

Results for announcement to the market

For the year ended 30 June 2018
(Previous corresponding period: to 30 June 2017)

Summary of Financial Information

	Note	2018 \$'000	2017 \$'000	Change \$'000	Change %
Revenue from ordinary activities		161,529	123,550	37,979	31%
Profit/(loss) from ordinary activities after income tax for the period attributable to members	1	6,639	22,999	(16,360)	NMF ¹
Profit/(loss) after income tax attributable to members	1	6,639	22,999	(16,360)	NMF

1. Profit after income tax for 30 June 2017 included an income tax benefit of \$10.2 million which was primarily due to the recognition of accumulated tax losses as deferred tax assets.

Dividends

No dividend has been proposed or declared in respect of the year ended 30 June 2018.

Net tangible assets

	2018	2017
Basic net tangible asset backing per ordinary share	\$2.57	\$1.75

Refer to the attached audited Financial Report for additional disclosures.

¹ NMF = Not meaningful

FY18 ANNUAL REPORT

NEXTDC Limited
ABN 35 143 582 521

1 July 2017 to
30 June 2018



N E X T D C

Systems and certifications



ISO 27001:2013

Information Security Management System (ISMS) certification

Information Security ISO 27001



ISO 9001:2015

Quality Management System certification

Quality ISO 9001



ISO 14001:2015

Environmental Management System certification (C1, M1, S1)

Environment ISO 14001

NABERS 4.5 star rating for energy efficiency

M1 Melbourne
S1 Sydney



Uptime Institute



Australian Government

Data Centre Facilities Supplies Panel Multi Use List for the provision of Data Centre-as-a-Service (Dcaas)



Australian Government
Department of Finance

Industry awards



Queensland iAwards

- 2016 Winner: AXONVX – Industrial and Primary Industries category
- 2016 Winner: AXONVX – Infrastructure and Platforms Innovation of the Year



National iAwards

- 2014 Winner: ONEDC® – Merit Award in the Tools category



Financial Review Fast 100

- 2017 #71 fastest-growing Australian company over the past three years
- 2017 #5 highest revenue of Fast 100 companies
- 2014 #3 fastest-growing Australian company over the past three years



ARN ICT Industry Awards

- 2017 Highly Commended: Jeff Van Zetten, Head of Engineering and Design – Technical Excellence
- 2015 Winner: AXONVX – Best Telecommunications Initiative of the Year
- 2014 Winner: Telecommunications Vendor of the Year
- 2015 Winner: Service Provider of the Year
- 2014 Winner: Service Provider of the Year
- 2013 Winner: Sustainability
- 2013 Winner: Service Provider of the Year



Brill Awards, Asia-Pacific

- 2015 Winner: Efficient IT in the Product Solutions category



Frost & Sullivan

- 2017 Winner: Data Centre Services Growth Excellence
- 2016 Winner: Data Centre Services Growth Excellence Leadership Award
- 2014 Winner: Australia Data Centre Service Provider of the Year Award



DatacenterDynamics Awards, Asia-Pacific

- 2014 Winner: S1 Sydney – Innovation in the Mega-Data Centre



Deloitte –Technology

- 2014 #1 Deloitte Technology Fast 50 Australia
- 2014 #6 Deloitte Technology Fast 500 APAC



Master Builders Association Excellence in Construction Awards

- 2018 Winner: B2 – Brisbane – Best commercial building \$5 - \$50M
- 2016 Winner: S1 Sydney – Communications Buildings



Lord Mayor's Business Awards

- 2017 Winner: B2 data centre – Port of Brisbane Award for Investment in Brisbane category



Datacloud Asia

- 2017 Excellence in Data Centre IT Architecture and Design



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1 JULY 2017 TO 30 JUNE 2018 | NEXTDC LIMITED ABN 35 143 582 521

Letter from the Chairman and CEO



Douglas Flynn
Chairman



Craig Scroggie
CEO

We welcome our shareholders to this year's Annual Report, which marks the end of the financial year to 30 June 2018 ("FY18") and another period of significant growth and strategic achievements.

Last year we wrote about how NEXTDC continued to expand the capacity of its existing facilities, the development of our second Sydney data centre (S2) as well as the B2 Brisbane and M2 Melbourne data centres nearing the point of opening in record time through NEXTDC's continuous development methodology, and deep experience with construction and infrastructure supply partners.

In FY18 we opened both the B2 and M2 data centres - designed, built and certified to the industry's highest standards and delivered in record time, as well as approach the completion and opening of S2. Additionally, with the announcement of three new sites: S3 Sydney, M3 Melbourne and P2 Perth, we continue to grow the pipeline of world-class, hyperscale next-generation data centres in Australian capital cities. NEXTDC intends to commence the construction of P2 during FY19, with practical completion scheduled for 1H FY20.

Key operational and financial metrics

In FY18 NEXTDC achieved significant year-on-year growth across key operational and financial metrics:

- Revenue increased 31% to \$161.5 million
- Contracted utilisation increased 8.7MW to 40.2MW
- Underlying EBITDA^{1,2} increased 28% to \$62.6 million
- Statutory net profit of \$6.6 million, compared to a net profit of \$23 million³ in FY17
- \$285 million of capital expenditure was incurred
- Cash and term deposits of \$418 million at 30 June 2018

NEXTDC was also active on the funding front during FY18, closing:

- an institutional equity placement of \$297 million, including \$150 million placed with our new shareholder UniSuper, in April 2018
- a retail Share Purchase Plan that raised a further \$80 million in May 2018
- securing an upsizing of the Company's undrawn senior secured debt facility from \$100 million to \$300 million with a syndicate of six lenders led by the National Australia Bank in August 2017.

