Appendix 4D

Half-Year Report

For the Half-Year Ended
31 December 2019

Megaport Limited

ABN: 46 607 301 959

For the period from 1 July 2019 to 31 December 2019

Appendix 4D

The following information sets out the requirements of the Appendix 4D of Megaport Limited ('the Company') with the stipulated information either provided here or cross referenced to the Half-Year Report for the Half-Year ended 31 December 2019 ("Half-Year Report").

This Appendix 4D covers the reporting period from 1 July 2019 to 31 December 2019. The previous corresponding period is 1 July 2018 to 31 December 2018.

Results for Announcement to the Market

Summary of Financial Information

	1 July 2019 to 31 December 2019	1 July 2018 to 31 December 2018	Change $	Change %
Revenue from ordinary activities	25,855,647	15,184,070	10,671,577	70.3
Profit/(loss) from ordinary activities after tax attributable to members[1]	(18,956,100)	(16,566,605)	(2,389,495)	(14.4)
Net profit/(loss) for the period attributable to members[1]	(18,956,100)	(16,566,605)	(2,389,495)	(14.4)

Dividends

No dividend has been proposed or declared in respect of the period ended 31 December 2019.

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

Refer to the Director's Report "Review of Operations" in the Half-Year Report for commentary on the results for the period and explanations to understand the Group's revenue and profit/(loss) from ordinary activities.

Net tangible asset backing

	31 December 2019 cents	31 December 2018 cents
Net tangible assets per ordinary share	102.11	47.34

The number of Megaport shares on issue at 31 December 2019 is 143,882,100 shares.

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

Name of entity	Note	Country of incorporation	Date control obtained or lost	% of equity held by immediate parent
Megaport (France) SAS	Incorporation	France	22 July 2019	100%

There are no entities over which control has been lost during the period. Also, there are no associates or joint ventures of the Company.

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

The 31 December 2019 Half-Year Report has been reviewed and is not subject to audit dispute or qualification.

[1] AASB 16 *Leases* became effective for the Group on 1 July 2019. AASB 16 establishes principles for the recognition and measurement of leasing arrangements. The profit/(loss) from ordinary activities and net profit/(loss) for the Half-Year ended 31 December 2019 include depreciation of the right-of-use assets and interest expense on lease liabilities relating to adopted AASB 16, which were accounted for as direct network costs and rent expenses (included in "other expenses") in the comparative period. The loss from ordinary activities and net loss for the Half-Year ended 31 December 2019 without AASB 16 impact were $18.8 million.

HALF-YEAR REPORT

For the Half-Year Ended 31 December 2019

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

Megaport Limited

ABN: 46 607 301 959

For the Half-Year Ended 31 December 2019

Contents

Directors Report

The Directors present their report on the consolidated entity consisting of Megaport Limited and the entities it controlled (referred to as 'the Group' or 'consolidated entity' or 'Megaport') at the end of, or during, the Half-Year ended 31 December 2019.

Directors and company secretary

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

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

The Company Secretary is Celia Pheasant.

Principal activities

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

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

Review of operations

Group overview

Megaport's vision is to revolutionise global connectivity. The Group's mission is to be the global leading Network as a Service (NaaS) provider.

Megaport's platform uses Software Defined Networking to enable customers to rapidly connect to more than 346 leading service providers in a flexible, on-demand, and cost-effective way. The first of its kind and the leader in the market, the Group's platform has changed the way businesses consume connectivity services by creating a model that mirrors cloud-buying capabilities and is therefore more intuitive and customer-centric than the offerings from traditional telecommunications companies.

