs[2] | | (17,734,217) |
| Net assets | | 17,169,978 |
| Cash and cash equivalents at end of the period | | 11,869,997 |

| Business metrics | 2016 |
|---|---|
| Total number of ports[3] | 736 |
| Total number of locations[3] | 102 |
| Total number of countries[3] | 17 |

1. Revenue less direct network costs, which comprise of data centre power and space, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance, and channel commissions which are directly related to generating the service revenue of Megaport Group.
2. This restatement of net profit/(loss) is to illustrate Megaport's results excluding one-off costs. This figure is a non-IFRS disclosure and is not audited.
3. As at 30th June 2016 (excludes the acquisition of PEERING GmbH)

There is a loss after direct network costs for the Group of $1,539,765, which includes direct network costs[1] for the Asia-Pacific and North America business units. The Asia Pacific business unit is generating a profit after direct network costs.

The Group's net loss adjusted for acquisition and non-recurring costs were $17,734,217. The operating costs of expanding the business in North America in the period were $8,045,107 and this region started generating revenue in May 2016.

During the year, the Group invested $6.97 million in the network and ecosystem expansion. Of this amount, $3.77 million was in the North America market.

At the end of June 2016, the cash position was $11,869,997.

On 5 August 2016, the Group successfully completed a capital raising of $17.85 million and on 22 August 2016 completed a Share Purchase Plan to raise a further $13.15 million. The net proceeds of the capital raisings of approximately $30 million will be used for capital expenditure, ongoing operating costs of the network, services and staff, and network capacity investment. This will provide the funding for revenue growth, market development, and additional acquisition opportunities.

## Strategy and future performance

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

- Accelerate revenue growth in all markets, especially Europe and North America
- Continue ecosystem expansion with the addition of new partners and geographic reach
- Complete network development through organic means and acquisitions
- Drive towards operational EBITDA positive at Group level

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

## Business Risks

The material business risks faced by the Group that are likely to have an effect on its financial prospects include:

- *Dependence on personnel:* The Group 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. Changes that adversely impact the Group's ability to attract and retain quality employees could materially adversely affect the Group's future financial performance and position.
- *Short operating record:* The Group is a recently established Company and has little operational track record with a number of the key personnel only recently appointed. The Group's operational business plan requires upfront capital investment, and there can be no assurance that subsequent operational objectives will be achieved.
- *Funding and capital:* The Group's business relies on the development of new markets, new locations, customer acquisition, retention investment, and ongoing maintenance of existing infrastructure and software platform. The Group requires sufficient access to capital to fund this expenditure. Failure to obtain capital on favourable terms may hinder the Group's ability to expand and pursue growth opportunities, which may reduce competitiveness and have an adverse effect on the financial performance, position and growth prospects of the Company. There is no assurance that additional funds will be available in the future, and/or be secured on reasonable commercial terms.
- *Interruptions to operations, infrastructure and technology failure:* The Group could be exposed to short, medium or long-term interruptions to its operations as it relies on infrastructure and technology to provide its services.
- *Competitive landscape and action of others:* The Group currently enjoys early mover advantage in its deployed markets. However, the Group may face competition from new entrants to the network-as-a-service and elastic fabric markets who may have significant advantages including greater financial, marketing and other resources.
- *Exchange rate movement:* The Group operates in foreign jurisdictions and as a result, fluctuations in applicable exchange rates, particularly the A$/US$ and A$/EUR rate, may have an impact on the Group's financial position and performance.
- *Protection of intellectual property:* The Group's ability to leverage the value of network-as-a-service and SDN technology depends on its ability to secure ownership of and protect its intellectual property including any improvements to existing intellectual property.
- *Doing business outside of Australia:* The Group currently has operations in Australia, Singapore, Hong Kong, New Zealand, Europe and the USA. Accordingly, the Group is exposed to a range of multi-jurisdictional risks such as risks relating to labour practices, environmental matters, difficulty in enforcing contracts, 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 the Group operates.
- *Risks of acquisitions and the failure to integrate acquired businesses:* The Group has made two acquisitions in Europe and may make further acquisitions in the future. However, there can be no assurance that the acquired companies and businesses will continue to perform as expected or that the Group will succeed at effectively managing the integration of acquired companies and businesses.

## Significant changes in the state of affairs

Other than what has already been mentioned in this report, there have been no further significant changes in the state of affairs of the Group during the reporting period.

## Matters subsequent to the end of financial period

### Capital raising

Since 30 June 2016, Megaport Limited successfully completed a private placement to institutional and sophisticated investors, which, together with a share purchase plan (SPP) for existing eligible shareholders, raised $31 million. Funds raised under the placement and SPP will be used to further fund capital expenditure for the North American and European network and platform upgrades, and new global locations; ongoing operating costs of the network, services and staff of existing business units; network capacity investment, and additional acquisition opportunities.

Under the placement, Megaport issued 10,500,000 fully paid ordinary shares on 5 August 2016 at a discounted price of $1.70 to the market price of $2.06 (based on the last trading day before Megaport announced the placement), raising $17.85 million.

In conjunction with the placement, Megaport also offered existing eligible shareholders the opportunity under the SPP to purchase up to $15,000 worth of ordinary shares at the same price at which shares were issued under the placement. The SPP closed oversubscribed with applications for 16.0 million shares totaling $27.2 million. After applicants were scaled back on a pro-rata basis, Megaport issued 7,734,994 shares for $13.15 million on 22 August 2016.

### European acquisitions

Megaport Limited (through its European subsidiary) has acquired 100% of PEERING GmbH in return for a cash consideration of $951,600 (EUR 650,000) and contingent consideration of $951,600 (EUR 650,000) on 11 August 2016. The fair value of the net identifiable assets of the Company at the date of acquisition has been provisionally accounted for and require further fair value assessment and identification of goodwill, customer contracts and relationships, and other intangible assets. This acquisition occurred after 30 June 2016.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

*"We are truly energized by the support and confidence shown by Megaport's loyal shareholders. We are now well funded to take advantage of the significant opportunities ahead for Megaport"*

Denver Maddux
*CEO*

## Likely developments and expected results of operations

The continued growth in the upward trend in the demand for data transmission services should underpin a likely demand for services provided by the Group.

Likely developments in the operations of the Group that were not finalised at the date of this report include the continued evaluations of potential investment and network expansion opportunities in the existing Asia-Pacific, North America and Europe markets, based on underlying market dynamics and customer demand for interconnectivity services.

More information on these developments is included in the Review of Operations above.

## Dividends

Dividends were neither paid nor declared during the period.

## Environmental regulation

The Group has determined that no particular or significant environmental regulations apply to its operations.

## 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.*

## 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 favor 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 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.

# Information on Directors and Company Secretary

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

## Bevan Slattery

**Chairman (since 27 July 2015)**
**Executive Director (since 27 July 2015)**

| | |
|---|---|
| | Bevan Slattery is the Executive Chairman. Bevan has a background in building successful Australian IT and telecommunications companies and an earlier career in administration in local and state government.<br><br>In 2013, Bevan established Megaport as the world's first SDN-based elastic interconnection platform designed to provide a secure, seamless and on-demand way for enterprises, networks and services to interconnect. Bevan successfully launched Megaport in Australia, New Zealand, Singapore and Hong Kong before the business was acquired by Megaport Limited in August 2015. Bevan oversaw Megaport's listing on the ASX in December 2015.<br><br>Also in 2013, Bevan founded Superloop Limited with a vision to become the leading independent provider of connectivity services across the Asia Pacific region and the US. Superloop was listed on the ASX in July 2015 and has since completed its core network in Australia and installed 132kms of fibre in Singapore. As Interim CEO, Bevan will oversee the implementation of the Company's Hong Kong 110km network, due to complete in December this year.<br><br>In 2010 he founded NEXTDC Limited, with a vision to become Australia's largest independent datacenter provider. As the inaugural CEO of NEXTDC, Bevan oversaw its listing on the ASX and its initial facility rollout.<br><br>In 2002, Bevan co-founded PIPE Networks which grew to become Australia's largest Internet Exchange and Australia's third largest metropolitan fibre network provider. In 2009, PIPE Networks completed construction of Pipe Pacific Cable 1 (PPC-1), a $200 million submarine cable system linking Sydney to Guam. PIPE Networks was sold to TPG for an enterprise value of $420 million in May 2010.<br><br>Bevan holds a Master of Business Administration (Hon.) from Central Queensland University. |
| Other current ASX directorships | Superloop Limited (ASX:SLC) (appointed 28 April 2014) |
| Former ASX directorships In last 3 years | NEXTDC Limited (ASX:NXT) (resigned 30 October 2013)<br>Asia Pacific Data Centre Group Limited (ASX:AJD) (resigned 30 June 2014) |
| Special responsibilities | Chairman<br>Member of the Remuneration and Nomination Committee |
| Interests in shares and options | 33,004,274 fully paid ordinary shares |

## Denver Maddux

**Chief Executive Officer (since 27 July 2015)**
**Executive Director (since 27 July 2015)**

Denver Maddux is the Chief Executive Officer of Megaport and is also an Executive Director.

Denver was formerly Senior Director, Strategy and Planning for Global Networking Services with Microsoft, where he was responsible for Microsoft's interconnection and cloud networking infrastructure development. Denver brings a strong commercial approach and expertise in leadership in emerging sectors of the Internet industry.

Denver was the former Vice President of Network Engineering with Limelight Networks, where he was responsible for building the foundations for global CDN services, leading the creation of one of the world's largest Internet traffic networks and establishing the Company as a leading provider of global Internet interconnection services.

Prior to joining Limelight, Denver held a number of leadership and engineering roles with key firstwave Internet companies.

| | |
|---|---|
| Other current ASX directorships | Nil |
| Former ASX directorships In last 3 years | Nil |
| Special responsibilities | Member of the Audit and Risk Committee |
| Interests in shares and options | 4,000,000 fully paid ordinary shares |

## Drew Kelton

**Non-Executive Director (since 26 October 2015)**

Drew is the Managing Director for Docusign Inc. in the Asia-Pacific. His career has spanned over 30 years as a global business leader and professional Board Director in the ICT and telecommunications arena. He has held senior operational roles in the UK, Europe, India, US and Australasia. In addition to executive leadership roles, Drew has been responsible for start-ups, M&A transactions, and IPO activities.

Previous to Docusign, Drew was the Executive Vice President of business markets at T-Mobile USA, responsible for developing and executing their latest operational strategies in a $7 billion-dollar division. Prior to that, Drew was the President of Bharti Airtel Business in India and SE Asia, as well as Managing Director of Telstra International.

Drew holds a Bachelor of Science with commendation in Electrical and Electronic Engineering from the University of Western Scotland. He is a chartered engineer with the Institute of Electrical and Electronic Engineers.

| | |
|---|---|
| Other current ASX directorships | Mobile Embrace Limited (ASX:MBE) (appointed 1 July 2010)<br>Enice Holding Company Limited (ASX:ENC) (appointed 12 June 2015)<br>Firstwave Cloud Technology Limited (ASX:FCT) (appointed 8 March 2016) |
| Former ASX directorships In last 3 years | Nil |
| Special responsibilities | Chair of the Remuneration and Nomination Committee<br>Member of the Audit and Risk Committee |
| Interests in shares and options | 25,000 fully paid ordinary shares<br>100,000 options |

## Simon Moore

**Non-Executive Director (since 26 October 2015)**

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

Simon holds a Bachelor of Commerce (Hons) and a Bachelor of Law (Hons) from the University of Queensland. He is currently Chairman of Coates Hire, in addition to the ASX directorships listed below.

| | |
|---|---|
| Other current ASX directorships | Qube Holdings Limited (ASX: QUB) (appointed 7 November 2011)<br>TPI Enterprises Limited (ASX:TPE) (appointed 1 June 2016) |
| Former ASX directorships In last 3 years | Healthscope Limited (ASX:HSO) (resigned 31 December 2015) |
| Special responsibilities | Chair of the Audit and Risk Committee<br>Member of the Remuneration and Nomination Committee |
| Interests in shares and options | 1,472,274 fully paid ordinary shares<br>100,000 options |

## Celia Pheasant

**Company Secretary (since 27 July 2015)**

Celia Pheasant is an experienced in-house information and communications technology (ICT) lawyer with over 20 year's legal experience. Currently, Celia is General Counsel for technology start-up incubation company, Capital B, and has provided legal and company secretarial support to Megaport since April 2014.

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

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

# Meetings of Directors

The numbers of meetings of the Company's Board of Directors and each Board Committee held during the period ended 30 June 2016, and the numbers of meetings attended by each director were:

| | Full meetings of Directors | | Meetings of Committees | | | |
|---|---|---|---|---|---|---|
| | | | Audit & Risk | | Remuneration | |
| | A | B | A | B | A | B |
| Bevan Slattery | 15 | 15 | * | * | 2 | 2 |
| Denver Maddux | 15 | 15 | 3 | 3 | * | * |
| Celia Pheasant (resigned 26 October 2015) | 4 | 4 | * | * | * | * |
| Drew Kelton (appointed 26 October 2015) | 11 | 11 | 3 | 3 | 2 | 2 |
| Simon Moore (appointed 26 October 2015) | 11 | 11 | 3 | 3 | 2 | 2 |
| Vijay Gill (appointed 26 October 2015, resigned 19 November 2015) | 2 | 2 | * | * | * | * |

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

# REMUNERATION REPORT

This report, which forms part of the Directors' Report, sets out the remuneration arrangements for Key Management Personnel (KMP) of the Megaport Group for the year ended 30 June 2016 (FY16), and is prepared in accordance with section 300A of the *Corporations Act 2001* (Corporations Act).