Subsequent to 30 June 2018, NEXTDC also successfully closed a \$300 million unsecured Notes IV offer, bringing NEXTDC's pro-forma FY18 cash and term deposit balance to \$718 million. We recognise the importance of creating value for our shareholders and we therefore continue to adopt a disciplined approach to capital raising and allocation.

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1. EBITDA is a non-statutory financial metric representing earnings before interest, tax, depreciation and amortisation. Non-statutory financial metrics have not been audited
 2. Underlying EBITDA excludes distribution income of \$3.2 million from NEXTDC's 29.2% investment in Asia Pacific Data Centre Group as well as \$1.8 million of costs related to the current Asia Pacific Data Centre Group wind up process
 3. FY17 statutory NPAT includes \$10.2m of income tax benefit stemming from the recognition of unused historical tax losses (FY18: nil)

Increasing importance of the data centre

The next few years will see organisations experimenting with new applications and systems to drive value from new technologies in Blockchain, Internet of Things, mobile 5G and Artificial Intelligence. Often these will use NEXTDC's Data Centre-as-a-Service offering to gain access to many of the popular vendor clouds, such as Microsoft Azure, Amazon Web Services, Oracle Cloud, IBM Cloud or Google Cloud through our direct connection platform including our AXON elastic cloud on ramps. Cutting edge developers are thus provided with a fertile environment in which to incubate the next generation of information technology (IT).

The next decade will see global cloud infrastructure continue its extraordinary growth, continuing to fuel and accelerate ground breaking advancements in Artificial Intelligence, the Internet of Things and Blockchain technology. Start-up businesses are ready to build enterprises on a scale that was previously unimaginable only a few years ago, and the introduction of mobile 5G services in 2020 will once again change the ways businesses and individuals access and share information.

We are living in the most exciting time in human history. The exponential convergent consequences of these technologies will herald a new age of accelerated advancements in many industries. This is what is referred to as the 4th Industrial Revolution - the cyber physical age. NEXTDC is proud to be the leading data centre infrastructure platform supporting Australian businesses to take advantage of these extraordinary opportunities.

Setting new standards for Australia, Asia and Worldwide

We are building the infrastructure platform for the digital economy and have established ourselves as the key partner to support global cloud computing providers, enterprises and governments of the future. Over the past 12 months, we have received a significant number of industry awards, accolades and certifications that recognise our innovation and leadership in the industry. Importantly, NEXTDC's B2 and M2 data centres were the first in Australia to receive Uptime Institute (UTI) Tier IV Certification of Constructed Facility (TCCF), to position the company as the only builder and operator of UTI TCCF co-location data centres in Australia and Asia.

The UTI certification confirms that our data centres are the first in the world to achieve UTI TCCF with an isolated-parallel uninterruptible power supply system, an innovation breakthrough in data centres globally and setting the standard for the world's best practice. NEXTDC was consequently also awarded UTI Global Brill Award for excellence in design, the data centre industry's premier design and engineering awards, granted to projects, ideas and products that improve the industry's ability to sustainably deliver IT services to customers and partners.

Largest planned growth

NEXTDC recently announced plans to acquire three new sites in Australia for additional data centres in Sydney, Melbourne and Perth: S3 80MW, M3 80MW and P2 20MW – these new facilities in Sydney and Melbourne will be the largest ever built in Australia. That takes NEXTDC's total future capacity to over 300MW.

Leadership in energy efficiency and sustainability

NEXTDC has a strong focus on energy efficiency and sustainability. Our facility infrastructure has been engineered to deliver extremely high energy efficiency, lowering the carbon footprint for our customers. Over the past 12 months, NEXTDC achieved a National Australian Built Environment Rating System (NABERS) 4.5 star rating for energy efficiency in M1 and S1 and ISO 14001 certification for Environmental Management at M1, S1 and C1. Our second generation of data centres, including B2, M2 and S2, are designed to achieve a level of efficiency not previously attained in the industry, NABERS 5 star rating for energy efficiency, as well as the ISO 14001 certification.

NEXTDC owns and operates its own solar array on the roof of its M1 data centre and has also been a Principal Partner to the Melbourne Renewable Energy Project since its inception in 2014. In FY18, financial close on this project was achieved, enabling the construction of the 80MW Crowlands Wind Farm in Victoria. This is another first for a data centre operator in the Asia Pacific region.

Continuing our focus on leadership through industry innovation, at the time of writing, NEXTDC is undergoing an audit of its corporate carbon emissions under the Australian National Carbon Offset Standard (NCOS). We have set ourselves an ambitious goal of being the first operator in the region to achieve carbon neutrality by offsetting emissions associated with our corporate activities and become certified under the Australian Government's Carbon Neutral Initiative. Our aim is to offer our customers the opportunity to similarly offset their emissions in our data centres in the near future – yet another first for a data centre operator in the Asia Pacific region.

Humans and hardware in harmony

Customer First is a core value for our passionate team. At NEXTDC we are obsessed with delivering the industry's best customer experience. Over the past 12 months, we focused on implementing innovative customer experience strategies to extend our lead in the industry and deliver extraordinary customer interactions. We take pride in the fact our facilities and the people that work there provide a passionate, friendly, comfortable and productive environment for customers, every time they visit.