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

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

Megaport Cloud Router (MCR), launched in January 2018, enables customers to instantly provision and control virtual routers through Megaport's web-based portal. Enterprises and service providers can unlock powerful use cases such as cloud-to-cloud networking and deploy Virtual Points of Presence (VPoPs) without the need to purchase or maintain physical routing equipment. MCR enables customers to rapidly deploy services, granularly control traffic, and reduce total cost of ownership. Throughout the first half of Fiscal Year 2020, the Company expanded MCR service availability to 30 metros to drive further adoption of cloud connectivity services. Leading cloud service providers advocate MCR as a reference service for enabling connectivity between their cloud solutions and third party cloud platforms.

Megaport is an Alibaba Cloud Technology Partner, AWS Technology Partner, AWS Direct Connect Service Delivery Partner, Google Cloud Interconnect Partner, IBM Direct Link Cloud Exchange provider, Microsoft Azure Express Route Partner, Nutanix Direct Connect Partner, Oracle Cloud Partner, Salesforce Express Connect Partner, and SAP Partner.

The Group's extensive and scalable global footprint across North America, Asia Pacific, Europe and Japan offers customers a neutral platform that spans its 552 Enabled Data Centres[2] in key global locations.

Key performance metrics

	Half-Yearly Performance			**Trailing 12 Month Performance**		
	Jan-19 to Jun-19	**Jul-19 to Dec-19**	**Change**	Jan-18 to Dec-18	**Jan-19 to Dec-19**	**Change[3]**
Enabled Data Centres[4] Installed Data Centres[5]	528 300	**552** **317**	5% 6%	386 245	**552** **317**	43% 29%
Cloud Onramps	132	**156**	18%	115	**156**	36%
Customers	1,490	**1,679**	13%	1,277	**1,679**	31%
Ports	4,069	**4,863**	20%	3,344	**4,863**	45%
MCR	175	**228**	30%	99	**228**	130%
Total Services[6]	11,561	**13,914**	20%	8,735	**13,914**	59%
MRR	$3.6M	**$4.6M**	26%	$2.7M	**$4.6M**	68%
Revenue	$19.88M	**$25.86M**	30%	$26.10M	**$45.74M**	75%

In December 2019, Megaport achieved 1,679 customers across 552 Enabled Data Centres in 102 cities across 21 countries and generated monthly recurring revenue ("MRR") of $4.6 million. Of these data centres, 313 were located in North America, 93 in Asia Pacific and 146 in Europe.

The total Ports on the Group's Network at 31 December 2019 was 4,863, up 45% compared to a year earlier.

[2] Enabled Data Centres represents Installed Data Centres plus data centres that can be connected directly to Megaport equipment within Installed Data Centres by means of interconnection services provided by the data centre campus/facility operator of the Installed Data Centre

[3] Change in the 12 month performance at 31 December 2019 to the prior corresponding period ended 31 December 2018

[4] Megaport did not historically count Enabled Data Centres before December 2018

[5] Installed Data Centres are data centres in which Megaport has a Point of Presence with physical infrastructure. This definition is consistent with the data centre count reported previously

[6] Total Services comprises of Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), and Internet Exchange (IX)

During the Half-Year ended 31 December 2019:

- Megaport continued to expand its Network footprint to new cities while deepening its reach within existing metros, reaching a milestone of 317 installed locations and 552 enabled locations globally;
- The Company expanded partnerships with CyrusOne and EdgeConnex in Europe and the expansion of the Megaport Cloud Router (MCR) service footprint to 30 metros to enable greater reach and control of cloud-to-cloud traffic and virtual routing capabilities;
- The Company expanded its reach with existing data centre partners including an announcement with QTS Realty Trust in North America;
- Megaport launched its services in Japan on 20 November 2019, bringing the total countries served to 21, with an initial footprint in Tokyo with leading data centre locations, integration with leading cloud providers, and expansion plans for Osaka in the second Half-Year;
- The Company furthered its leadership position in cloud networking by enabling twenty-four new cloud on-ramps globally. Megaport's expanded footprint in Japan saw rapid onboarding of onramps with AWS, Azure, Google, Oracle, IBM, and Salesforce to address the growing demand of cloud services in the market. Additionally, cloud service providers leveraged Megaport's extensive European footprint to enable connections to their EU-based onramps in the period; and
- The Company continued to invest in sales and marketing resources where the Company is focused on driving increased service adoption.