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

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

| Directors | |
|---|---|
| Bevan Slattery | Chairman and Executive Director |
| Denver Maddux | Executive Director and Chief Executive Officer |
| Vijay Gill | Non-Executive Director (appointed 26 October 2015, resigned 19 November 2015) |
| Celia Pheasant | Executive Director (resigned 26 October 2016) |
| Drew Kelton | Non-Executive Director (appointed 26 October 2015) |
| Simon Moore | Non-Executive Director (appointed 26 October 2015) |

| Other key management personnel | |
|---|---|
| Vincent English | Chief Financial Officer and Chief Operating Officer |

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

## Overview of remuneration governance framework

### Role of the Remuneration and Nomination Charter

The Remuneration and Nomination Committee is a Committee of the Board. The purpose of this committee is to assist the Board and make recommendations to it about the appointment of new Directors (both Executive and Non-Executive), senior management and on remuneration and related policies and practices (including remuneration of senior management and Non-Executive Directors).

The committee's functions include:

- development of criteria (including skills, qualifications and experience) for Board candidates;
- identification and consideration of possible candidates and recommendation to the Board;
- ensuring appropriate induction and continuing professional development programs are implemented for Directors;
- review of processes for succession planning for the Board, CEO and other senior executives;
- establishment of procedures, and recommendations to the Chairman, for the proper oversight of the Board and management;
- ensuring the performance of each Director, and of senior management, is reviewed and assessed each year using procedures adopted by the Board;
- review and evaluation of market practices and trends on remuneration matters;
- recommendations to the Board about the Company's remuneration policies and procedures;
- oversight of the performance of senior management and Non-Executive Directors;
- recommendations to the Board about remuneration of senior management and Non-Executive Directors; and
- reviewing the Company's reporting and disclosure practices in relation to the remuneration of Directors and senior executives.

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

A copy of the Committee's charter, which forms part of the Corporate Governance Charter, is available on Megaport's website at https://www.megaport.com.

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

## Securities Trading Policy

A securities trading policy (Trading Policy) has been adopted by the Board to provide guidance to Directors, employees of Megaport, and other parties who may have access to price sensitive information, where they are contemplating dealing in Megaport's securities or the securities of entities with whom Megaport may have dealings. The Trading Policy is designed to ensure that any trading in Megaport's securities is in accordance with the law.

Any non-compliance with the Trading Policy will be regarded as an act of serious misconduct. The Trading Policy will be made available on Megaport's website https://www.megaport.com.

## Director remuneration

### Director remuneration policy

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

Each Director is entitled to remuneration for their services as decided by the Directors. Under the ASX Listing Rules, the total amount provided to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by Megaport in a general meeting. This amount is currently $750,000.

Remuneration may be provided in such manner that the Directors decide, including by way of non-cash benefits. The current Non-Executive Directors' base fees are $60,000 per annum each. In addition, Non-Executive Directors receive $7,500 per Board committee which they chair. All resident Directors' fees include superannuation at the statutory rate. Each Non-Executive Director has also received options to acquire 100,000 Megaport shares at an exercise price of $1.25 under the terms of the Megaport Limited – 2015 Employee Share Option Plan.

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

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

Actual fees for Non-Executive Directors in FY16 were $126,580.

There are no retirement benefit schemes for Directors other than statutory superannuation contributions.

## Executive remuneration

### Senior executive remuneration policy

Megaport's executive remuneration policy is under development, including the development of at-risk short-term and long-term incentives. As the policy is developed, Megaport will ensure that the remuneration framework will be transparent, competitive and reasonable. Development of an appropriate remuneration policy will strengthen the alignment between shareholder returns and performance related remuneration, ensuring that the final remuneration structure contains a direct link between remuneration and performance (both Company and individual) that is ultimately aligned to shareholder interest.

The remuneration framework consists of three key components:

- Fixed remuneration
- Short-term incentives
- Long-term incentives

### Fixed remuneration and benefits

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

Executives are offered a competitive base remuneration package that comprises the fixed component of remuneration and rewards. Base remuneration for executives is reviewed annually, to ensure the executive's remuneration is competitive with the market. An executive's remuneration is also reviewed on promotion.

There is no guaranteed base remuneration increase included in any executives' contracts.

Executives receive benefits, including health insurance benefits as part of the fixed remuneration package.

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

## Short-term incentive policy and procedure

The Group has not yet implemented a formal short-term incentive policy or scheme. However, the Chief Executive Officer has individual performance incentives linked to specific strategic objectives that come into effect in the 2017 financial year. Refer to Employment terms for Senior Executives for further details on this.

## Long-term incentive policy and procedure

On 2 November 2015, the Board approved two long-term incentive plans: the Megaport Limited 2015 Employee Share Option Plan (2015 ESOP) and the Megaport Limited Employee Share Option Plan (ESOP). The objectives of the long-term incentive plans are to:

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

The 2015 ESOP was adopted to take advantage of the 'start-up' tax concessions which have more favourable tax treatment for employees. The following terms apply to both the 2015 ESOP and the ESOP:

- each ESOP is open to eligible participants (including full-time and part-time employees, executives, Directors and consultants) of Megaport or any of its subsidiaries who the Board designates as being eligible
- all options must be offered to participants for no consideration under both plans. The offer must be in writing and specify, amongst other things, the number of options for which the participants must apply, the period within which the options may be exercised and any conditions to be satisfied before exercise, the option expiry date (as determined by the Board) and the exercise period for the options
- the options may be exercised, subject to any exercise conditions, by the participant giving a signed notice to Megaport and paying the exercise price in full (which must be equal to or greater than the market value of Megaport shares on the date on which the options are granted)
- a participant must not dispose of any interest in an option or share issued on the exercise of an option granted under the 2015 ESOP until the end of the three-year period commencing on the date of the grant of the option
- the options lapse upon the earlier of the date specified by the Board or events contained in the ESOP rules, including termination of employment or resignation, redundancy, death or disablement
- once Shares are allotted upon exercise of the options, the participant will hold the shares free of restrictions (subject to restrictions that apply under the 2015 ESOP). The shares will rank for dividends declared on or after the date of issue but will carry no right to receive any dividend before the date of issue

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

At 30 June 2016, Megaport had 1,300,000 options on issue to all eligible employees, including Directors and other KMP under the 2015 ESOP. At the date of this report, a total of 2,100,000 options were on issue under both the 2015 ESOP and the ESOP to eligible employees.

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

# Details of remuneration

Details of the remuneration of the Directors and the key management personnel of the Group are set out in the following tables.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments and rights | | |
|---|---|---|---|---|---|---|---|---|
| **2016** | **Salary and fees[1] $** | **Short-term incentive $** | **Non-monetary benefits $** | **Superannuation $** | **Long service leave[1] $** | **Shares $** | **Options[2] $** | **Total $** |
| *Non-Executive Directors* | | | | | | | | |
| Drew Kelton | 45,907 | - | - | - | - | - | 17,383 | 63,290 |
| Simon Moore | 41,924 | - | - | 3,983 | - | - | 17,383 | 63,290 |
| Vijay Gill | - | - | - | - | - | - | - | - |
| **Total Non-Executive Remuneration** | **87,831** | **-** | **-** | **3,983** | **-** | **-** | **34,766** | **126,580** |
| *Executive Directors* | | | | | | | | |
| Bevan Slattery | 140,982 | - | - | 5,151 | - | - | - | 146,133 |
| Denver Maddux | 344,765[3] | - | 16,071 | - | - | 1,600,000[4] | - | 1,960,836 |
| Celia Pheasant | - | - | - | - | - | - | - | - |
| **Total Executive Remuneration** | **485,747** | **-** | **16,071** | **5,151** | **-** | **1,600,000** | **-** | **2,106,969** |
| *Other Key Management Personnel* | | | | | | | | |
| Vincent English | 247,422 | - | 1,127 | 21,469 | - | - | 30,878 | 300,896 |
| **Total KMP Remuneration** | **247,422** | **-** | **1,127** | **21,469** | **-** | **-** | **30,878** | **300,896** |
| **Total Remuneration** | **821,000** | **-** | **17,198** | **30,603** | **-** | **1,600,000** | **65,644** | **2,534,445** |

1. 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.
2. The value of options granted during the financial year is calculated as at the grant date using a Black-Scholes valuation model. This grant date value is allocated to remuneration of key management personnel on a straight-line basis over the period from grant date to vesting date.
3. This salary is equivalent to a 14-month period. As outlined in the IPO Prospectus, Mr Maddux was prepaid his contracted salary for a two-year period. As his new contract came into effect in the 2017 financial year the remainder of the prepayment was treated as accelerated wages until 30/06/2016.
4. This remuneration is share based. As outlined in the IPO Prospectus, Mr Maddux was awarded shares in August 2015 as part of the founding management team of the Megaport Group. The shares held a $0.40 market value at the time of issue. These shares are held in escrow until 17 December 2017. More details can be found in note 18 of the Financial Statements.

The relative proportions of remuneration that are fixed or lined to performance are as follows:

| 2016 | Fixed remuneration % | At risk - STI % | At risk - LTI % |
|---|---|---|---|
| *Non-Executive Directors* | | | |
| Drew Kelton | 100% | - | - |
| Simon Moore | 100% | - | - |
| Vijay Gill | 0% | - | - |
| *Executive Directors* | | | |
| Bevan Slattery | 100% | - | - |
| Denver Maddux | 100% | - | - |
| Celia Pheasant | 0% | - | - |
| *Other key management personnel of the Group* | | | |
| Vincent English | 100% | - | - |

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

No key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

## Service agreements

Megaport has entered into a services agreement with key executive Bevan Slattery (Executive Chairman). Mr Slattery's executive services agreement contains standard terms and conditions for agreements of this nature, including confidentiality, restraint on competition and retention of intellectual property. Mr Slattery receives a monthly retainer of $10,000 for the provision of executive services (such as the development of strategic plans) to Megaport. Mr Slattery receives this amount in addition to a Chairman's fee.

The agreement is for an initial period for 12 months commencing on 17 November 2015. Following the initial term, the Board and Mr Slattery will consider the ongoing need for this arrangement.

Megaport can terminate the agreement immediately if Mr Slattery breaches the agreement (for IP, non-compete and confidentiality) or otherwise breaches the agreement and fails to remedy within ten days or fails to perform the services with all reasonable care, skill and diligence. There are no payout provisions upon termination and if the agreement is terminated by Megaport for breach, Mr Slattery must re-pay any pre-paid fees. Mr Slattery has no contractual right to terminate the agreement.

## Employment terms for Senior Executives

### Chief Executive Officer

Remuneration and other terms of employment for Denver Maddux are as follows:

Term

Mr Maddux's new employment agreement is 'at will,' which means it continues until either the Company or Mr Maddux terminates the employment agreement.

Notice

Megaport or Mr Maddux may terminate the employment agreement by providing three months written notice. Megaport may, at its own election, make payment in lieu of notice. Megaport may terminate Mr Maddux's employment immediately without notice or payment in lieu of notice for serious misconduct or another specific circumstances warranting summary dismissal.

Base salary

Mr Maddux will be paid a fixed salary of $300,000 per annum (including superannuation).

Short-term incentive

Mr Maddux is eligible to receive short-term incentives (STI) in the form of quarterly cash bonuses, subject to achievement of certain key performance indicators to be determined by the Board. Mr Maddux's maximum STI opportunity for the 2017 financial year is $200,000 including superannuation (being, $50,000 per quarter).

Payments on termination

Termination by Megaport without cause entitles Mr Maddux to a severance payment equal to six months Base Salary. No severance benefits are payable if Mr Maddux's employment is terminated by Megaport with cause or if he resigns.

### Restraints

Under the new employment agreement, Mr Maddux is subject to certain restrictive covenants, including a 24 month non-compete restriction post-termination of his employment, and a 36 month employee non-solicitation restriction. The latter prevents Mr Maddux from soliciting Megaport employees or persuading people who do business with Megaport to cease or reduce their business with Megaport during the period of the restraint. The enforceability of the restraint provisions contained in Mr Maddux's employment agreement is subject to all usual legal requirements.

Mr Maddux's new employment agreement otherwise contains standard terms and conditions for agreements of its nature, including confidentiality, retention of intellectual property and leave.

### Other KMP

Remuneration and terms of employment for Mr English are formalised in an employment contract. Other major provisions of the agreement relating to remuneration are: the contract has no fixed term, the notice period is 3 months, and termination payments are standard in accordance with the *Fair Work Act 2009*.

## Long-term incentives

Currently, the Group has a long-term incentive scheme via two Employee Share Option Plans (ESOP and 2015 ESOP). Refer to the Long-term Incentive Policy and Procedure section above for details on the ESOP and 2015 ESOP.

The plan is designed to focus executives on delivering long-term shareholder returns and retaining key employees for the long-term. Under the plan, the options may only be exercised if the employee meets a length of service specific to their individual ESOP granted. All options issued to date are not attached to any performance conditions.