At NEXTDC, we pay as careful attention to the needs of our customers, as we do to their infrastructure and their data centre service needs. We understand the needs of data centre users and we are dedicated to providing unrivalled reliability, security and connectivity in an environment that is friendly to both humans and hardware. Our facilities at M2, B2 and P1 have already received significant industry awards showcasing our success in delivering the best customer experience in the industry.

Giving back to our local communities

NEXTDC aims to be the leader in everything it chooses to do. With our corporate philanthropy project, we launched extensive initiatives to improve the communities in which we live and work through four core charities and giving programs. By launching the 'Live to Give' initiative, our teams and the company will be able to support local communities amongst each of our data centre facility locations. Companies can do more than just make money, they can give back to the community and use their success to improve our society. It's a great honour to be able to commit to supporting our charity partners and make a meaningful positive impact on our society.

NEXTDC's 'Live to Give' program comprises:

- partnership with The Smith Family, donating \$50,000 and promoting staff volunteering and mentoring programs
- partnership with Pledge 1%, enabling staff to devote 1% of their time to give back
- launching a workplace giving program with \$1:\$1 donation matching for Cancer Council, beyondblue and UN Women
- providing all staff with additional paid Volunteer Days, allowing teams and individuals to spend additional time with their preferred charity or giving back to their local community.



Doug Flynn
Chairman



Craig Scroggie
CEO

Building the platform for the digital economy

It's only just beginning. The next few years will witness some of the most significant technology advances in our history, with individuals, businesses and Governments adopting technology built on technology, an exponential rate of change, paving a dynamically advanced future. NEXTDC will play a critical role as the platform for the digital economy - powering, securing and connecting the world's most valuable resource - data.

On behalf of NEXTDC, we thank you for your ongoing support as we continue our exciting growth trajectory, and look forward to meeting with those of you who are able to attend our upcoming Annual General Meeting (AGM).



NEXTDC

ABOUT NEXTDC

Value proposition,
business strategy,
environment and
social reporting.

NEXTDC value proposition and business strategy

About NEXTDC

NEXTDC is an ASX200-listed technology company enabling business transformation through innovative data centre outsourcing solutions, connectivity services and infrastructure management software.

As Australia's leading independent data centre operator with a nationwide network of Tier III and Tier IV facilities, we provide enterprise-class colocation services to local and international organisations. With a focus on sustainability and renewable energy, we are leading the industry with award-winning engineering solutions for energy efficiency and NABERS 4.5 star certification.

NEXTDC is extending its leadership in data centre services through our innovative DCIM-as-a-Service software platform, ONEDC®, which enables customers to centrally manage infrastructure colocated with NEXTDC; and our award-winning Ethernet connectivity platform, AXON – delivering rapid, secure connections to cloud services on-demand.

Our Cloud Centre marketplace hosts the country's largest independent ecosystem of carriers, cloud and IT service providers, enabling our customers to source and connect with over 470 suppliers, partners and customers and build integrated hybrid cloud deployments.

NEXTDC's carrier and vendor neutrality is the foundation of the

Company's channel-first sales model – delivering flexibility and scale to partners and end-customers with best of breed data centre services.

Uniquely for Australia, NEXTDC's nationwide data centre footprint allows customers and partners to access nationally standardised services and benefit from unified management to ensure the quality, consistency and reliability of IT services and ensure the sovereignty of their data.

NEXTDC is a technology pioneer, connecting Australia to the world's leading networks and cloud platforms and integrating the next generation of IT services, to enable NEXTDC's customers to take advantage of the extraordinary opportunities of the digitally interconnected world.

Vision and Purpose

NEXTDC's vision is to help enterprises harness the digital age, improving our society through the advancement of technology.

NEXTDC's purpose is to be the leading customer-centric data centre services company, delivering solutions that power, secure and connect enterprise.

NEXTDC's business features

Carrier and vendor neutrality

NEXTDC and its subsidiaries maintain true neutrality in the marketplace due to a channel-first sales strategy. By not offering telecommunications or IT managed services and competing with the channel, more organisations are encouraged to join the nationwide Cloud Centre community and leverage the diverse onsite connectivity options to develop 'best fit' integrated solutions for their customers.

Simplified national data centre service

A key competitive advantage for NEXTDC is the Company's nationwide data centre footprint across five of Australia's capital cities: Sydney, Melbourne, Brisbane, Canberra and Perth. This allows organisations to gain a single, nationwide data centre partner under the one contract, with consistent pricing, SLAs and customer service processes across all cities, reducing their administrative burden, and allowing them to easily expand and manage their data centre service.

World-class facilities and expertise

NEXTDC's expert in-house engineering team adds significant value with both their operational cadence and customer engagement on all non-standard design requirements. The same engineers who design and build the facilities also work with large enterprise customers

to create solutions tailored for their specific needs. NEXTDC offers market-leading levels of reliability and availability (100 percent no-break power guaranteed) – critical to businesses using cloud services – and extremely high energy efficiency that lowers their carbon footprint.

Risk reduction

Government agencies and private enterprise need to address concerns as to whether their use of off-shore data storage meets strict Australian Privacy Act and/or other government-initiated recommendations and requirements for the protection of sensitive information. This has led many organisations to increase control over access to their data by having it hosted in the same legal jurisdiction as their base of operations. As an Australian-owned company operating solely on Australian soil, NEXTDC can ensure the 'data sovereignty' of hosted information and infrastructure – which is protected by strict security systems and protocols featuring a multi-layered security access system.

Additionally, if NEXTDC does not follow best practice standards, there is a possibility its processes may become inefficient and ineffective, impacting negatively on customer service and resulting in breaches of legislation. To address this risk, NEXTDC has implemented a suite of ISO certifications to assure customers of the resilience and integrity of its systems and processes.