Financial performance

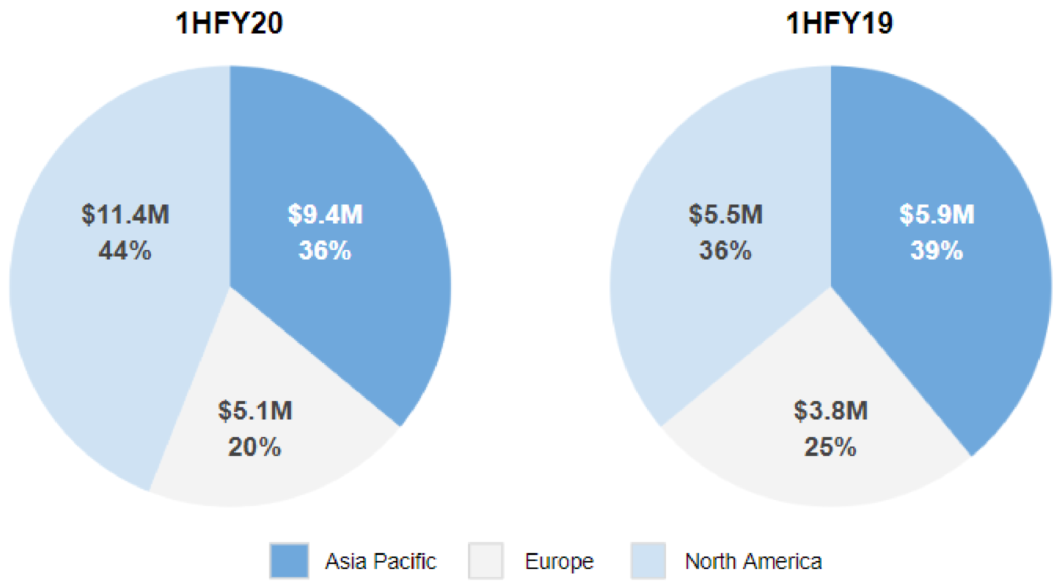
	31 December 2019	**31 December 2018**
	$'000	**$'000**
Revenue	**25,856**	15,184
Profit after direct network costs[7&8]	**13,167**	4,828
Normalised EBITDA[8&9]	**(10,266)**	(12,415)
Net loss after income tax[8]	**(18,956)**	(16,567)

During the Half-Year ended 31 December 2019, Megaport grew the number of Installed Data Centres, Customers, Ports, Services and MRR. The Group's revenue for the period was $25.86 million, up 70% compared to the Half-Year ended 31 December 2018 ($15.18 million). This increase was driven by North America which grew 108% compared to the previous period, followed by Asia Pacific which grew by 58%, and Europe 34%.

The profit after direct network costs for the Half-Year ended 31 December 2019 was $13.2 million, up 173% compared to $4.8 million for the Half-Year ended 31 December 2018. The operating segments generated a profit after direct network for the period.

[7] Direct network costs comprise data centre power and space costs, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance fees, and channel commissions, which are directly related to generating the service revenue of Megaport Group.
[8] AASB 16 Leases became effective for the Group on 1 July 2019. AASB 16 establishes principles for the recognition and measurement of leasing arrangements. The net loss for the Half-Year ended 31 December 2019 include adjustments for the right-of-use assets and lease liabilities under AASB 16, which were accounted for as operating lease expenses in the prior comparative period. Excluding AASB 16 impact, the profit after direct network costs would have been $11,194,000, normalised EBITDA (12,429,000) and net loss after income tax (18,840,000).
[9] Normalised Earnings Before Interest Tax Depreciation and Amortisation ('Normalised EBITDA') represents operating results excluding equity-settled employee benefits, foreign exchange gains / (losses) and non-operating income / (expenses). Including these amounts, EBITDA would be ($12,268,000) for the Half-Year ended on 31 December 2019 and ($12,867,000) on 31 December 2018.