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

Terms and conditions of share-based payment arrangements affecting remuneration of KMP in the current financial year or future financial years:

| Options series | Grant date | Grant date fair value $ | Exercise price $ | Vesting date | Expiry date |
|---|---|---|---|---|---|
| 2015 ESOP – series 1 | 28-Nov-15 | 0.298 | 1.25 | 27-Nov-16 | 27-Nov-18 |
| 2015 ESOP – series 3 | 28-Nov-15 | 0.397 | 1.25 | 27-Nov-18 | 27-Nov-19 |

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Details of options granted to Directors and key management personnel that have not yet vested as at 30 June 2016 are as follows:

| | | Opening balance 27 July 2015 | | Granted during the year[1] | | Forfeited during the year | | Exercised/settled during the year | | Closing balance 30 June 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Date Granted | Number | Value at grant | Number | Value | Number | Value | Number | Value | Number | Value |
| Drew Kelton | 28-Nov-15 | - | - | 100,000 | 29,800 | - | - | - | - | 100,000 | 29,800 |
| Simon Moore | 28-Nov-15 | - | - | 100,000 | 29,800 | - | - | - | - | 100,000 | 29,800 |
| Vincent English | 28-Nov-15 | - | - | 400,000 | 158,800 | - | - | - | - | 400,000 | 158,800 |

1. The value of options granted during the financial year is calculated as at the grant date using a Black-Scholes valuation model. This grant date value is allocated to remuneration of key management personnel on a straight-line basis over the period from grant date to vesting date.

In addition, the following options were granted to Officers who are among the five highest remunerated Officers of the Company and the Group, but have not been key management persons from the grant date until the date of this report, and therefore not disclosed in the remuneration report for that period:

| Name of Officer | Date granted | Grant date fair value $ | Exercise price $ | Number of options granted |
|---|---|---|---|---|
| Celia Pheasant | 28-Nov-15 | 0.298 | 1.25 | 100,000 |

No options were granted to the Directors or any of the five highest remunerated Officers of the Company since the end of the financial year.

### Other equity instruments held by Directors and key management personnel

Fully paid ordinary shares held by Directors and key management personnel are detailed in the below table:

| Ordinary shares[1] | Balance at 27 July 2015 | Purchased | Disposed | Other changes during the year | Balance at 30 June 2016 |
|---|---|---|---|---|---|
| *Non-Executive Directors* | | | | | |
| Drew Kelton | - | 25,000 | - | - | 25,000 |
| Simon Moore | - | 1,468,000 | - | - | 1,468,000 |
| Vijay Gill | - | - | - | - | - |
| *Executive Directors* | | | | | |
| Bevan Slattery | - | 150,000 | (500,000) | 33,500,000[2] | 33,150,000 |
| Denver Maddux | - | - | - | 5,000,000[3] | 5,000,000 |
| Celia Pheasant | - | 30,000 | - | (30,000)[4] | - |
| *Other key management personnel of the Group* | | | | | |
| Vincent English | - | 41,000 | - | - | 41,000 |

1. The table above includes all ordinary shares held directly, indirectly and beneficially by (a) key management personnel, (b) a close member of the family of (a), and (c) an entity over which (a) or (b) has, either directly or indirectly, control, joint control or significant influence.
2. These shares were issued to Mr Slattery as compensation to (a) purchase of business under common-control for the consideration of 13,500,000 shares, and (b) to settle loans to Megaport Limited's subsidiaries for the consideration of 8,000,000 shares.
3. These shares were issued to Mr Maddux (4,000,000) and Ms Maddux (1,000,000) as a benefit of employment, as part of a scheme to reward the founding management team of Megaport.
4. This is to account for the movement of Ms Pheasant no longer being classified as a KMP.

All equity transactions with Directors and key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

## Loans to and from Directors and Executives

Information on loans to and from Directors and Executives, including amounts, interest rates and repayment terms are set out in note 25 of the financial statements.

## Other transactions and balances with Directors and key management personnel

Information on other transactions and balances with Directors, KMP and parties related to Directors and KMP are set out in note 25 of the financial statements.

Directors of the Group hold other directorships in public corporations, as detailed in the Directors' Report. Where any of these related entities are clients of the Group, the arrangements are on similar terms to other clients.

## 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 Group are important.

The Board has considered the position and, in accordance with the advice received from the Audit & Risk Committee, is 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 Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* as none of the services undermine the general principles relating to auditor independence as set out in APES110 Code of Ethics for Professional Accountants.

During the period, the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu Australia, the auditor of the consolidated entity, its related practices and non-related audit firms:

| | Notes | 2016<br>$ |
|---|---|---|
| **Amounts received or due and receivable by:** | | |
| *Deloitte Touche Tohmatsu Australia (auditor of the parent entity):* | | |
| Audits and review of the financial reports of the entity and any other entity in the consolidated group | | 105,000 |
| Other services in relation to the entity and any other entity in the consolidated group: | | |
| Advisory services | (a) | 55,847 |
| **Total remuneration of Deloitte Touche Tohmatsu Australia** | | **160,847** |
| *Other Deloitte network firms:* | | |
| Audit and review of the financial reports of the entity and any other entity in the consolidated group | | 19,220 |
| **Total remuneration of Deloitte network firms** | | **19,220** |

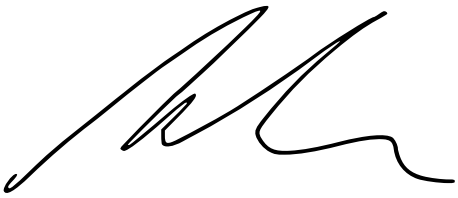
(a) The advisory work completed was for services rendered in connection with the Initial Public Offering, including issuing the Investigating Accountant's Report on Pro-Forma Financial Information and Financial Services Guide included in the Prospectus

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

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

On behalf of the Board of Directors



**Denver Maddux**
*Executive Director and Chief Executive Officer*
Brisbane

25 August 2016

Deloitte Touche Tohmatsu
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The Board of Directors
Megaport Limited
Level 4
825 Ann Street
Fortitude Valley QLD 4006

25 August 2016

Dear Board Members

**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 statements of Megaport Limited for the financial year ended 30 June 2016, 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 sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R.G. Saayman
Partner
Chartered Accountants

# 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 Principals and Recommendations (the Third Edition) published by the ASX Corporate Governance Council.

The 2016 Corporate Governance Statement is dated as at 30 June 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The 2016 Corporate Governance Statement was approved by the Board on 25 August 2016. 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/.

## Corporate Governance Principles - Summary

| Principle | Complies | Note |
|---|---|---|
| **Principle 1 – Lay solid foundations for management and oversight** | | |
| 1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Complies | The Board is responsible for overall corporate governance of the Company.<br>The role of the Board and delegation to management have been formalised in the Charter which outlines the main corporate governance practices in place for the Company and to which the Board and each Director are committed. The conduct of the Board is also governed by the Company's constitution, and where there is inconsistency with that document, the constitution prevails to the extent of the inconsistency. The Charter will be reviewed and amended from time to time as appropriate taking into consideration practical experience gained in operating as a listed company. |
| 1.2 Undertake appropriate checks before appointing a person as a director, and provide shareholders with all material information relevant to a decision on whether or not to elect or re-elect a director. | Complies | The Company has completed police checks, insolvency and banned director searches in relation to the existing directors. The Company will conduct appropriate checks for future appointments. |
| 1.3 Have a written agreement with each director and senior executive setting out the terms of their appointment | Complies | The Company has entered into written agreements with each director and senior executive. |
| 1.4 Have a company secretary that is directly accountable to the board, through the chair, on all matters to do with the proposer functioning of the board. | Complies | This is consistent with the Charter and corporate structure of the Company. The Company Secretary has a direct relationship with the Board in relation to these matters. |

| Principle | Complies | Note |
|---|---|---|
| 1.5 Establish a diversity policy and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them, for reporting against in each reporting period. | Complies | The Company's Diversity Policy is available at megaport.com/investor.<br>The Company continues to target an improvement in the overall diversity ratio of the Company. As at 30 June 2016, the proportion of women employees in the whole organization was 35%. The proportion of women senior executives was 20% and the gender diversity ratio of the leadership team was 70:30. As at 30 June 2016, all board directors were male. The Company defines senior executive' as the CEO, CFO, CMO, EVP APAC and VP Sales, US. The 'leadership team' includes the senior executive as well as the Global HR Director, VP Engineering, VP Operations, Head of Sales, Americas Ecosystem and Head of Sales, APAC Ecosystem. |
| 1.6 Have a process for periodically evaluating the performance of the Board, its committees and individual directors, and disclose that process and, at the end of each reporting period, whether such performance evaluation was undertaken in that period. | Complies | The responsibilities of the Board for monitoring its performance and that of its committees and directors are set out in the Corporate Governance Charter and the Standing Rules of the Remuneration and Nominations Committee. These documents are available for viewing on the Company's website.<br>A performance evaluation was undertaken in the reporting period in accordance with these documents. |
| 1.7 Have a process for periodically evaluating the performance of the Company's senior executives, and disclose that process and, at the end of each reporting period, whether such performance evaluation was undertaken in that period. | Complies | The responsibilities of the Board for monitoring the performance of its senior executives are set out in the Corporate Governance Charter and the Standing Rules of the Remuneration and Nominations Committee. These documents are available for viewing on the Company's website.<br>A performance evaluation was undertaken in the reporting period in accordance with these documents. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 2 – Structure the board to add value** | | |
| 2.1 The Company should have a nomination committee, which has at least three members, a majority of independent directors and is chaired by an independent director. The functions and operations of the nomination committee should be disclosed | Complies | A Remuneration & Nominations Committee has been established with its own Charter and consists of Drew Kelton (committee Chair), Simon Moore and Bevan Slattery.<br>The Remuneration & Nomination Committee complies with recommendation 2.1, which recommends that the committee has at least three members, the majority of whom must be independent. |
| 2.2 Have and disclose a board skills matrix, setting out what the Board is looking to achieve in its membership. | Complies | The Company has developed a board skills matrix, which is available on the Company's website. |

| Principle | Complies | Note |
|---|---|---|
| 2.3 Disclose the names of the directors that the Board considers to be independent directors, and an explanation of why the Board is of that opinion if a factor that impacts on independence applies to a director, and disclose the length of service of each director. | Complies | Simon Moore (appointed 26 October 2015)<br>Drew Kelton (appointed 26 October 2015)<br>Simon Moore and Drew Kelton each hold options under the 2015 ESOP (refer Note 18(a)). The grant of options provides long-term incentives for the Directors to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest when a pre-determined length of service is met. The options are not performance based and accordingly, do not impact on the Directors' independence. |
| 2.4 A majority of the Board should be independent | Does not comply | The Company currently has a four-member Board, of whom two (Simon Moore and Drew Kelton) are independent Non-Executive Directors. The Company intends to appoint a third independent non-executive Director to the board before 31 December 2016. |
| 2.5 The chair of the Board should be an independent Director and should not be the CEO. | Complies | The Chairman, Bevan Slattery, is an Executive Director, and is not independent. The Company's Chief Executive Officer, Denver Maddux, is not the same individual as the Chairman.<br>The Board believes that the non-independence of the Chairman does not impede proper oversight of the Chief Executive Officer. |
| 2.6 There should be a program for inducting new directors and providing appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively. | Complies | This is consistent with the Board Charter and processes implemented by Megaport. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 3 – Act ethically and responsibly** | | |
| 3.1 Have a code of conduct for the Board, senior executives and employees, and disclose that code or a summary of that code. | Complies | The Company has adopted a code of conduct, which sets out a framework to enable Directors to achieve the highest possible standards in the discharge of their duties and to give a clear understanding of best practice in corporate governance. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 4 – Safeguard integrity in corporate reporting** | | |
| 4.1 The Company should have an audit committee, which consists of only Non-Executive Directors, a majority of whom are independent directors, is chaired by an independent director who is not chairman of the Board, and has at least three members. The functions and operations of the audit committee should be disclosed. | Complies | The Company has established an Audit & Risk Management Committee to assist and report to the Board. The Audit & Risk Management Committee consists of two Non-Executive Directors and one Executive Director.<br><br>The Company complies to the extent that an independent, non-executive Director chairs the committee, however the committee also includes the Chief Executive Officer (and Executive Director), Mr Maddux. The functions and operations are disclosed in the Audit & Risk Committee Charter. |
| 4.2 The Board should, before approving financial statements for a financial period, receive a declaration from the CEO and CFO that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, formed on the basis of a sound system of risk management and internal controls, operating effectively. | Complies | This is consistent with the processes implemented by the Audit & Risk Management Committee and Board. |
| 4.3 The Company's auditor should attend the AGM and be available to answer questions from security holders relevant to the audit. | Complies | Megaport's auditor attends the AGM and shareholders are entitled to ask questions in accordance with the Corporations Act. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 5 – Make timely and balanced disclosures** | | |
| 5.1 Have a written policy for complying with continuous disclosure obligations under the Listing Rules, and disclose that policy or a summary of it. | Complies | Megaport has a written continuous disclosure policy that is designed to ensure that all material matters are appropriately disclosed in a balanced and timely manner and in accordance with the requirements of the ASX Listing Rules. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 6 – Respect the rights of security holders** | | |
| 6.1 Provide information about the Company and its governance to investors via its website. | Complies | The Board Charter and other applicable policies are available on the Company's website. |
| 6.2 Design and implement an investor relations program to facilitate effective two-way communication with investors. | Complies | The Company aims to ensure that all Shareholders are well informed of all major developments affecting the Company and that full participation by Shareholders at the Company's AGM is facilitated. A copy of the Company's Shareholder Communication and Participation Policy is available on the Company's website |