Hubs for connectivity

NEXTDC's Cloud Centre community is the largest independent network of IT service providers, carriers and cloud providers in Australia. The benefit of colocating with a neutral provider like NEXTDC is the ability to connect to all suppliers and business partners in the one place, reducing costs and minimising latency. Complementing the direct physical connections offered within NEXTDC facilities, AXON enables customers to activate high-speed private connections to any number of carriers and cloud platforms on-demand, and access simplified inter-capital connectivity services.

Centralised data centre asset management

The ONEDC® cloud platform for DCIM-as-a-Service allows customers to centrally manage their data centre assets providing a consolidated view of their infrastructure in NEXTDC data centres through a single pane of glass.

Expanded sales pipeline through channel partners

Channel partners range between large international, domestic and regional channel partners, which are focussed on enterprise and government customers, and small to mid-sized local channel partners that are focussed on the SME market. Through NEXTDC's channel partners, which include Optus and Telstra, the Company effectively has an extended national sales team of over 4,000 promoting NEXTDC services.

Customer experience

Our focus on customer experience makes NEXTDC stand out in the industry, spanning all facets of our business from the support we give to customers during the on-boarding process, to the responsiveness of our customer service teams and touches.

Channel-first sales strategy

NEXTDC's data centre partner program is the largest and most active in Australia, centred on our channel go-to-market model that enables flexible solutions for end users, and features an extensive support program with a tiered system of pricing, access to tailor-made marketing material, partner events and shared publicity.

We have so far partnered with more than 470 vendors, telecommunications providers and providers of infrastructure, platform and cloud services, and we drive business through this community wherever possible, leveraging their large sales teams and customer base to reach a broader cross-section of the end-user market.

Our partners use NEXTDC data centres to house their own servers and IT infrastructure, and enable their customers to connect directly to them within the facility. We have particularly strong relationships with our Premier Partners, which re-sell NEXTDC services to their customers, along with their own cloud and/or managed services, offering a comprehensive, end-to-end solution.

NEXTDC's channel partner ecosystem includes:

- Global cloud providers such as Google Cloud, AWS Direct Connect, Microsoft ExpressRoute, IBM Cloud and Oracle Cloud.
- Large IT services providers: both local and regional, such as: Wipro, Tech Mahindra, NEC, Dimension Data, Fujitsu, NTT and Data#3.
- Telecommunications providers: NEXTDC has more than 60 domestic and international partners including Optus, Telstra, AAPT, Vocus, TPG, PCCW, Superloop and CenturyLink.
- Specialist and mid-size IT managed service providers and cloud providers such as Blue Central, Harbour IT, Cloud Plus, TD Logicalis, Somerville Group, Connectivity IT, HighQ, Ping Co, Sundata, SureBridge IT, Brennan IT and ZettaNet.
- IT consultants such as Deloitte, Eventra and Data Centre Technologies.

Products and services

NEXTDC focuses on providing scalable, on-demand services to support outsourced data centre infrastructure and cloud connectivity for enterprises of all sizes, while delivering cost efficiency and agility.

Data Centre-as-a-Service (DCaaS)

Hyper-scale colocation – secure, high-density data centre space with redundant power supply and support services in enterprise-class facilities. Customers host their own infrastructure or storage, using the facility as an extension of their own property. Spaces range from a quarter rack to multiple racks to large areas of floor space that customers can design to their own requirements.

Connectivity-as-a-Service (CaaS)

We offer both physical and virtual connection options. Cross Connects are physical fibre connections within a data centre facility, while AXON offers virtual connections to clouds, carriers and suppliers in any data centre on the AXON network.

Data Centre Infrastructure Management-as-a-Service (DCIMaaS)

The ONEDC® cloud platform enables centralised management of data centre assets in NEXTDC facilities; delivering real-time intelligence to decision-makers, for a monthly subscription per rack.

Professional Services

NEXTDC provides data centre professional services for the entire project life cycle, including technical advisory, migration planning, project management, deliveries, building, and operational infrastructure support.

Thriving in the age of digital disruption

The advancement of technology is delivering a myriad of new capabilities for organisations, as traditional business models are being bypassed in favour of more flexible, interconnected ecosystems of complementary services.

This shift is as much of a challenge for CIOs as it is an enabler to future-proof their business. By releasing their organisation from a linear value-chain, where they work with established partners and add incremental value, to being part of a more agile, heterogeneous network, they gain a true competitive edge and the opportunity to expand exponentially.

Public and private clouds, infrastructure as-a-service, and the apps driving the sharing economy, can now be rapidly provisioned and operated with minimal effort by the end-user. Access to powerful new business tools and the 'network effect' that comes from a platform of interconnected users, is shaping not only the next generation of products and services organisations are able to deliver, but the unique experience they offer their customers.

Gartner recently identified five key pillars for businesses to reinvent their business operations and build a successful digital foundation: information systems, customer experience, analytics and intelligence, the Internet of Things (IoT) and ecosystems. When these elements are working in sync they have a powerful effect on productivity.

For example, IDC predicts that by 2020, for every dollar Salesforce makes in Australia, the company's ecosystem of customers and partners will generate more than four dollars by building applications and services on top of the Salesforce platform.

Gartner defines a digital ecosystem as an interdependent group of actors (enterprises, people, things) sharing standardised digital platforms to achieve a mutually beneficial purpose.

Any business can tap into a digital ecosystem, but if it is to succeed, it needs the ability to acquire, store, access and transmit huge volumes of data, and integrate a range of services and networks, while maximising security and performance.