Reported revenue by operating segment for the Half-Year ended 31 December 2019 ("1HFY20") and 31 December 2018 ("1HFY19") is set out below:



Financial position

	31 December 2019	30 June 2019
	$'000	**$'000**
Net assets	**158,759**	110,590
Cash and bank balances at end of the period	**119,862**	74,879

Megaport continues to maintain a strong financial position with net current assets of $112.0 million (30 June 2019: $70.9 million), cash and bank balance of $119.9 million (30 June 2019: $74.9 million) and total equity of $158.8 million (30 June 2019: $110.6 million).

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

Rounding off of amounts

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

Auditor’s Independence Declaration

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

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

On behalf of the Directors

Bevan Slattery
Chairman
12 February 2020

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

12 February 2020

Dear Board Members

Auditor's Independence Declaration to Megaport Limited

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

As lead audit partner for the review of the half year financial report of Megaport Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

R G Saayman
Partner
Chartered Accountants

ABN: 46 607 301 959
For the Half-Year Ended 31 December 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	31 December 2019 $'000	31 December 2018 $'000
Continuing operations			
Revenue	2	25,856	15,184
Direct network costs		(12,689)	(10,356)
Profit after direct network costs		**13,167**	**4,828**
Other income		610	555
Employee expenses		(16,307)	(12,245)
Professional fees		(1,871)	(1,433)
Marketing expenses		(1,413)	(588)
Travel expenses		(1,720)	(1,311)
Equity-settled employee costs		(2,748)	(2,257)
Depreciation and amortisation expense		(6,926)	(4,313)
Finance costs		(530)	(80)
Foreign exchange gains		742	1,818
Other expenses		(2,118)	(1,679)
Loss before income tax		**(19,114)**	**(16,705)**
Income tax benefits		158	138
Net loss for the period		**(18,956)**	**(16,567)**
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(920)	(998)
Total other comprehensive loss, net of income tax		**(920)**	**(998)**
Total comprehensive loss for the period		**(19,876)**	**(17,565)**
Loss attributable to:			
Owners of Megaport Limited		**(18,956)**	**(16,567)**
Total comprehensive loss attributable to:			
Owners of Megaport Limited		**(19,876)**	**(17,565)**
Losses per share		**$**	**$**
Basic and diluted losses per share		(0.14)	(0.14)

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Megaport Limited

ABN: 46 607 301 959

As at 31 December 2019

Condensed Consolidated Statement of Financial Position

	Notes	31 December 2019 $'000	30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		119,862	74,879
Trade and other receivables		7,632	6,360
Current tax assets		100	43
Other assets		4,124	3,852
Total current assets		**131,718**	**85,134**
Non-current assets			
Property, plant and equipment	3	40,992	26,810
Intangible assets	4	11,839	10,879
Deferred tax asset		3,131	2,770
Other assets		1,114	1,352
Total non-current assets		**57,076**	**41,811**
Total assets		**188,794**	**126,945**
Liabilities			
Current liabilities			
Trade and other payables		12,464	12,977
Borrowings	5	7,117	836
Current tax liabilities		72	247
Other liabilities		75	176
Total current liabilities		**19,728**	**14,236**
Non-current liabilities			
Borrowings	5	9,988	1,744
Deferred tax liability		210	287
Other liabilities		109	88
Total non-current liabilities		**10,307**	**2,119**
Total liabilities		**30,035**	**16,355**
Net assets		**158,759**	**110,590**
Equity			
Issued capital	6	294,818	229,521
Reserves		4,118	2,290
Other equity		(11,914)	(11,914)
Accumulated losses		(128,263)	(109,307)
Total equity		**158,759**	**110,590**