| Principle | Complies | Note |
|---|---|---|
| 6.3 Disclose the policies and processes in place to facilitate and encourage participation at meetings of security holders. | Complies | The Company's Shareholder Communications and Participation Policy is available on the Company's website. The Policy aims to facilitate effective participation in the AGM, including the ability to submit written questions ahead of the AGM. The Company intends to adopt appropriate technologies to facilitate the effective communication and conduct of general meetings. |
| 6.4 Give security holders the option to receive communications from, and send communications to, the Company and its share registry electronically. | Complies | The Company has instructed its share registry to facilitate this option for investors. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 7 – Recognise and manage risk** | | |
| 7.1 The Board should have a risk committee which is structured so that it consists of a majority of independent directors, is chaired by an independent director, and has at least three members. The functions and operations of the risk committee should be disclosed. | Complies | The Company has a combined Audit & Risk Committee. The functions and operations of the committee are established under the Charter.<br>The Audit & Risk Management Committee consists of two non- executive Directors (Simon Moore and Drew Kelton) and one Executive Director (Denver Maddux). A non-executive Director (Simon Moore) chairs the committee. |
| 7.2 The Board or a committee of the Board should review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, and disclose, in relation to each reporting period, whether such a review has taken place. | Partially complies | The Charter establishes the role of the Audit & Risk Committee. The committee continues to develop and enhance its risk management framework. Annual reviews will occur, however as the Company was listed in December 2015, the first annual review is not due to be completed until December 2016. |
| 7.3 Disclose if the Company has an internal audit function, how the function is structured and what role it performs, or if it does not have an internal audit function, that fact and the processes the Company employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | Complies | The Company does not have an internal audit function due to the Company's limited number of employees and the relative nature and scale of its operations. The costs of an independent internal audit function would be disproportionate. The Company has an external auditor and the Audit & Risk Management Committee monitors and evaluates material or systemic issues.<br>The Board believes it and the Audit & Risk Management Committee have appropriate oversight of the existing operations. |
| 7.4 Disclose whether the Company has any material exposure to economic, environmental and social sustainability risks and, if so, how it manages those risks. | Complies | The Board does not believe the Company has any such material exposures. |

| Principle | Complies | Note |
|---|---|---|
| **Principle 8 – Remunerate fairly and responsibly** | | |
| 8.1 The Board should have a remuneration committee which is structured so that it consists of a majority of independent directors, is chaired by an independent director, and has at least three members. The functions and operations of the remuneration committee should be disclosed. | Complies | The Board has established a Remuneration & Nomination committee to assist the Board to discharge its responsibilities in relation to remuneration and issues relevant to remuneration policies and practices, including those for senior management and Non-Executive Directors. The remuneration committee consists of two independent, Non-Executive Directors (Drew Kelton and Simon Moore) and is chaired by an independent, non-executive Director (Drew Kelton) who is not the Chairman. The composition and role of the Remuneration & Nomination Committee is set out in the Remuneration & Nomination Committee Charter. |
| 8.2 The policies and practices regarding the remuneration of Non-Executive Directors, and the remuneration of executive directors and other senior executives, should be separately disclosed. | Complies | The Company's remuneration report within the Annual Report sets out the separate policies and practices for the remuneration of Non-Executive Directors, executive directors and senior executives.<br>No director or senior executive is involved directly in deciding their own remuneration. |
| 8.3 If the Company has an equity-based remuneration scheme, it should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme, and disclose that policy or a summary of it. | Complies | The Company currently operates an equity-based remuneration scheme for employees. In accordance with the Company's Securities Trading Policy participants are not permitted to enter into transactions that limit economic risk with written clearance. |

# FINANCIAL REPORT

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | Notes | 2016 $ |
|---|---|---|
| **Continuing operations** | | |
| Revenue | 4 | 2,679,410 |
| Direct network costs | 5 | (4,219,175) |
| | | **(1,539,765)** |
| Other income | | 146,469 |
| Employee benefits expense | | (10,742,463) |
| Professional fees | | (3,060,888) |
| Marketing expenses | | (1,635,743) |
| Travel expenses | | (1,468,793) |
| Depreciation and amortisation expense | 7 | (1,295,761) |
| Finance costs | | (60,683) |
| Foreign exchange gains/(losses) | 7 | (701,241) |
| Other expenses | | (986,342) |
| **Profit/(loss) before income tax** | | **(21,345,210)** |
| Income tax benefit / (expense) | 6 | - |
| **Profit/(loss) after income tax for the period from continuing operations** | **7** | **(21,345,210)** |

| **Other comprehensive income/(loss), net of tax** | |
|---|---|
| **Items that may be reclassified subsequently to profit or loss:** | |
| Exchange differences arising on the translation of foreign operations | 185,516 |
| **Total other comprehensive income/(loss), net of income tax** | **185,516** |
| **Total comprehensive income for the period** | **(21,159,694)** |
| | |
| **Profit/(loss) attributable to:** | |
| Owners of Megaport Limited | (21,345,210) |
| | |
| **Total comprehensive income/(loss) attributable to:** | |
| Owners of Megaport Limited | (21,159,694) |

| **Earnings/(losses) per share** | **Notes** | **Cents** |
|---|---|---|
| Basic losses per share | 8 | (0.36) |
| Diluted losses per share | 8 | (0.36) |

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

| | Notes | 2016 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 9 | 11,869,997 |
| Trade and other receivables | 10 | 941,802 |
| Financial assets | | 185,390 |
| Other assets | 11 | 452,977 |
| **Total current assets** | | **13,450,166** |
| **Non-current assets** | | |
| Property, plant and equipment | 12 | 6,421,473 |
| Intangible assets | 13 | 1,437,184 |
| Other assets | 11 | 108,068 |
| **Total non-current assets** | | **7,966,725** |
| **Total assets** | | **21,416,891** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 14 | 4,246,913 |
| **Total current liabilities** | | **4,246,913** |
| **Total liabilities** | | **4,246,913** |
| **Net assets** | | **17,169,978** |
| **Equity** | | |
| Issued capital | 15 | 50,109,608 |
| Other equity | 24(b) | (11,913,909) |
| Reserves | 16 | 319,489 |
| Accumulated losses | 17 | (21,345,210) |
| **Total equity** | | **17,169,978** |

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

# Consolidated Statement of Changes in Equity

| | Notes | Issued capital $ | Accumulated losses $ | Other equity $ | Other reserves $ | Total equity $ |
|---|---|---|---|---|---|---|
| Balance at 27 July 2015 | | - | - | - | - | **-** |
| Profit / (loss) for the period | | - | (21,345,210) | - | - | **(21,345,210)** |
| Other comprehensive income / (loss) (net of tax) | | - | - | - | 185,516 | **185,516** |
| **Total comprehensive income / (loss) for the period** | | **-** | **(21,345,210)** | **-** | **185,516** | **(21,159,694)** |
| Transactions with owners in their capacity as owners: | | | | | | |
| Shares issued | 15(a) | 51,000,001 | - | - | - | **51,000,001** |
| Share issue costs | 15(a) | (890,393) | - | - | - | **(890,393)** |
| Share-based payments | 18 | - | - | - | 133,973 | **133,973** |
| Acquisition of businesses under common-control | 24(b) | - | - | (11,913,909) | - | **(11,913,909)** |
| | | **50,109,608** | **-** | **(11,913,909)** | **133,973** | **38,329,672** |
| **Balance at 30 June 2016** | | **50,109,608** | **(21,345,210)** | **(11,913,909)** | **319,489** | **17,169,978** |

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

# Consolidated Statement of Cash Flows

| | Notes | 2016 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | | 2,484,003 |
| Payments to suppliers and employees | | (17,773,597) |
| Finance costs | | (60,683) |
| **Net cash flows used in operating activities** | **9(a)** | **(15,350,277)** |
| | | |
| **Cash flows from investing activities** | | |
| Interest received | | 146,469 |
| Payment for financial assets | | (185,390) |
| Payment for property, plant and equipment | | (5,492,220) |
| Payment for intangibles | | (746,288) |
| Purchase of controlled entities, net of cash acquired | 24(c) | (186,230) |
| Transaction costs relating to acquisition of subsidiary | | (93,327) |
| **Net cash flows used in investing activities** | | **(6,556,986)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issue of new shares | 15(a) | 35,000,001 |
| Share issue transaction costs | 15(a) | (890,393) |
| Repayment of loans from related parties | 25(f) | (375,719) |
| **Net cash flows from financing activities** | | **33,733,889** |
| | | |
| Net increase / (decrease) in cash and cash equivalents held | | 11,826,626 |
| Effects of exchange rate changes on cash and cash equivalents | | 43,371 |
| Cash and cash equivalents at beginning of the period | | - |
| **Cash and cash equivalents at end of the period** | **9** | **11,869,997** |

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

# Notes to the Consolidated Financial Statements

## 1 Significant accounting policies

### (a) General information

Megaport Limited (Megaport 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 4
825 Ann Street
Fortitude Valley QLD 4006

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

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

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

### (b) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of Megaport Limited and its subsidiaries ('the Group'). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

### (c) Reporting period and comparative information

These are the first set of annual financial statements prepared for the Group and cover the period 27 July 2015 to 30 June 2016. Consequently, comparative information is not available for any prior periods.

### (d) Basis of preparation

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

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB117, and measurements that have some similarities to fair value but are not fair value, such as value in use in AASB 136 'Impairment of Assets'.

**Critical accounting estimates**

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

**New and amended standards**

These are the first set of annual financial statements prepared by the Group and cover the period 27 July 2015 to 30 June 2016. Consequently, the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 have not affected any of the amounts recognised in the current period.

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting period ending 30 June 2016 and have not been adopted early by the Group. The Group's assessment of the impact of these new standards and interpretations is set out in the following table.

| Title of standard | Nature of change | Impact | Mandatory application date / date of adoption by the Group |
|---|---|---|---|
| AASB 15 Revenue from contracts with customers | The AASB has issued a new standard for recognition of revenue. This will replace AASB 118, which covers standard contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.<br>The standard permits a modified retrospective approach for adoption. Under this approach, entities will recognise transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. | The Group has not yet considered the impact of the new rules on its revenue recognition policies. It will undertake a detailed assessment in the near future. | Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the Group: 1 July 2018 |
| AASB 9 Financial Instruments | AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. | The Group has not yet considered the impact of the new rules of AASB 9. It will undertake a detailed assessment in the near future. | Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the Group: 1 July 2018 |

| Title of standard | Nature of change | Impact | Mandatory application date / date of adoption by the Group |
|---|---|---|---|
| AASB 16 Leases | The AASB has issued a new standard for accounting treatment of leases.<br><br>The key features of the new standard are:<br><br>• Elimination of classification of leases as either operating or finance leases for a lessee<br>• The recognition of lease assets and liabilities on the Statement of Financial Position, initially measured at present value of unavoidable future lease payments<br>• Recognise depreciation of lease assets and interest on lease liabilities on the Statement of Profit or Loss and Other Comprehensive Income over the lease term<br>• Separation of the total amount of cash paid into a principal portion and interest in the Statement of Cash Flows<br>• Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements | The Group has not yet considered the impact of the new rules on its accounting treatment of leases. It will undertake a detailed assessment in the near future. | Mandatory for financial years commencing on or after 1 January 2019.<br>Expected date of adoption by the Group: 1 July 2019 |

Other Standards and Interpretations that were issued but not yet effective are listed below. The Directors of the Group do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

| Title of Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 1057 'Application of Australian Accounting Standards' and AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs' | 1 January 2016 | 1 July 2016 |
| AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 | 1 July 2016 |
| AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle' | 1 January 2016 | 1 July 2016 |
| AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' | 1 January 2016 | 1 July 2016 |
| AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses' | 1 January 2016 | 1 July 2016 |
| AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107' | 1 January 2016 | 1 July 2016 |

### (e) Basis of consolidation

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

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

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

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

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

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

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

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

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

### (f) 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, amount of any non-controlling interest in the acquired entity, over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the consideration transferred for the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the profit and loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

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

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

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with AASB 139, 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 interests' 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 Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity.

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 of the acquisition date that, if known, would have affected the amounts recognised as of that date.

**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 Megaport Limited 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.

**(g) Goodwill**

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

Goodwill is reviewed for impairment, annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit 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 cash-generating unit retained.

**(h) Segment reporting**

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

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

Goodwill is allocated by management to groups of cash-generating units on a segment level.

**(i) Foreign currencies**

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

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

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

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

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

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.

**(j) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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

**Rendering of services**

Megaport derives income through the sale and provisioning of high-speed data services including network interconnectivity, facilitated through the Group's service delivery and connectivity platform. Revenue for data services is recognised as revenue when the services are rendered. 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 services are rendered.

**Interest income**

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

**(k) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit before tax as reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or

deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax**

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Current and deferred tax for the year**

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

**(l) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

**(m) Cash and cash equivalents**

Cash and cash equivalents includes 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. Bank overdrafts, if any, are included in borrowings in current liabilities in the Statement of Financial Position.

**(n) Trade and other receivables**

Trade and other receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Other receivables generally arise from transactions outside the usual operating activities of the Group.

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

Collectability of trade and other receivables is reviewed on an ongoing basis at the operating unit level. Individual debts which are known to be uncollectable are written off when identified. A impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

### (o) Property, plant and equipment

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

An item of PP&E 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 PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Depreciation**
Depreciation is calculated over property, plant and equipment using the following estimated useful lives and methods:

| PP&E Category | Expected Useful Life | Method |
|---|---|---|
| Network equipment | 3 years | Straight line |
| Fibre optic equipment | 3 years | Straight line |
| Furniture & office equipment | 3 - 5 years | Straight line |
| Computer equipment | 2 - 3 years | Straight line |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

### (p) Assets under construction

Assets under construction are shown at historical cost. Historical cost includes directly attributable expenditure on network infrastructure and data centres which at reporting date, has not yet been finalised and/or ready for use. Assets under construction are not depreciated. Assets under construction are transferred to property, plant and equipment upon successful testing and commissioning.