Modern businesses need IT infrastructure that can scale and adopt new elements rapidly, and a more agile and complex communications network than what many are presently using. Today, data centre colocation has become a critical resource for building partnerships by enabling dynamic collaboration through flexible interconnections, in a single, secure location.

Adopting an ecosystem strategy requires a new way of doing business. IT leaders will need to actively form partnerships or alliances with vendors and service providers to really understand and evaluate how the technology can be used.

By using specialised services from the ecosystem to support different capabilities – for example, mobile, search engine, CRM, or online payments – CIOs can scale their operations to fulfil spikes in demand, and draw on outsourced expertise as new, disruptive IT is introduced.

Ultimately, this all contributes to the massive growth and overall value the data centre delivers customers. With this growth comes an unparalleled opportunity for CIOs to navigate the landscape of services and drive a new IT strategy that will support their organisation through oncoming waves of digital disruption.

Impact of market growth demonstrated by NEXTDC

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
ECONOMIC INDICATORS					
Customers ¹	972	772	647	478	302
Cross Connects ²	8,671	6,342	4,575	2,893	1,488
CAPACITY AND UTILISATION					
Operating facilities ³	7	5	5	5	5
Installed capacity ⁴	46.4MW	36.0MW	34.7MW	24.4MW	19.7MW
Contracted customer utilisation ⁵	40.2MW	31.5MW	26.1MW	21.7MW	11.9MW
% of installed capacity	87%	88%	75%	89%	59%
Billing customer utilisation ⁶	34.3MW	29.5MW	23.2MW	14.0MW	10.6MW
% of installed capacity	74%	82%	67%	57%	54%

1. Customers: the number of counterparties (including partners) which have executed a Master Services Agreement with NEXTDC.
2. Cross Connects: the number of both physical and elastic cross connections.
3. Operating Facilities: The number of facilities which were operational at the reporting date.
4. Installed Capacity: Includes the total power capability of the data centre space fitted out across all operating facilities.
5. Contracted Customer Utilisation: Total of all sold capacity in MW including customers with deferred contract commencement dates.
6. Billing Customer Utilisation: Total of all sold capacity in MW where the service has commenced.

Sustainability

As a recognisable and trusted brand, being a sustainable organisation is very important to NEXTDC as we consider the long term environmental and social impacts of our organisation.

For NEXTDC, sustainability is about ensuring that our business is managed to account for social, environmental and economic risks and opportunities. In the short and medium term, being sustainable also comes with financial benefits and value creation opportunities for shareholders. Implementing environmental initiatives improves our operating costs and social sustainability practices improve staff morale and supplier relationships, which has a flow on effect of improving productivity.

For additional information, please see the document Environment and Sustainability Report available from www.nextdc.com.

NEXTDC applies a materiality assessment that categorises and prioritises the most relevant sustainability issues concerning the organisation and its stakeholders. This Environment and Sustainability Report is an opportunity to communicate and disclose to our shareholders how environmental and social considerations are addressed and monitored by the company.

Directors' Report

The directors present their report on the consolidated entity (referred to hereafter as 'NEXTDC', the 'Company' or 'the Group') consisting of NEXTDC Limited and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of the Company during the year:

- Douglas Flynn
- Craig Scroggie
- Stuart Davis
- Gregory J Clark AC
- Sharon Warburton

Principal activities

During the year, the principal continuing activities of the Group consisted of the development and operation of independent data centres in Australia.

Operating and financial review

During the year, the Company has:

- Opened its second Brisbane site, B2, and second Melbourne site, M2, which are the first Asia Pacific colocation data centres to receive Tier IV Certification of Constructed Facility from the Uptime Institute
- Successfully raised \$377.4 million of additional equity funding, consisting of a \$297 million institutional placement in April 2018, and a share purchase plan of \$80.4 million in May 2018
- Contracted 8.7MW of new capacity
- Acquired a 29.2% stake in Asia Pacific Data Centre Group (ASX: AJD)
- Expanded its target network footprint from 126MW to

over 300MW with the announcement of three new intended data centres - S3 Sydney (80MW), M3 Melbourne (80MW) and P2 Perth (20MW)

- Implemented a quote to cash system which is an end-to-end solution including nurturing, opportunity management, configuration, pricing quoting, provisioning and billing on a single platform

Key financial highlights include:

- Total revenue of \$161.5 million vs guidance range of \$152-158 million (FY17: \$123.6 million)
- Underlying EBITDA^{1,2} of \$62.6 million vs guidance range of \$58-62 million (FY17: \$49.0 million)
- Incurred capital expenditure of \$285 million vs underlying guidance range of \$307-327 million³ (FY17: \$159 million)
 - FY18 capital expenditure incurred includes spend on the acquisition of land for S3
- Statutory net profit after tax of \$6.6 million⁴ (FY17: \$23.0 million)
- Operating cash flow of \$33.4 million (FY17: \$44.9 million)
- Cash and term deposits of \$418 million at 30 June 2018

Financial performance and position

NEXTDC achieved a number of milestones and enjoyed a period of strong growth in the 12 months to 30 June 2018.

During the year, the Group experienced significant growth in number of customers, customer orders and data centre revenue. Data centre services revenue for the year increased from \$117.6 million to \$152.6 million. The increase in revenue was largely driven by increased utilisation of data centre services across the business. As at 30 June 2018, NEXTDC was billing for approximately 34.3MW (2017: 29.5MW) of capacity.