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

ABN: 46 607 301 959

For the Half-Year Ended 31 December 2019

Condensed Consolidated Statement of Changes in Equity

	Issued capital $'000	Reserves $'000	Other equity^ $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	166,840	1,021	(11,914)	(75,743)	80,204
Loss for the period	-	-	-	(16,567)	(16,567)
Other comprehensive income	-	(998)	-	-	(998)
Total comprehensive income/(loss) for the period	**-**	**(998)**	**-**	**(16,567)**	**(17,565)**
Issue of ordinary share capital	1,402	-	-	-	1,402
Share-based payments	-	2,257	-	-	2,257
Share issue costs (net of tax)	(16)	-	-	-	(16)
Balance at 31 December 2018	**168,226**	**2,280**	**(11,914)**	**(92,310)**	**66,282**
Balance at 1 July 2019	229,521	2,290	(11,914)	(109,307)	110,590
Loss for the period	-	-	-	(18,956)	(18,956)
Other comprehensive loss	-	(920)	-	-	(920)
Total comprehensive loss for the period	**-**	**(920)**	**-**	**(18,956)**	**(19,876)**
Issue of ordinary share capital	66,717	-	-	-	66,717
Share-based payments	-	2,748	-	-	2,748
Share issue costs (net of tax)	(1,420)	-	-	-	(1,420)
Balance at 31 December 2019	**294,818**	**4,118**	**(11,914)**	**(128,263)**	**158,759**

^ Represents adjustment arising from common-control transactions

Condensed Consolidated Statement of Cash Flows

	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities		
Receipts from customers	25,280	13,917
Payments to suppliers and employees	(36,322)	(25,491)
Income taxes received	92	10
Finance costs	(530)	(80)
Net cash used in operating activities	**(11,480)**	(11,644)
Cash flows from investing activities		
Interest received	831	564
R&D refund received	517	-
Proceeds from disposal of property, plant and equipment	5	-
Payment for property, plant and equipment	(9,130)	(5,342)
Payment for intangibles	(1,958)	(2,181)
Payment for financial assets	-	(9)
Payment for contingent consideration	-	(1,009)
Net cash used in investing activities	**(9,735)**	(7,977)
Cash flows from financing activities		
Proceeds from issue of new shares	66,575	1,291
Share issue transaction costs	(2,029)	(22)
Proceeds from borrowings	4,464	-
Repayment of borrowings	(2,818)	(51)
Net cash from financing activities	**66,192**	1,218
Net increase / (decrease) in cash and cash equivalents held	44,977	(18,403)
Effects of exchange rate changes on cash and cash equivalents	6	231
Cash and cash equivalents at beginning of the period	74,879	55,761
Cash and cash equivalents at end of the period	**119,862**	37,589

Notes to the Condensed Consolidated Financial Statements

1 Significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the Half-Year Financial Report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2019, except for the impact of the Standards and Interpretations described in Note 1 (d) below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

All amounts are presented in Australian dollars ("$"), unless otherwise noted.

(c) Going concern

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

(d) Amendments to Accounting Standards that are mandatorily effective for the current reporting period

A number of new or amended standards and interpretations became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting AASB 16 Leases. The impact of the adoption of AASB 16 and the new accounting policies are disclosed below.

The other new or amended standards and interpretations did not have an impact on the Group's accounting policies, position or performance.

AASB 16 Leases

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

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

The Group as lessee:

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

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

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

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

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

The Group applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy (as outlined in the annual financial report).

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

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

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

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

The key features of the new standard are:

- Distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Classification of leases as either operating or finance leases for a lessee are removed and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.
- The recognition of lease assets is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

- Lease liabilities are initially measured at the present value of the future lease payments. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.
- Total lease payments will be split into a principal and interest portion in the Statement of Cash Flows, presented as financing and operating cash flows respectively.