### (q) Intangible assets

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

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

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

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

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

**Intangible assets acquired in a business combination**

Intangible assets arising from a business combination are capitalised at fair value as at the date of acquisition. They are subsequently amortised on a straight-line based on the timing of projected cash flows of the intangibles over their estimated useful life. Following initial recognition, the cost model is applied to the class of intangible assets.

**Intangible assets acquired not as part of a business combination**

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

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 |

When amortisation is charged on assets with finite lives, this expense is taken to the Consolidated Statement of Profit of Loss and Other Comprehensive Income in the expense category 'depreciation and amortisation'.

**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

**(r) Impairment of tangible and intangible assets other than goodwill**

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) 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.

**(s) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are

unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### (t) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation recognised in accordance with AASB 118 'Revenue'.

### (u) Employee benefits

#### Short-term obligations

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

#### Long-term obligations

The liability is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date, using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using high quality corporate bond rates at the reporting date with terms to maturity and currencies that match, as closely as possible, the estimated future cash flows. The obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

#### Retirement employment obligations

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

#### Bonus plans

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

#### Termination benefits

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

### (v) Share-based payment arrangements

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

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

### (w) Equity instruments

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

### (x) Earnings per share

**Basic earnings per share**

Basic earnings per share is calculated by dividing:

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

**Diluted earnings per share**

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

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

### (y) Other taxes

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

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

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

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

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

## 2 Critical accounting estimates and judgements

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

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

### (a) Allowance for doubtful debts

The Group determines whether trade receivables are collectable on an ongoing basis. This assessment requires estimations of the individual recoverability of each debt and, if considered uncollectable, is subject to an impairment provision.

### (b) Useful lives of PP&E and intangible assets

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

**(c) Value of internally generated intangible assets**

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

**(d) Fair value measurements of share-based payments**

The share-based payments are measured at fair value for financial reporting purposes. In estimating the fair value of the share-based payments, 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 telecommunications industry.

**(e) Income taxes**

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

**(f) Deferred taxation**

Deferred tax assets are recognised where it is considered probable that they will be recovered in the future and, as such, are subjective. A significant portion of the deferred tax assets relate to the unused tax losses. Given the early stage of the Group operations and the magnitude of the tax losses, Megaport has not recognised any deferred tax assets in the Consolidated Statement of Financial Position as at 30 June 2016.

**(g) Key assumptions used in impairment of assets analysis**

The Group assesses whether its assets have suffered any impairment on an annual basis. This assessment includes forecasting growth in the various regions, and the use of cash flow projections. The cash flows include estimated growth rates and estimated discount rates. Management's assessment is based on a reasonable estimate of growth plans as there is no significant historical trend to assess. The impairment assessment is directly related to the effectiveness of the strategy in each market.

## 3 Segment information

The Group's Board of Directors examined the performance of the Group from a geographic perspective and have identified three operating segments of its business. All operating segments are currently reportable. All operating segments receive revenue based on the services described in note 1(j). These segments are:

- **Megaport (Asia-Pacific)** includes Australia, New Zealand, Hong Kong and Singapore. The segment includes key data centres in each market. New Zealand includes a long-haul connectivity capability back to Australia, which enables cloud exchange services to the market. There is a link between Singapore and Hong Kong allowing customers cross-market cloud exchange connectivity and services.
- **Megaport (North America)** opened its headquarters in San Francisco in August 2015. The network went live at the end of April 2016 and now has 33 sites across the United States of America and Canada. Partnership agreements have been signed with AMS-IX, EdgeConnex and CyrusOne to benefit the network.
- **Megaport (Europe)**'s network will be live in 2017 Q1 through the acquisition of OMNIX Group AD (refer to note 24(a)) and PEERING GmbH (refer to note 22) and Megaport built sites. These factors have developed a fully operational market in 19 cities, 13 countries, and 57 locations across Europe.
- **Other** includes head office and group services, whose function is to support the operating segments and growth of the global business.

The Board 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 net profit or loss, which is measured the same as the net profit or loss in the consolidated financial statements.

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 PP&E, the physical location of the asset.

| | Notes | Asia-Pacific $ | North America $ | Europe $ | Total operating segments $ | Other[3] $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Revenue[1]** | 4 | 2,662,867 | 16,543 | - | **2,679,410** | - | **2,679,410** |
| | | | | | | | |
| **Net profit/(loss)** | | **(4,626,561)** | **(8,053,358)** | **(609,246)** | **(13,289,165)** | **(8,056,045)** | **(21,345,210)** |
| Interest income | | 106 | 260 | - | **366** | 146,103 | **146,469** |
| Rental expense relating to operating leases | 7 | 2,094,897 | 1,711,773 | 11,696 | **3,818,366** | 66,000 | **3,884,366** |
| Foreign exchange expense | 7 | (35,291) | 292,910 | 31,596 | **289,215** | 412,026 | **701,241** |
| Event sponsorship | 7 | - | 276,600 | - | **276,600** | - | **276,600** |
| Acquisition-related transaction costs | 7 | - | - | 322,386 | **322,386** | - | **322,386** |
| Corporate structure setup costs | 7 | - | 24,794 | 154,042 | **178,836** | 54,137 | **232,973** |
| Depreciation of non-current assets - PP&E | 7 | 851,896 | 422,403 | - | **1,274,299** | - | **1,274,299** |
| Amortisation of non-current assets - intangibles | 7 | - | - | - | **-** | 21,462 | **21,462** |
| Employee share scheme issues | 7 | - | - | - | **-** | 2,600,000 | **2,600,000** |
| Employee share option plan | 7 | - | - | - | **-** | 133,973 | **133,973** |
| Listing on the ASX expenses | 7 | - | - | - | **-** | 455,634 | **455,634** |
| | | | | | | | |
| **Segment assets** | | **6,039,898** | **3,828,090** | **2,196,210** | **12,064,198** | **9,352,693** | **21,416,891** |
| Capital expenditure[2] | 12,13 | 1,559,773 | 3,768,180 | 911,898 | **6,239,851** | 730,199 | **6,970,050** |

1. Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period
2. Capital expenditure consists of additions of property, plant & equipment and intangible assets
3. "Other" represents head office and group services costs, whose function is to support the operating segments and growth of the global business

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in note 1. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Megaport Limited is domiciled in Australia. The amount of its revenue from external customers broken down by location of the customers is as follows:

| **Revenue from external customers** | **$** | **%** |
|---|---|---|
| Australia | 2,305,668 | 86.1 |
| Other countries | 373,742 | 13.9 |
| **Total** | **2,679,410** | **100.0** |

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets, is as follows:

| **Location of non-current assets** | **$** | **%** |
|---|---|---|
| Australia | 2,580,692 | 32.4 |
| United States of America | 2,969,981 | 37.3 |
| Bulgaria | 734,376 | 9.2 |
| Other countries | 1,681,676 | 21.1 |
| **Total** | **7,966,725** | **100.0** |

## 4 Revenue

The Group derives the following type of revenue:

| | **Notes** | **2016 $** |
|---|---|---|
| Revenue from the rendering of services | | 2,679,410 |
| **Total revenue from continuing operations** | | **2,679,410** |

## 5 Direct network costs

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

# 6 Income tax expense

| Income tax expense | Notes | 2016 $ |
|---|---|---|
| *Current income tax* | | |
| Current income tax benefit | | - |
| | | |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | | - |
| | | |
| **Income tax expense / (benefit) reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income** | | **-** |

**Tax losses**

The Group has tax losses in Australia of $10.1million, in United States of America of $9.2million, in Hong Kong of $1.2million and Singapore of $940k. These losses should be available to offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules. No deferred tax assets have been recorded in relation to these losses.

No decision to date has been made on whether to consolidate for Australian income tax purposes.

| Numerical reconciliation of income tax expense to prima facie tax payable | Notes | 2016 $ |
|---|---|---|
| Accounting profit / (loss) before income tax | | (21,345,210) |
| Tax at the Australian tax rate of 30% | | (6,403,563) |
| | | |
| Tax effect of amounts which are not deductible / (assessable) in calculating taxable income: | | |
| Non-deductible amounts | | 822,168 |
| Recognition of temporary differences previously not brought to account | | (53,424) |
| Difference in overseas tax rates | | (625,249) |
| Tax losses not recognised | | 6,260,068 |
| **Income tax expense** | | **-** |

| Deferred tax – not recognised | Notes | 2016 $ |
|---|---|---|
| *Deferred tax assets* | | |
| Provisions and expenses not yet deductible | | 502,727 |
| Tax losses carried forward | | 7,020,123 |
| **Total deferred tax not recognised** | | **7,522,850** |

# 7 Material profit or loss items

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

| Expenses | Notes | 2016 $ |
|---|---|---|
| *Depreciation and amortisation* | | |
| Depreciation of non-current assets – property, plant and equipment | 12 | 1,274,299 |
| Amortisation of non-current assets – intangibles | 13 | 21,462 |
| | | 1,295,761 |
| *Share-based payment expense* | | |
| Employee share scheme issues[1] | 18(b) | 2,600,000 |
| Employee share option plan | 18(a) | 133,973 |
| | | 2,733,973 |
| *Other expense disclosures* | | |
| Rental expense relating to operating leases | (a) | 3,884,366 |
| Foreign currency expense | (b) | 701,241 |
| Event sponsorship | (c) | 276,600 |
| Acquisition-related transaction costs[1] | 24(a) | 322,386 |
| Corporate structure setup costs[1] | (d) | 232,973 |
| Listing on the ASX expenses[1] | (e) | 455,634 |

1. These costs are a one-off to the Group, incurred through the setup of the business.

(a) The Group has entered into commercial leases for the rental of premises, rack space in data centres, and rental of connectivity resources. Further details are included in note 21.

(b) As the Group transfers cash and cash equivalents between currencies by the parent providing funding to the subsidiaries to establish themselves in their market, the Group is subject to foreign currency gains or losses on intercompany receivables and payables. Refer to note 19 for further details.

(c) A platinum sponsorship for the AWS re:Invent 2015 conference was obtained as a means to gain status and build brand awareness of the Megaport name and service when it stepped into the US market.

(d) Professional tax and legal advice was obtained to establish Megaport Limited and its wholly-owned subsidiaries. This advice was to both setup the corporate structure and ensure the structure of the business was best suited to the long-term business plans. Many factors were considered to ensure an appropriate structure was developed, including taxation and accounting requirements and relevant legal & regulatory frameworks.

(e) To fund the growth phase of Megaport an initial public offering was conducted. In order to do this, the process of listing the Company on the Australian Stock Exchange was required. These costs were not incremental costs directly attributable to the issuing of new shares, therefore are a one-off cost to the Company's profit and loss.

## 8 Earnings per share

The following information reflects the income and share data used in the basic and diluted earnings per share computations:

| | Notes | 2016 $ |
|---|---|---|
| Net profit/(loss) attributable to ordinary equity holders of Megaport Limited, used in the calculation of basic and diluted earnings per share | | (21,345,210) |

| | Notes | 2016 Shares |
|---|---|---|
| Weighted average number of ordinary shares used as a denominator in calculating basic earnings per share | | 59,646,018 |
| *Adjustments for calculation of diluted earnings per share:* | | |
| Options | (a) | 303,401 |
| Weighted average number of ordinary shares and potential ordinary shares used as a denominator in calculating diluted earnings per share | | 59,949,419 |

(a) Options granted to employees under the 2015 Employee Share Option Plan (2015 ESOP) are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required length of service requirements would have been met up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of the basic earnings per share. Details relating to the options are set out in note 18(a).

## 9 Cash and cash equivalents

| | Notes | 2016 $ |
|---|---|---|
| Cash at bank and on hand | (a) | 11,484,422 |
| Funds held in escrow | (b) | 224,101 |
| Short-term deposits | | 161,474 |
| **Total cash and cash equivalents** | | **11,869,997** |

(a) Included in cash at bank is an amount of $150,730 that is held under lien by the bank as security for company credit cards, and is therefore not available for use by the Group.
(b) Funds held in escrow are not available for use by the Group. The funds are the balance payable for the acquisition of OMNIX Group AD (refer to note 24(a)) and are required to be held in escrow from acquisition date until they are payable to the sellers of OMNIX Group AD.

Cash at bank earns interest at floating rates based on daily bank deposit rates: 2016: 0.00% - 1.45%.

Short-term deposits earn interest at rates agreed to at the start of the term: 2016: 0.14% - 1.71%.

The weighted average interest rate for the year was 1.24%.

### (a) Reconciliation of profit/(loss) for the period to net cash flows used in operating activities

| Cash flows used in operating activities | Notes | 2016 $ |
|---|---|---|
| Profit/(loss) for the period | | (21,345,210) |
| *Adjustments for:* | | |
| Interest income | | (146,469) |
| Depreciation and amortisation | | 1,295,761 |
| Net exchange differences | | 53,079 |
| Transaction costs related to acquisition of subsidiary | | 322,386 |
| Expense recognised in respect of equity-settled share based payments | | 2,733,973 |
| | | **4,258,730** |
| *Movements in working capital:* | | |
| (Increase)/Decrease in trade and other receivables | | (634,746) |
| (Increase)/Decrease in other assets | | 574,204 |
| Increase/(Decrease) in trade and other payables | | 1,796,745 |
| | | **1,736,203** |
| **Net cash used in operating activities** | | **(15,350,277)** |

## 10 Trade and other receivables

| | Notes | 2016 $ |
|---|---|---|
| *Current* | | |
| Trade receivables | (a) | 692,404 |
| Allowance for doubtful debts | | (97,787) |
| **Total trade receivables** | | **594,617** |
| Other receivables | | 347,185 |
| **Total trade and other receivables** | | **941,802** |

(a) Trade receivables are non-interest bearing and are generally on terms of 30 days.