¹ EBITDA is a non-statutory financial metric representing earnings before interest, tax, depreciation and amortisation. Non-statutory financial metrics have been extracted from the audited accounts

² Underlying EBITDA excludes distribution income of \$3.2 million from NEXTDC's 29.2% investment in Asia Pacific Data Centre Group as well as \$1.8 million of costs related to the current Asia Pacific Data Centre Group wind up process

³ Underlying guidance range reflects capital expenditure on existing facilities between \$220-240 million plus an expected \$87 million associated with the settlement of the site for S3, which occurred in the period to 30 June 2018

⁴ FY17 statutory NPAT includes \$10.2m of income tax benefit stemming from the recognition of unused historical tax losses (FY18: nil)

A summary of consolidated revenues and segment EBITDA for the year is set out below:

	Segment revenues		Segment EBITDA	
	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Vic	64,317	51,315	44,384	37,190
NSW	56,184	41,004	35,189	25,978
Qld	16,892	14,697	11,331	10,740
WA	11,481	8,306	5,210	2,483
ACT	2,786	1,700	(2,628)	(2,645)
Other	900	558	(557)	(430)
Total segment revenue/result	152,560	117,580	92,929	73,316

Net profit after tax was \$6.6 million (2017: \$23.0 million¹). Non-statutory underlying earnings before interest, tax, depreciation and amortisation (EBITDA) improved from \$49.0 million in FY17 to \$62.6 million in FY18.

Reconciliation of statutory profit to EBITDA and underlying EBITDA is as follows:

	30 June 2018 \$'000	30 June 2017 \$'000	Change %
Net profit after tax	6,639	22,999	(71%)
Add: finance costs	25,803	18,777	37%
Less: interest income	(5,778)	(5,970)	(3%)
Add: income tax expense/(benefit)	4,252	(10,172)	n/m
Add: depreciation and amortisation	33,038	23,339	42%
EBITDA	63,954	48,973	31%
Less: distribution income	(3,191)	-	-
Add: APDC legal costs	1,812	-	-
Underlying EBITDA	62,575	48,973	28%

Funding

In August 2017, NEXTDC upsized its senior secured debt facility from \$100 million to \$300 million. As at the date of this report, the facility remains undrawn.

In April 2018, NEXTDC raised \$297 million through the issue of an additional 21,581,399 and 21,489,972 shares to a range of institutional investors at issue prices of \$6.81 and \$6.98 respectively. In May 2018, NEXTDC raised a further \$80.4 million through the issue of an additional 11,801,714 shares pursuant to a share purchase plan for eligible shareholders at an issue price of \$6.81.

Cash, cash equivalents and term deposits at 30 June 2018 totalled \$418.0 million (2017: \$368.3 million).

Sales performance

NEXTDC has continued to focus its sales strategy on partnering with providers of infrastructure, platform and packaged services. Flexibility offered by being carrier and vendor neutral allows customers a choice of carriers and systems integrators, leading to an increase in the number of unique customers to 972 at 30 June 2018.

During FY18 NEXTDC increased its contracted utilisation by 28% from 31.5MW at the end of FY17 to 40.2MW at the end of FY18.

Contracted utilisation at the M1 Melbourne facility was maintained at 93% of the total power capacity (15.0MW) during the period from 1 July 2017 to 30 June 2018. The M2 facility was opened in November 2017, with 0.7MW of the total power capacity contracted at 30 June 2018.

¹ FY17 statutory NPAT includes \$10.2m of income tax benefit stemming from the recognition of unused historical tax losses (FY18: nil)

B1 Brisbane is a mature facility and has broadly maintained its contracted utilisation at 92% (2.1MW) as at 30 June 2018. The B2 facility was opened in September 2017, with 0.3MW of the total power capacity contracted at 30 June 2018.

S1 Sydney's contracted utilisation increased from 84% to 95% of the total power capacity (16.0MW), during the year from 1 July 2017 to 30 June 2018. During the year development began on S2 Sydney, with the construction of this facility currently on track for completion and customer access in 1H19.

P1 Perth's contracted utilisation, based on total target power capacity of 6.0MW, has increased from 25% (1.5MW) to 36% (2.2MW) at 30 June 2018. 4.1MW capacity has been built out of a total target capacity of 6.0MW at 30 June 2018.

C1 contracted utilisation was maintained at 8% (0.4MW) of target power capacity (4.8MW).

NEXTDC is deriving revenue from numerous product sources including white space, rack ready services, project fees and add-on services. During FY18 cross connectivity between customer racks generated approximately 6.5% of total recurring revenue.

The Group continues to develop its go-to-market strategy through its channel partnerships with major telecommunications and IT service providers, allowing the Company to actively increase the breadth and depth of its selling capability without adding to its sales operating cost base.

Continuous innovation

As a rapidly growing organisation providing IT infrastructure essential to Australia's digital economy, it's vital for NEXTDC to seek the continuous innovation of its systems, products and services.

All data centres have achieved and continue to be certified to ISO 27001 Information Security Management System, and ISO 9001 Quality Management System. These certifications confirm that NEXTDC has an integrated management system that provides a systematic approach to risk management, protection of company information and continuous improvement.

In FY18, the B2 Brisbane and M2 Melbourne data centres were both awarded Tier IV Certification of Constructed Facility (TCCF) certification from the Uptime Institute (UTI) – the industry's leading independent advisory organisation – which recognises the exceptional fault tolerance of these facilities. Tier IV is the UTI's highest certification, and B2 and M2 are the first Australian data centres, and the first Asia Pacific colocation data centres, to achieve it.