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

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

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

(iii) Practical expedients applied

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

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

(iv) Adjustments recognised on adoption of AASB 16

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

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

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

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

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

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

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

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

2 Segment information

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

Half-year ended 31 December 2019	Asia Pacific# $'000	North America $'000	Europe $'000	Operating segments Total $'000	Other $'000	Total $'000
Revenue*	**9,394**	**11,418**	**5,044**	**25,856**	**-**	**25,856**
Normalised EBITDA^	**3,387**	**(2,664)**	**(235)**	**488**	**(10,754)**	**(10,266)**
Interest income	48	-	-	**48**	562	**610**
Depreciation and amortisation expense	(1,466)	(3,554)	(1,706)	**(6,726)**	(200)	**(6,926)**
Equity-settled employee benefits	-	-	-	**-**	(2,748)	**(2,748)**
Finance costs	(244)	(205)	(78)	**(527)**	(3)	**(530)**
Foreign exchange gains/(losses)	68	440	241	**749**	(7)	**742**
Non-operating income / (expenses)**	4	(2)	(3)	**(1)**	5	**4**
Income tax benefits / (expenses)	(29)	144	420	**535**	(377)	**158**
Net profit/(loss)	**1,768**	**(5,841)**	**(1,361)**	**(5,434)**	**(13,522)**	**(18,956)**
Half-year ended 31 December 2018						
Revenue*	**5,934**	**5,483**	**3,767**	**15,184**	**-**	**15,184**
Normalised EBITDA^	**831**	**(5,213)**	**(1,274)**	**(5,656)**	**(6,759)**	**(12,415)**
Interest income	-	-	-	**-**	555	**555**
Depreciation and amortisation expense	(893)	(1,880)	(958)	**(3,731)**	(582)	**(4,313)**
Equity-settled employee benefits	-	-	-	**-**	(2,257)	**(2,257)**
Finance costs	(32)	(21)	(24)	**(77)**	(3)	**(80)**
Foreign exchange gains/(losses)	342	1,573	(76)	**1,839**	(21)	**1,818**
Non-operating income / (expenses)**	-	-	(12)	**(12)**	(1)	**(13)**
Income tax benefits / (expenses)	173	9	(54)	**128**	10	**138**
Net profit/(loss)	**421**	**(5,532)**	**(2,398)**	**(7,509)**	**(9,058)**	**(16,567)**
Total segment assets						
At 31 December 2019	31,047	27,730	16,379	**75,156**	113,638	**188,794**
At 30 June 2019	25,577	18,902	14,012	**58,491**	68,454	**126,945**

Includes nil revenue, normalised EBITDA of ($146,000) and net loss of ($174,000) for Japan's operations.

* The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the Half-Year ended 31 December 2019 and 31 December 2018.

^ Normalised Earnings Before Interest Tax Depreciation and Amortisation (Normalised EBITDA) represents operating results excluding equity-settled employee benefits, foreign exchange gains/(losses) and non-operating income / (expenses).

** Non- operating income / (expenses) represent gain/loss on disposal/write off of intangible assets and property, plant and equipment.

3 Property, plant and equipment

	$'000
At 31 December 2019	
Opening net book value	26,810
Change in accounting policy (refer Note 1(d))	7,435
Additions	13,173
Depreciation charge	(6,285)
Disposal / write-down	(9)
Exchange differences	(132)
Net book value at 31 December 2019*	**40,992**
At 30 June 2019	
Opening net book value	19,687
Additions	13,340
Disposal / write-down	(20)
Depreciation charge	(6,964)
Exchange differences	767
Net book value as at 30 June 2019	**26,810**

* includes right-to-use assets of $11.2 million as at 31 December 2019

4 Intangible assets

	$'000
At 31 December 2019	
Opening net book value	10,879
Additions	2,040
R&D refund received*	(517)
Amortisation charge	(641)
Exchange differences	78
Net book value as at 31 December 2019	**11,839**
At 30 June 2019	
Opening net book value	9,271
Additions	3,456
Amortisation charge	(2,087)
Exchange differences	239
Net book value as at 30 June 2019	**10,879**

* relates to the government grants received from the Australian Tax Office for the costs incurred in eligible technological development programmes, which were previously capitalised.