As of 30 June 2016, trade receivables of $360,924 were past due but not impaired. Operating units are following up on these receivables with the relevant debtors and are satisfied that payment will be received in full.

| | Notes | 2016 $ |
|---|---|---|
| *The aging analysis of these trade receivables is as follows:* | | |
| 1 – 30 days past due | | 135,636 |
| 31 – 60 days past due | | 106,196 |
| 61+ days past due | | 119,092 |
| **Balance at 30 June** | | **360,924** |

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

| **Movement in the allowance for doubtful debts** | Notes | 2016 $ |
|---|---|---|
| Balance at 27 July 2015 | | - |
| Increase in allowance for doubtful debts | | 97,787 |
| **Balance at 30 June 2016** | | **97,787** |

Detail regarding risk exposure related to credit, market and interest rate risk have been disclosed in note 19.

## 11 Other assets

| | Notes | 2016 $ |
|---|---|---|
| *Current* | | |
| Prepayments | | 363,986 |
| Accrued revenue | | 57,971 |
| Deposits & bonds | | 31,020 |
| **Total current other assets** | | **452,977** |
| | | |
| *Non-current* | | |
| Deposits & bonds | | 62,645 |
| Other assets | | 45,423 |
| **Total non-current other assets** | | **108,068** |
| **Total other assets** | | **561,045** |

## 12 Property, plant and equipment

| | Notes | Network equipment $ | Fibre-optic equipment $ | Furniture & office equipment $ | Computer equipment $ | Assets under construction $ | Total $ |
|---|---|---|---|---|---|---|---|
| *Period ended 30 June 2016* | | | | | | | |
| Cost | | 6,372,087 | 39,875 | 50,229 | 386,750 | 1,634,227 | 8,483,168 |
| Accumulated depreciation | | (1,906,665) | (32,293) | (9,757) | (112,980) | - | (2,061,695) |
| **Net book value as at 30 June 2016** | | **4,465,422** | **7,582** | **40,472** | **273,770** | **1,634,227** | **6,421,473** |
| | | | | | | | |
| Opening net book amount | | - | - | - | - | - | - |
| Additions | | 4,298,345 | - | 37,877 | 253,313 | 1,634,227 | 6,223,762 |
| Additions through business combinations | 24 | 1,315,419 | 20,614 | 11,645 | 113,186 | - | 1,460,864 |
| Depreciation charge | | (1,157,089) | (13,010) | (9,012) | (95,188) | - | (1,274,299) |
| Exchange differences | | 8,747 | (22) | (38) | 2,459 | - | 11,146 |
| **Net book value as at 30 June 2016** | | **4,465,422** | **7,582** | **40,472** | **273,770** | **1,634,227** | **6,421,473** |

No additions during the period were financed under lease agreements.

## 13 Intangible assets

| | Notes | Software – internally generated $ | Software – acquired $ | Patents & trademarks $ | Business combination intangible assets[1] $ | Software under development $ | Total $ |
|---|---|---|---|---|---|---|---|
| *Period ended 30 June 2016* | | | | | | | |
| Cost | | 322,785 | 36,958 | 60,808 | 712,358 | 325,737 | 1,458,646 |
| Accumulated amortisation | | (17,933) | (3,408) | (121) | - | - | (21,462) |
| **Net book value as at 30 June 2016** | | **304,852** | **33,550** | **60,687** | **712,358** | **325,737** | **1,437,184** |
| | | | | | | | |
| Opening net book amount | | - | - | - | - | - | - |
| Additions | | 322,785 | 36,958 | 60,808 | - | 325,737 | 746,288 |
| Additions through business combinations | 24 | - | - | - | 712,358 | - | 712,358 |
| Amortisation charge | | (17,933) | (3,408) | (121) | - | - | (21,462) |
| Exchange differences | | - | - | - | - | - | - |
| **Net book value as at 30 June 2016** | | **304,852** | **33,550** | **60,687** | **712,358** | **325,737** | **1,437,184** |

1. The assets which have been acquired through business combinations have been provisionally accounted for and require further fair value assessment and identification of goodwill, customer contracts and relationships, and other intangible assets.

The development team's time spent developing software is capitalised. A portion of their time is spent on researching new development opportunities and maintaining existing software. The total cost incurred for this time is $197,612 in the current period, which is included in the employee benefits expense on the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

## 14 Trade and other payables

| | Notes | 2016 $ |
|---|---|---|
| *Current* | | |
| Trade payables | (a),(c) | 1,726,864 |
| Employee entitlements | (b) | 798,229 |
| Other payables and accruals | (c) | 1,497,719 |
| Contingent consideration payable | (d) | 224,101 |
| **Total trade and other payables** | | **4,246,913** |

(a) Trade payables are non-interest bearing and are normally settled on terms ranging from seven to 30 days.
(b) Employee entitlements includes accrued annual leave, and other employee benefits payable. The entire balance is presented as a current liability as the Group does not have an unconditional right to defer settlement for any of these obligations. However, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next twelve months. The following amounts reflect leave that may not be expected to be taken or paid within the next twelve months:

| | 2016 $ |
|---|---|
| Current leave obligations expected to be settled after twelve months | 56,711 |
| | **56,711** |

(c) Included within other payables and accruals are amounts due to related parties.
(d) This balance represents amounts payable relating to business combinations which are contingent on performance hurdles.

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

**Interest rate risk and liquidity risk**
Information regarding interest rate risk and liquidity risk exposure is set out in note 19.

## 15 Issued capital

| Ordinary shares | Notes | 2016 Shares | 2016 $ |
|---|---|---|---|
| Issued and fully paid | (a) | 70,000,000 | 50,109,608 |
| **Total issued capital** | | **70,000,000** | **50,109,608** |

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Group, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle the holder to one vote, either in person or by proxy, at a meeting of the Company.

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

### (a) Fully paid ordinary shares

| Movements in ordinary shares | Notes | Number of shares | Total $ |
|---|---|---|---|
| Opening balance at 27 July 2015 | | - | - |
| Shares issued - Incorporation of Megaport Limited | | 1 | 1 |
| Shares issued - Acquisition of Megaport subsidiaries[1] | 24(b) | 13,499,999 | 5,400,000 |
| Shares issued - Conversion of founding shareholder loan to equity[1] | 25(f) | 20,000,000 | 8,000,000 |
| Shares issued – To founding management team[1] | 18(b) | 6,500,000 | 2,600,000 |
| Shares issued - Private placement | | 10,000,000 | 10,000,000 |
| Shares issued - Initial public offering | | 20,000,000 | 25,000,000 |
| | | **70,000,000** | **51,000,001** |
| Less: Transaction costs arising on share issues | | - | (890,393) |
| **Balance at 30 June 2016** | | **70,000,000** | **50,109,608** |

1. These movements in ordinary shares were non-cash transactions, therefore have been excluded from the consolidated statement of cash flows.

### (b) 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 as outlined in previous investor presentations.

The Group's capital structure includes general cash (refer note 9) and equity attributable to the parent's equity holders.

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. According to these anticipated needs and the current strategic growth plan being executed, the Board's current policy is to not issue dividends.

| | Notes | 2016 $ |
|---|---|---|
| Total borrowings | | - |
| Total equity | | 17,169,978 |
| **Gearing ratio** | | **0%** |

## 16 Reserves

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 period. A description of the nature and purpose of each reserve is provided below the table.

| | Notes | Foreign currency translation $ | Equity-settled employee benefits $ | Total $ |
|---|---|---|---|---|
| Balance at 27 July 2015 | | - | - | - |
| Exchange differences arising on translation of foreign operations | (a) | 185,516 | - | 185,516 |
| **Total other comprehensive income** | | **185,516** | **-** | **185,516** |
| Recognition of share-based payments | (b) | - | 133,973 | 133,973 |
| **Balance at 30 June 2016** | | **185,516** | **133,973** | **319,489** |

**(a) 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 of the foreign operation.

**(b) Equity-settled employee benefits reserve**

The equity-settled employee benefits reserve relates to share options granted by the Company to its employees under ESOP 2015. Further information about share-based payments to employees is set out in note 18(a).

## 17 Accumulated losses

Movements in accumulated losses were as follows:

| | Notes | 2016 $ |
|---|---|---|
| Balance at 27 July 2015 | | - |
| Net profit / (loss) for the year | | (21,345,210) |
| **Balance at 30 June 2016** | | **(21,345,210)** |

## 18 Share-based payments

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

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

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

Set out below are summaries of options granted under the plan:

| | 2016 | |
|---|---|---|
| | **Average exercise price per share option** | **Number of options** |
| As at 27 July 2015 | - | - |
| Granted during the period | $1.25 | 1,300,000 |
| **As at 30 June 2016** | **$1.25** | **1,300,000** |

There are no options that have vested and become exercisable at 30 June 2016. No options expired during the period covered by the above table.

Share options outstanding at the end of the period have the following expiry date and exercise prices:

| **Grant date** | **Expiry date** | **Exercise price** | **Share options 30 June 2016** |
|---|---|---|---|
| 28 November 2015 | 27 November 2018 | $1.25 | 300,000 |
| 28 November 2015 | 27 February 2019 | $1.25 | 200,000 |
| 28 November 2015 | 27 November 2019 | $1.25 | 800,000 |
| **Total** | | | **1,300,000** |
| Weighted average remaining contractual life of options outstanding at end of period | | | 3.06 years |

*(i) Fair value of options granted*

The assessed fair value at grant date of options granted during the period ended 30 June 2016 were $0.298 (vesting in 1 year), $0.344 (vesting in 2 years), and $0.397 (vesting in 3 years).

The fair value at grant date is determined using the Black-Scholes pricing model that takes into account the share price at the time of the grant, the exercise price, the term of the option, the expected dividend yield, the expected price volatility of the underlying share and the risk free interest rate for the term of the option.

- The model inputs for options granted during the period ended 30 June 2016 included:
- options are granted for no consideration and vest based on a pre-determined length of service per options issue
- exercise price: $1.25
- grant date: 28 November 2015
- expiry dates: 27 November 2018 (vesting in 1 year), 27 February 2019 (vesting in 2 years), and 27 November 2019 (vesting in 3 years)
- share price at grant date: $1.25
- expected volatility of the Company's shares: 40%
- expected dividend yield: 0%
- risk-free interest rate: 2.05% (vesting in 1 year) and 2.10% (vesting in 2 and 3 years)

The expected price volatility is based on the historic volatility of similar companies within the telecommunications industry, adjusted for any expected changes to future volatility due to publicly available information.

### (b) Founding employee share scheme

A scheme under which shares were issued to key founding management personnel of Megaport Limited for no cash consideration was approved by the Board of Directors on 4 August 2015. Once the employees received the offer, it was at their discretion to elect to participate in the scheme with the lodgement of a valid share application form by 5 August 2015.

Total number of shares issued under the plan to participating employees on 5 August 2015 is 6,500,000 ordinary shares. The shares rank equally with other fully-paid ordinary shares on issue (refer to note 15). The shares had a grant date fair value of $0.40.

### (c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | Notes | 2016<br>$ |
|---|---|---|
| Options issued under 2015 employee share option plan | (a) | 133,973 |
| Shares issued under founding employee share scheme | (b) | 2,600,000 |
| **Balance at 30 June 2016** | | **2,733,973** |

## 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 | 2016<br>$ |
|---|---|---|
| *Financial assets* | | |
| Cash and cash equivalents | 9 | 11,869,997 |
| Trade and other receivables | 10 | 941,802 |
| Deposits & bonds | 11 | 93,665 |
| Other financial assets | | 185,390 |
| **Total financial assets** | | **13,090,854** |
| | | |
| *Financial liabilities* | | |
| Trade and other payables | 14 | 4,246,913 |
| **Total financial liabilities** | | **4,246,913** |

## (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), however, is the currency 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 reporting period, the US dollar was the most important currency (apart from the AUD) influencing costs. In coming financial years, the Euro will also have a significant influence. 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 costs are partly determined has a positive effect on the Group's net profit / (loss). However, a strengthening of the AUD does reduce the value of non AUD denominated net assets and therefore total equity.

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

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 Group's Statement of Profit or Loss and Other Comprehensive Income.

Almost all of the Group's cash and cash equivalents are denominated in Australian dollars. The table below summarises the Group's cash and cash equivalents by currency:

| Currency funds held in | Notes | 2016<br>$ |
|---|---|---|
| Australian dollar | | 8,758,875 |
| US dollar | | 2,569,713 |
| Singapore dollar | | 230,222 |
| Euro | | 224,101 |
| Other | | 87,086 |
| **Total cash and cash equivalents** | | **11,869,997** |

The Group adopts various procedures and policies to manage foreign currency risk where practical. These procedures include the use of natural hedges arising from trading operations and subsidiaries' results, forecasting of future cash flows by currency, and the implementation of a Board-approved foreign currency hedging policy this reporting period. The hedging policy involves ensuring three months of operating costs and specified capital expenditure amounts are held in currencies significant to the Group. Currencies are converted once a month to meet these cash flow levels, hedging the Group against fluctuations in foreign currency.