The S2 Sydney data centre, which is currently under construction and is due to open in the first half of FY19, has also been designed to achieve Tier IV TCCF.

NEXTDC has continued to develop its internal systems and processes in FY18 with the ongoing implementation of online platforms to automate and integrate the management of the entire customer journey through the 'lifecycle' of their data centre service with NEXTDC.

Customer demand has seen NEXTDC develop innovative ways to increase data centre capacity beyond the original designs, with higher power densities and additional data halls. Even though our facilities' power consumption is increasing as they become more populated, their overall energy efficiency improves over time through economies of scale, and increased utilisation of existing infrastructure.

The process of testing and tuning NEXTDC's data centres to optimise energy efficiency and stability has seen a marked improvement in the facilities' power usage effectiveness. The average PUE throughout the year across all NEXTDC data centres is now 1.34, well below our target of 1.40.

NEXTDC has a strong focus on energy efficiency and sustainability. Our facility infrastructure has been engineered to deliver extremely high energy efficiency, lowering the carbon footprint for our customers. Over the past 12 months, NEXTDC achieved a National Australian Built Environment Rating System (NABERS) 4.5 star rating for energy efficiency in M1 and S1 and ISO 14001 certification for Environmental Management at M1, S1 and C1. Our second generation of data centres, including B2, M2 and S2, are designed to achieve a level of efficiency not previously attained in the industry, NABERS 5 star rating for energy efficiency, as well as the ISO 14001 certification.

NEXTDC owns and operates its own solar array on the roof of its M1 data centre and has also been a Principal Partner to the Melbourne Renewable Energy Project since its inception in 2014. In FY18, financial close on this project was achieved, enabling the construction of the 80MW Crowlands Wind Farm in Victoria. This is another first for a data centre operator in the Asia Pacific region.

Business strategies and prospects for future financial years

The Group has built a strong and growing pipeline of sales opportunities across each of its operating markets. Based on a number of positive trends such as cloud and mobile computing, growth in internet traffic and data sovereignty matters, the Group expects that demand for carrier and vendor neutral outsourced data centre services will continue to grow for the foreseeable future.

The Company has a number of strategies to benefit from this growth including but not limited to:

- Expanding its presence in data centre markets where its existing facilities are close to being fully utilised;
- Continuing to sell uncontracted space and power in existing facilities;
- Opportunities for growth beyond the existing data centre footprint; and
- Launch of new products.

Based on the factors listed above, the Group expects its revenue to grow in the foreseeable future.

Business risks

NEXTDC is committed to having a sound risk management framework and recognises it is not only an important component of good corporate governance, but is also fundamental in achieving strategic and operational objectives and meeting legislative, industry and client obligations. NEXTDC has implemented a risk management framework consistent with the international risk standard ISO 31000 which ensures a systematic approach is used to identify and assess risks, and determine treatment plans to manage, transfer and avoid risks.

The Environment and Sustainability Report (located at www.nextdc.com) provides details on how NEXTDC addresses matters of environmental and social sustainability.

NEXTDC has identified the following business risks which may have an effect on NEXTDC's prospects for future financial years:

- **Customer Demand:** Development of new and existing data centres is capital intensive and sometimes undertaken without pre-sales commitment from customers, and there is a risk that there is not enough customer demand to achieve a sufficient return on investment. NEXTDC's business model to become the largest independent, carrier neutral channel ecosystem in the Asia-Pacific region aims to combat this risk as we present to the market a solution which provides more options to connect than our competitors. NEXTDC's next-generation of data centres will be built to allow a more scalable fit-out in accordance with demand growth which will result in a lower initial capital outlay. We are also aiming to increase sales by providing complementary products and services.
- **Development:** NEXTDC is involved in the development of data centres, including the new sites for S2, S3, M3 and P2. Generally, development projects have a number of risks including (i) the risk that suitable sites or required planning consents and regulatory approvals, including approvals from the local water authority and the local power distribution grid operator, are not obtained or, if obtained, are received later than expected, or are adverse to NEXTDC's interests, or are not properly adhered to; (ii) the escalation of development costs (including the costs of construction and fit out and any associated delays) beyond those originally expected; (iii) unforeseeable project delays beyond the control of NEXTDC; and (iv) non-performance/breach of contract by a contractor or sub-contractor. Increases in supply or falls in demand could influence the acquisition of sites, the timing and value of sales and carrying value of projects.
- **Funding:** NEXTDC's business is capital intensive in nature and continued growth relies on the acquisition and development of new and existing data centres, along with investment in new technologies. Failure to obtain sufficient capital on favourable terms may hinder NEXTDC's ability to expand and pursue growth opportunities, which may reduce competitiveness and have an adverse effect on financial performance. To address this risk, NEXTDC has sought to obtain funding from various sources in order to not become over-reliant on any one form of funding, and is also developing cloud enabling products and services that are not as capital intensive to complement its Data Centre-as-a-Service (DCaaS) offering.
- **Meeting Customer Requirements:** Some of our customers and channel partners are large, well established businesses. Not delivering the appropriate solution within the required timeframe to meet their requirements could significantly impact our brand reputation as well as the ability to win further opportunities. To minimise this risk, NEXTDC engages its in-house engineering and project management teams to ensure the customer is provided with the optimal solution, and that it is delivered on time and within budget.
- **Cyber Risk:** According to various recent industry cyber risk reports, cyber incidents and their financial impacts are increasing significantly year on year and cyber criminals are targeting small and large businesses alike. To mitigate these risks, NEXTDC has implemented an information security management system based on ISO 27001 as well as undertaken ongoing penetration and vulnerability tests.
- **Physical Security Breach:** NEXTDC customers rely on our physical security to prevent unauthorised access to the space where their equipment resides. A physical security breach to a customer's space could result in irreversible reputational damage, impact on future opportunities and the ability to retain existing customers. Therefore, the Company's facilities are protected by multi-layered security systems and protocols designed to limit access to areas within the data centres only to those with the appropriate authorisation.
- **Privacy & Data Security:** NEXTDC collects a minimal amount of Personally Identifiable Information (PII), limited to activities such as account and contract management, marketing and to permit entry into its facilities. NEXTDC does not store, interact with or manage any data stored on its customers' equipment. Customers are responsible for managing their own IT equipment and data security. All PII is securely managed in accordance with our Privacy Policy, a document based on the Australian Privacy Act 1998 and information security practices based on ISO 27001 controls.
- **Unable to Provide Service:** A catastrophic failure or equipment malfunction at a NEXTDC data centre could result in the Company not being able to provide power and cooling to support our customers' equipment, thus breaching our service level agreements and incurring contractual liabilities. To address this risk, all of NEXTDC's data centres are designed and built with sufficient redundancy in place (including redundant paths for power and cooling) to enable components to go off-line to be maintained without affecting our customers' IT equipment.
- **Technology Advances:** NEXTDC operates in a competitive sector, and failure to keep up to date with the latest technology could result in reputational damage and a downturn in customer demand. To mitigate this risk, the Company promotes mutual