5 Borrowings

	Notes	31 December 2019 $'000	30 June 2019 $'000
Current			
Finance lease liabilities	(a)	4,948	-
Other borrowings	(b)	2,169	836
		7,117	**836**
Non-current			
Finance lease liabilities	(a)	6,421	-
Other borrowings	(b)	3,567	1,744
		9,988	**1,744**
		17,105	**2,580**

Notes:

(a) Represents the recognition of financial lease liabilities as a result of adopting AASB 16.

(b) In period to 30 June 2019, the Group entered into a vendor financing facility with a limit of $5.7 million to fund the purchase of network equipment and payment of software licenses. During the period, the facility limit was increased to $12 million. The facility is governed by an Instalment Purchase Agreement, does not carry interest and is repayable via equal instalments over 36 months from the drawdown date. The loan is secured by a bank guarantee charged over $5.7 million cash and cash equivalents. The unused facility was $4.6 million at 31 December 2019 (30 June 2019: $2.8 million).

(c) The carrying value of borrowings approximates the fair value.

6 Issued capital

Movements in ordinary share capital:

Details	Number of shares	Total $'000
Opening balance at 1 July 2018	**117,803,182**	**166,840**
Shares issued - Private Placement	12,500,000	50,000
Shares issued - Share Purchase Plan	2,497,813	9,991
Shares issued – Employee Share Plan	28,638	111
Shares issued – Employee share options exercised	1,874,002	4,142
Less: Transaction costs arising on share issues, net of tax	-	(1,563)
Balance at 30 June 2019	**134,703,635**	**229,521**
Shares issued - Private Placement	7,100,000	61,770
Shares issued – Employee share plan	23,352	142
Shares issued – Employee share options exercised	2,055,113	4,805
Less: Transaction costs arising on share issue (net of tax)	-	(1,420)
Balance at 31 December 2019	**143,882,100**	**294,818**

6 Issued capital (Continued)

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

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

7 Share-based payments

Employee share option plan (ESOP General)

The Company issued 1,600,000 share options over ordinary shares under its employee share option plan throughout the half-year. These share options had a fair value at grant date of between $2.02 - $3.83 per share option.

The Megaport Limited Employee Share Option Plan was designed to provide long-term incentives for employees (including Directors) to deliver long-term shareholder returns. Grants of share options under the Employee Share Option Plan is at the Board's discretion. Under the plan, participants are granted options which vest after a pre-determined length of service. The length of service attached to these options ranges from 1 to 4 years.

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

8 Related party transactions

(a) Key management personnel

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

(b) Transactions with other related parties

During the Half-Year ended 31 December 2019, transactions totaling $222,000 (31 December 2018: $104,000) have been entered into with parties related to Megaport's Chairman, Mr Bevan Slattery, $150,000 (31 December 2018: $62,000) was incurred for direct network costs and $72,000 (31 December 2018: $42,000) for shared services.

Directors of the Group hold other directorships as detailed in the Directors' Report of the Group's annual financial statements for the year ended 30 June 2019. Where any of these related entities are customers or suppliers of the Group, the arrangements are on a similar arm's length term to other customers and suppliers.

9 Events occurring after the reporting period

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

Directors' Declaration

The Directors declare that, in the Directors' opinion:

a. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

b. The attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors

Bevan Slattery
Chairman

Brisbane
12 February 2020

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

We have reviewed the accompanying half-year financial report of Megaport Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 20.

Directors Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Megaport Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

R.G Saayman
Partner
Chartered Accountants
Brisbane, 12 February 2020