### Sensitivity

The table below gives an estimated retranslation effect on financial assets and financial liabilities of a ten percent strengthening in the closing exchange rate of the AUD against significant currencies. The sensitivity associated with a ten percent weakening of a particular currency would be broadly equal and opposite to the figures presented. The impact is expressed in terms of the effect on net profit / (loss). The sensitivities are based on financial assets and liabilities held at 30 June 2016, where balances are not denominated in the functional currency of the subsidiary. These balances will not remain constant throughout the next financial year, and therefore the following information should be used with care.

**Gains/(losses) associated with ten per cent strengthening of AUD**

| Currency exposure | Closing exchange rate AUD | 2016<br>Effect on net profit / (loss)<br>$ |
|---|---|---|
| US dollar | 1.2093 | (1,089,781) |
| Singapore dollar | 0.8968 | (172,118) |
| Hong Kong dollar | 0.1558 | (106,682) |
| Sterling | 1.6192 | (80,253) |

The Group's exposure to other foreign exchange movements 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 various short-term deposits and high interest cash at bank accounts (refer note 9).

**Sensitivity**
At 30 June 2016, if interest rates had increased by 100 basis points from the year end rates with all other variables held constant, post-tax profit for the period would have been $65,430 higher / $65,430 lower, mainly as a result of higher/lower interest income from cash and cash equivalents.

**(b) Credit risk**

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

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

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

| | 2016<br>$ | Credit Rating[1] |
|---|---|---|
| Australia | 10,651,589 | A+ |
| Australia | 120,659 | AA- |
| North America | 250,905 | AA- |
| Asia | 616,114 | AA- |
| Europe | 230,730 | Not applicable[2] |
| **Total** | **11,869,997** | |

1. In determining the credit quality of these financial assets, Megaport Limited has used the long-term rating from Standard & Poor's as of August 2016.
2. The majority of these funds are held in escrow in line with the business combination agreement of OMNIX Group AD (refer note 24(a))

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

The Group's credit risk is low due to the nature of transactions being small in value and high in volume of customers. To illustrate this, at 30 June 2016, more than 150 customers owed the Group $429k and accounted for approximately 62% of all the trade receivables owed to the Group. Also, not one customer accounts for more than 10% of total revenue.

Receivable balances are monitored on an ongoing basis with the intention that the Group's exposure to bad debts 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 $11.87million.

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

**Financing arrangements**
At 30 June 2016, the Group had no debt facilities, used or unused.

Subsequent to 30 June 2016, Megaport Limited was successful in a capital raising for the issue of ordinary shares raising a total of $31million.

*(i) Maturities of financial liabilities*
The following table reflects all contractually fixed repayments and interest resulting from recognised financial liabilities as at 30 June 2016.

The Group's financial liabilities comprise of trade and other payables only, and no derivative financial instruments are held. The respective undiscounted cash flows for the respective upcoming financial years 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 2016.

The remaining non-derivative contractual maturities of the Group's financial liabilities are:

| | Contractual cash-flows 2016 $ | Carrying amount 2016 $ |
|---|---|---|
| 1 year or less | 4,246,913 | 4,246,913 |
| **Total trade or other payables** | **4,246,913** | **4,246,913** |

**(d) Fair value measurements**

*(i) Trade and other payables*
Due to the short-term nature of the trade and other payables, their carrying amount is assumed to be the same as their fair value.

## 20 Contingent liabilities

The Group has no contingent liabilities at reporting date.

## 21 Commitments

**(a) Non-cancellable operating lease commitments – Group as lessee**

The Group has entered into commercial leases for the rental of premises, rack space in data centres, and rental of connectivity resources under non-cancellable operating leases expiring within one to five years. These leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | Notes | 2016<br>$ |
|---|---|---|
| Within one year | | 5,885,427 |
| After one year but not more than five years | | 7,887,155 |
| **Total** | | **13,772,582** |

**(b) Capital commitments**

There has been no significant capital expenditure contracted for at the end of the reporting period not recognised as a liability.

## 22 Events occurring after the reporting period

**(a) Acquisition of PEERING GmbH**

On 11 August 2016, Megaport (Europe) Limited acquired 100% of the shares in PEERING GmbH, which operates under the brand ECIX, based in Berlin, Germany. PEERING GmbH is Germany's second largest Internet Exchange operator, and this acquisition allows Megaport to expand its Europe network by an additional 30 locations and gain additional revenue at a higher margin through economies of scale through existing colocation and connectivity agreements. Core PEERING GmbH leadership team will remain as managers of the operation.

The financial effects of this transaction have not been recognised at 30 June 2016. The operating results and assets and liabilities of the acquired company will be consolidated from 11 August 2016.

**Purchase consideration**

The initial cost of the acquisition was $951,600 (EUR 650,000) paid in cash, with further contingent consideration payable in two years, less any warranties, representations or claims incurred within the two years. The fair value of the contingent consideration arrangement is $951,600 (EUR 650,000) and has not been discounted as the funds are being held in escrow until payable. As such, the cash flow has already impacted the Group.

| | $ |
|---|---|
| Initial cash paid | 951,600 |
| Acquisition date fair value contingent consideration | 951,600 |
| **Total acquisition date fair value consideration** | **1,903,200** |

The Group expects to be liable for the full contingent consideration, and therefore was assessed to determine the acquisition date fair value of this contingent consideration.

The provisionally determined fair values of the assets and liabilities of PEERING GmbH as at the date of acquisition are as follows:

| | **Fair value $** |
|---|---|
| Cash and cash equivalents | 74,664 |
| Trade and other receivables | 349,164 |
| Property, plant and equipment | 792,024 |
| Trade and other payables | (338,184) |
| Deferred revenue | (128,100) |
| Finance leases | (529,968) |
| Intangible assets[1] | 1,683,600 |
| **Total acquisition date fair value consideration** | **1,903,200** |

1. These assets have been provisionally accounted for and require further fair value assessment and identification of goodwill, customer contracts and relationships and other intangible assets.

The consideration payable for the combination effectively includes amounts in relation to the benefit of expected synergies, revenue growth and the management of the acquiree.

*(i) Acquisition costs*
Acquisition-related costs of $160,064 will be included in professional fees in the Statement of Profit or Loss and Other Comprehensive Income in the reporting period ending 30 June 2017.

*(ii) Information not yet disclosed as not yet available*
At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of PEERING GmbH. In particular, the fair values of the assets and liabilities disclosed have only been determined provisionally as the valuations have not been finalised. It is also not yet possible to provide detailed information about each class of acquired receivables and any contingent liabilities of the acquired entity.

**(b) Capital raising – Private placement**

On 5 August 2016 Megaport issued 10,500,000 shares at an issue price of $1.70 per share, raising $17.85million. The shares were issued at a discount of 17.5% based on the last trading price of $2.06 on 27 July 2016. The new shares issued are ordinary shares and rank equally with existing Megaport ordinary shares. The transaction was fully underwritten by Morgans Corporate Limited.

**(c) Capital raising – Share purchase plan**

On 28 July 2016 Megaport announced that existing eligible shareholders had the opportunity to participate in a share purchase plan. Each eligible shareholder had the opportunity to subscribe up to $15,000 worth of new shares at a price of $1.70 without incurring brokerage and transaction costs.

The offer price was at a 17.5% discount to the last trading price of $2.06 on 27 July 2016. The SPP offer was dispatched to shareholders on Monday, 1 August 2016 and closed on Tuesday, 16 August 2016.

The amount issued in the SPP on 22 August 2016 was 7,734,994 shares at a total raising of $13.15 million.

### (d) Other matters

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

## 23 Interest in other entities

The Group's subsidiaries at 30 June 2016 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 2016 % |
|---|---|---|---|
| Megaport (Services) Pty Ltd | | Australia | 100 |
| Megaport (Australia) Pty Ltd | 24(b) | Australia | 100 |
| Megaport (Singapore) Pte Ltd | 24(b) | Singapore | 100 |
| Megaport (Hong Kong) Limited | 24(b) | Hong Kong | 100 |
| Megaport (USA) Inc. | 24(b) | United States of America | 100 |
| Megaport (UK) Limited | 24(b) | United Kingdom | 100 |
| Megaport (New Zealand) Limited | | New Zealand | 100 |
| Megaport (Canada) Inc. | | Canada | 100 |
| Megaport (Netherlands) B.V. | | The Netherlands | 100 |
| Megaport (Ireland) Limited | | Republic of Ireland | 100 |
| Megaport (Deutschland) GmbH | | Germany | 100 |
| Megaport (Europe) Limited | | United Kingdom | 100 |
| Megaport (Italia) S.R.L | | Italy | 100 |
| Megaport (Schweiz) AG | | Switzerland | 100 |
| Megaport (Sweden) AB | | Sweden | 100 |
| Megaport Networks (Espana) S.L. | | Spain | 100 |
| OMNIX Group AD | 24(a) | Republic of Bulgaria | 100 |

# 24 Business combinations

### (a) OMNIX Group AD ("OMNIX")

On 30 June 2016, Megaport (Europe) Limited acquired 100% of the shares of OMNIX Group AD ("OMNIX"), an Internet Exchange business headquartered in Bulgaria, with operations through the Baltic region and a network connecting to Amsterdam. The initial cost of the acquisition was $722,893 (EUR 483,861) paid in cash, with deferred consideration payable within the twelve months, as set out in this note.

The potential undiscounted amounts of future payments that the Group could be required to make, in cash, based on the financial criteria in the Share Purchase Agreement (SPA), is as follows:

- Payment one is a total of EUR 100,000, payable six months after completion, subject to:
  - The debt at closing date has not increased above EUR 16,138, being the debt position of OMNIX as at 31 March 2016,
  - OMNIX's net working capital has not decreased more than EUR 2,000 since 31 March 2016,
  - Recurring revenues (being the average monthly recurring revenue in the six-month period post completion) are above EUR 25,216, and
  - A breach of warranty claim has not occurred.
- Payment two is a total of EUR 50,000, payable twelve months after completion, subject to the same conditions as payment one, however measured twelve months after completion rather than six.

The Group expects to be liable for the full contingent consideration, and therefore assessed the acquisition date fair value of this contingent consideration, as set out in the following table:

| **Purchase consideration** | **$** |
|---|---|
| Initial cash paid | 498,792 |
| Acquisition date fair value contingent consideration[1] | 224,101 |
| **Total acquisition date fair value consideration** | **722,893** |

1. The contingent consideration has been accrued in the Statement of Financial Position within the Trade and other payables classification. As the cash is being held in escrow until the time periods these amounts are due, an asset is recognised within the Cash and Cash Equivalents classification.

The provisional fair value of the assets and liabilities of the OMNIX Group AD business, acquired as at the date of acquisition, are as follows:

| | **Fair value $** |
|---|---|
| Cash and cash equivalents | 6,629 |
| Trade and other receivables | 95,092 |
| Property, plant and equipment | 22,018 |
| Trade and other payables | (113,205) |
| Intangible assets[1] | 712,359 |
| **Total acquisition date fair value consideration** | **722,893** |

1. These assets have been provisionally accounted for and require further fair value assessment and identification of goodwill, customer contracts and relationships and other intangible assets.

The consideration payable for the combination effectively includes amounts in relation to the benefit of expected synergies and revenue growth of the acquiree.

*(i) Acquisition costs*

Acquisition-related costs of $322,386 are included in professional fees in the Statement of Profit or Loss and Other Comprehensive Income.

*(ii) Acquired receivables*

The fair value of the acquired trade receivables is $95,092 (EUR 63,649). The gross contractual amount for trade receivables due is $140,650 (EUR 94,143), of which $45,548 (EUR 30,494) is expected to be uncollectable.

*(iii) Revenue and profit contribution*

The acquired business contributed no revenues and net profit after tax to the Group as it was acquired on the last day of the reporting period (acquisition date: 30 June 2016). If the acquisition had occurred on 27 July 2015, the revenue and profit/(loss) the acquisition would have contributed to the Group for the period would have been $228,580 (EUR 149,600) and ($16,502) (EUR (10,800)) respectively. These figures are management's best estimate with the information available at the date of the report.

*(iv) Purchase consideration – cash outflow*

| | $ |
|---|---|
| Cash consideration | 498,792 |
| Less: cash balances acquired | (6,629) |
| **Outflow of cash – investing activities (net of cash acquired)** | **492,163** |

**(b) Acquisition of existing entities from Founding Shareholder**

In August 2015, the Founder, as the controlling shareholder, sold all of the shares in Megaport (Australia) Pty Ltd (Megaport Australia), Megaport (Singapore) Pte. Ltd., Megaport (Hong Kong) Limited, Megaport (USA), Inc., and Megaport (UK) Limited to the Company for consideration of $5,400,000.

The acquisitions were of commonly-controlled entities, which have been accounted for at their book value at the date of acquisition (refer note 1(f)). Assets and liabilities at the time of the acquisition are measured at their book value. The net impact of common control transactions is recognised in other equity.

Megaport Australia at the time was fully operational and generating revenue from various customer contracts. A key asset acquired through the purchase was the rights to the Megaport intellectual property (comprising of software, knowledge, and know-how) and the future revenue from customer contracts. The net liabilities for all of the entities combined at the date of acquisition was $6,513,909. The Board at the time (excluding the Founder) approved the transaction. The consideration for the sale was satisfied by the issue of shares at $0.40 per share.

| Name of entity | Notes | Date acquired | Net liabilities at date of acquisition |
|---|---|---|---|
| Megaport (Australia) Pty Ltd | | 5 August 2015 | 4,721,117 |
| Megaport (Singapore) Pte Ltd | | 5 August 2015 | 550,250 |
| Megaport (Hong Kong) Limited | | 5 August 2015 | 390,073 |
| Megaport (USA) Inc. | | 5 August 2015 | 852,671 |
| Megaport (UK) Limited | | 5 August 2015 | (202) |
| **Total net liabilities at date of acquisition** | | | **6,513,909** |
| Consideration[1] | 15 | | 5,400,000 |
| **Total common-control transactions recognised in other equity** | | | **11,913,909** |

1. The consideration was made up of $5,400,000 worth of shares in Megaport Limited valued at $0.40 each on 5 August 2015. No cash was paid for the business combination.

*(i) Purchase consideration – cash outflow*

| | $ |
|---|---|
| Cash consideration | - |
| Less: cash balances acquired | (305,933) |
| **Inflow of cash – investing activities (net of cash acquired)** | **(305,933)** |

**(c) Total outflow of cash attributable to business combinations**

Total outflow of cash attributable to business combinations, net of cash acquired, is as follows:

| | Notes | 2016<br>$ |
|---|---|---|
| Acquisition of OMNIX Group AD | (a)(iv) | 492,163 |
| Acquisition of existing entities from Founding Shareholder | (b)(i) | (305,933) |
| **Total outflow of cash (net of cash acquired)** | | **186,230** |

## 25 Related party transactions

**(a) Parent entities**

The ultimate parent entity within the Group is Megaport Limited.

**(b) Subsidiaries**

Interest in subsidiaries are set out in note 23.

**(c) Key management personnel compensation**

The aggregate compensation made to Directors and other Key Management Personnel of the Company and Group is set out below:

| | Notes | 2016<br>$ |
|---|---|---|
| Short-term employment benefits | | 838,198 |
| Post-employment benefits | | 30,603 |
| Share-based payments | | 1,665,644 |
| **Total** | | **2,534,445** |

Detailed remuneration disclosures are provided in the Remuneration Report on pages 15 to 22.

### (d) Transactions with other related parties

The following transactions occurred with related parties:

| | Notes | 2016 $ |
|---|---|---|
| *Sales and purchases of goods and services* | | |
| Purchase of shared services including rent and outgoings from entities controlled by key management personnel | (i) | 807,957 |
| Purchase of office equipment from entities controlled by key management personnel | (i) | 157,399 |
| Purchase of direct network costs from entities controlled by key management personnel | (ii) | 125,489 |
| | | |
| *Other transactions* | | |
| Employee compensation of associates to key management personnel | | 651,027 |
| Subscription of new ordinary shares as a result of a private placement: | (iv) | |
| By key management personnel | | 10,000 |
| By other related parties | | 1,190,000 |
| Subscription of new ordinary shares as a result of the initial public offering: | | |
| By other related parties | | 605,000 |

*(i) Shared services agreement*
The Company has entered into a shared services agreement with Capital B Pty Ltd ACN 162 622 282 (Capital B), a company controlled by the Founding Shareholder. Under the agreement, Capital B provides certain services to the Company (e.g. administrative and information technology services) and a right to use Capital B's premises at 14-16 Church Street, Fortitude Valley, Queensland. The services are charged on the basis of the actual cost to Capital B, allocated on the time Capital B employees spend providing services to the Company. The right to use the premises is based on a proportion of the lease expenses (between Bevan Slattery as trustee for the Church Street Trust and Capital B), associated with the Company's use of the premises. The head lease is on arm's length terms. The obligations on Capital B under the agreement are typical for a services agreement, and require that Capital B provide the services with due care, skill and judgment, comply with the law in providing the services and effect appropriate insurance. Capital B may seek reimbursement for certain expenses incurred in connection with the provision of services under the agreement. Either party may terminate the agreement for convenience on 60 days' written notice.

*(ii) Supplier agreement with Superloop*
Megaport Australia and Megaport Singapore have entered into agreements to acquire dark fibre services from Superloop (Australia) Pty Ltd (Superloop Australia) and Superloop (Singapore) Pte. Ltd (Superloop Singapore), respectively, which are both companies controlled by the Founder through the ASX-listed company Superloop Limited. Under the agreements, Megaport Australia and Megaport Singapore issues service order forms 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 agreement 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.

The total commitments for minimum lease payments in relation to this supplier agreement are payable as follows:

| | Notes | 2016 $ |
|---|---|---|
| Within one year | | 650,045 |
| After one year but not more than five years | | 1,484,755 |
| **Total** | | **2,134,800** |

*(iii) Business combinations under common-control*
Refer to note 24(b) for information on common-control business combinations entered into with related parties.

*(iv) Private placement*
In late August 2015, a private placement was completed, as a result of which the Company raised $10 million (at $1.00 per Share) from sophisticated investors, including related parties.

*(v) Intellectual property assignment*
In early August 2015, Megaport Services was incorporated as a subsidiary of Megaport Limited to hold all of the intellectual property of the Megaport Group. To effect the restructure of the intellectual property Capital B entered into assignment agreements with Megaport Services and with Megaport Australia to transfer trademarks registered in Capital B's name and other associated intellectual property and goodwill to Megaport Services.

Megaport Australia also transferred the trademarks it held to Megaport Services under the terms of an assignment agreement.

The intellectual property subject to transfer to Megaport Services and Megaport Australia was transferred at the cost to register or develop the relevant intellectual property, which the Board (excluding the Founder) determined to be arm's length.

A software development agreement between Capital B and a third party was also novated to Megaport Services for no additional consideration. Several domain names were also transferred from Capital B, the Founder and Subpartners Pty Ltd (an entity controlled by the Founder) to Megaport Services.

**(e) Outstanding balances arising from other related parties**

| | Notes | 2016<br>$ |
|---|---|---|
| *Trade and other receivables* | | |
| Key management personnel | | 24,043 |
| | | |
| *Trade and other payables* | | |
| Entities controlled by key management personnel | | 125,186 |

**(f) Loans to / from related parties**

| | Notes | 2016<br>$ |
|---|---|---|
| *Loans from key management personnel* | | |
| Beginning of the period | | - |
| Loans payable - acquired through business combinations | (i) | (8,414,489) |
| Foreign exchange gain/(loss) | | 38,770 |
| Amounts converted to equity | 15 | 8,000,000 |
| Amounts repaid to related parties | (i) | 375,719 |
| **End of the period** | | **-** |

*(i) Founder's loan*

Until August 2015, the business was funded primarily by loans from the Founder. In August 2015, $8million of these loans were converted to equity at $0.40 per share (with the remaining portion repaid from the proceeds of a private placement), being $375,719.

**(g) 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 other 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.

## 26 Parent entity financial information

**(a) Summary financial information**

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

| | Notes | 2016<br>$ |
|---|---|---|
| **Statement of Financial Position** | | |
| Current assets | | 9,905,439 |
| Non-current assets | | 36,205,786 |
| **Total assets** | | **46,111,225** |
| Current liabilities | | 518,372 |
| **Total liabilities** | | **518,372** |
| **Net assets** | | **45,592,853** |
| | | |
| **Shareholders' equity** | | |
| Issued capital | | 50,109,608 |
| Reserves | | 133,973 |
| Accumulated losses | | (4,650,728) |
| **Shareholders' equity** | | **45,592,853** |
| | | |
| **Profit / (loss) for the period** | | **(4,650,728)** |
| | | |
| **Total comprehensive income** | | **(4,650,728)** |

**(b) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2016, as detailed in note 20.

**(c) Contractual commitments**

The parent did not have any contractual commitments at 30 June 2016.

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

## 27 Auditors' remuneration

During the period 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:

| | Notes | 2016 $ |
|---|---|---|
| **Amounts received or due and receivable by:** | | |
| *Deloitte Touche Tohmatsu Australia (auditor of the parent entity):* | | |
| Audits and review of the financial reports of the entity and any other entity in the consolidated group | | 105,000 |
| Other services in relation to the entity and any other entity in the consolidated group: | | |
| Advisory services | (a) | 55,847 |
| **Total remuneration of Deloitte Touche Tohmatsu Australia** | | **160,847** |
| *Other Deloitte network firms:* | | |
| Audit and review of the financial reports of the entity and any other entity in the consolidated group | | 19,220 |
| **Total remuneration of Deloitte network firms** | | **19,220** |

(a) The advisory work completed was for services rendered in connection with the Initial Public Offering, including issuing the Investigating Accountant's Report on Pro-Forma Financial Information and Financial Services Guide included in the Prospectus.

# DIRECTORS' DECLARATION

In the Directors' opinion:

a. The financial statements and notes set out on pages 31 to 74 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 2016 and of its performance for the period ended on that date, and

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

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

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

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

On behalf of the Board of Directors

**Denver Maddux**
*Executive Director and Chief Executive Officer*
Megaport Limited

Brisbane
25 August 2016

Deloitte.

Deloitte Touche Tohmatsu
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# Independent Auditor's Report to the Members of Megaport Limited

**Report on the Financial Report**

We have audited the accompanying financial report of Megaport Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 31 to 75.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Megaport Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

(a) the financial report of Megaport Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(b).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 15 to 22 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Megaport Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

RG Saayman
Partner
Chartered Accountants
Brisbane, 25 August 2016

# SHAREHOLDER INFORMATION

From the date Megaport was admitted to the ASX (17 December 2015) to the end of the reporting period, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

The shareholder information set out below was applicable at 28 July 2016.

## (a) Ordinary share capital

70,000,000 fully paid ordinary shares are held by 2,660 individual shareholders.
All issued ordinary shares carry one vote per share.

Of the total fully paid ordinary shares, 33,330,000 are held in escrow by eight individual shareholders.
1,000,000 are subject to voluntary escrow, and the remainder are restricted.
The escrow period ends for all of the 33,330,000 shares on 17 December 2017.

## (b) Options

1,600,000 options are held by eight 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 | 399 | |
| 1,001 – 5,000 | 1,406 | |
| 5,001 – 10,000 | 428 | |
| 10,001 – 100,000 | 388 | 5 |
| 100,001 and over | 39 | 3 |
| **Total** | **2,660** | **8** |

The number of shareholders holding less than the marketable parcel of fully paid ordinary shares is 40.

## (d) Substantial shareholders

Substantial shareholders with direct and indirect shareholdings of 5% or more of the fully paid ordinary shares in the Company as at 28 July 2016 are set out as follows:

| Name | Number held | Percentage of issued shares |
|---|---|---|
| **Ordinary shares** | | |
| Mr Bevan Andrew Slattery | 33,000,000 | 47.14% |
| Mr Michael Denver Maddux | 5,000,000 | 7.14% |

## (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** |
| Mr Bevan Andrew Slattery | 33,000,000 | 47.14% |
| Mr Michael Denver Maddux | 4,000,000 | 5.71% |
| Intercontinental Pty Limited | 1,160,000 | 1.66% |
| HSBC Custody Nominees (Australia) Limited | 1,128,330 | 1.61% |
| HSBC Custody Nominees (Australia) Limited-GSCO EDA | 1,000,000 | 1.43% |
| Colinton Capital Pty Limited | 1,000,000 | 1.43% |
| Hackett CP Nominees Pty Ltd <Hacket Family A/c> | 1,000,000 | 1.43% |
| Ms Brynn Maddux | 1,000,000 | 1.43% |
| Ms Belinda Lajoie | 1,000,000 | 1.43% |
| J P Morgan Nominees Australia Limited | 898,730 | 1.28% |
| Rocket Science Pty Ltd <The Trojan Capital Fund A/c> | 500,000 | 0.71% |
| Norfolk Enchants Pty Limited <Trojan Retirement Fund A/c> | 500,000 | 0.71% |
| Colinton Capital Pty Limited | 468,000 | 0.67% |
| National Nominees Limited | 358,536 | 0.51% |
| Brispot Nominees Pty Ltd | 353,628 | 0.51% |
| UBS Nominees Pty Ltd | 315,124 | 0.45% |
| Blue Stamp Company Pty Ltd <Trickett A/c> | 313,681 | 0.45% |
| Yuan Quan Pty Ltd <Pocock Family No 2 A/c> | 300,000 | 0.43% |
| M E J C Pty Ltd <Mej Clarke Family A/c> | 280,000 | 0.40% |
| Mr David Frederick Oakley <DFO Investment A/c> | 200,000 | 0.29% |
| Mr Cameron Daniel | 200,000 | 0.29% |
| Mr Mitchell Phillip Warden | 200,000 | 0.29% |
| | **49,176,029** | **70.25%** |

### Unquoted equity securities

| | Number on issue | Number of holders |
|---|---|---|
| Options issued under 2015 Employee Share Option Plan (2015 ESOP) to take up ordinary shares | 1,300,000 | 7 |
| Options issued under Employee Share Option Plan (ESOP) to take up ordinary shares | 300,000 | 1 |

# CORPORATE DIRECTORY

| | |
|---|---|
| **Directors** | Bevan Slattery<br>Denver Maddux<br>Simon Moore<br>Drew Kelton |
| **Secretary** | Celia Pheasant |
| **Notice of Annual General Meeting** | The annual general meeting of Megaport Limited will be held in Brisbane on Wednesday 23 November 2016 at 12pm at the following address:<br>Level 11<br>66 Eagle Street<br>Brisbane QLD 4001 |
| **Principal Registered Office in Australia** | Level 4<br>825 Ann Street<br>Fortitude Valley QLD 4006 |
| **Share Register** | LINK Market Services<br>Phone: 1300 554 474 |
| **Auditor** | Deloitte Touche Tohmatsu<br>Level 25<br>123 Eagle Street<br>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 |

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Megaport