research and development projects and strategic alliances with its suppliers, regularly attends industry conferences and is a member of the Uptime Institute, an independent thought leader and certification body in IT and data centres.

- **Health and Safety:** Data centres are workplaces where employees and contractors may be subject to various health and safety risks, such as, but not limited to, exposure to high voltage, construction zones, manual handling and working at heights which could result in death or permanent disability. To address these risks, access to areas where these types of safety risks exist is restricted to allow only those workers who have appropriate licences and training. Permits to work, including Safe Work Method Statements and proof of insurance are required prior to any works commencing.
- **Energy Usage and Emissions:** Due to the nature of our business, as our customer loads increase year on year, so too will our energy usage and emissions, which may result in NEXTDC being perceived to be having a negative impact on the environment. To counter this risk, NEXTDC has invested significantly in improving energy efficiencies, implementing initiatives such as solar power and rainwater collection to reduce the overall impact on the environment. The Company also benchmarks its Power Usage Effectiveness against peers to achieve industry best practice.
- **Fraud, Bribery and Corruption:** Fraud, bribery or any other unethical behaviour could significantly impact on customer's and shareholder's trust and confidence in NEXTDC. In order to reduce these risks, NEXTDC has stringent sales and purchasing processes and procedures. The Statement of Delegated Authority has been approved by NEXTDC's Board and authority limits are automated in NEXTDC's purchasing system to prevent staff exceeding their approval limits. All NEXTDC staff and directors undergo Code of Conduct training and pursuant to the Company's Whistle-blower Policy, employees are encouraged to come forward and report if they see any unethical behaviour.
- **Training and Development:** Operating and maintaining data centres requires highly trained employees and lack of sufficient training and development could result in safety and environmental incidents, poor efficiencies and low morale. All data centre workers hold the appropriate licences and receive on the job training. In addition, NEXTDC's in-house Engineering team provides support and knowledge on how to run the equipment at optimal performance.

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 FY18.

Matters subsequent to the end of the financial period

In July 2018, the Group issued a further \$300 million in unsecured notes ("Notes IV"), comprising of a floating rate

tranche of \$200 million priced at 3.75% over 3-month BBSW and a fixed rate tranche of \$100 million at 6.0%. Notes IV is complementary to the \$300 million fixed rate Notes III issued by the Company in May 2017, albeit a different maturity date of June 2022, compared to June 2021 for Notes III.

Likely developments and expected results of operations

Likely developments in the operations of the Group that were not finalised at the date of this report include the continued fitout of data centre capacity in existing facilities and the pursuit of further growth opportunities.

Dividends

Dividends were neither paid nor declared during the year.

Environmental regulation

The Group is subject to significant environmental regulation in respect of its data centre operating activities as set out below.

Greenhouse gas and energy data reporting requirements

NEXTDC monitors its carbon emissions for reporting and is registered under the National Greenhouse and Energy Reporting Act ("NGER"). Continuing our focus on leadership through industry innovation, at the time of writing, NEXTDC is undergoing an audit of its corporate carbon emissions under the Australian National Carbon Offset Standard (NCOS). We have set ourselves an ambitious goal of being the first operator in the region to achieve carbon neutrality by offsetting emissions associated with our corporate activities and become certified under the Australian Government's Carbon Neutral Initiative. Our aim is to offer our customers the opportunity to similarly offset their emissions in our data centres in the near future – yet another first for a data centre operator in the Asia Pacific region.

Insurance of officers

During the period, NEXTDC Limited paid a premium of \$402,500 (2017: \$143,000) to insure the directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. The Directors & Officers Liability insurance also covers security claims against the company itself. It is not possible to apportion the premium between amounts relating to the insurance against legal costs to defend the officers and those relating to other liabilities.

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.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Information on Directors

DOUGLAS FLYNN

Chairman

Non-Executive Director (since September 2013)

EXPERIENCE AND EXPERTISE

Douglas (Doug) was appointed to the Board in September 2013 as an Independent Non-Executive Director and subsequently was appointed as Chairman in April 2014.

Doug has over 30 years of international experience in the media and information and communication technology industries, including holding various senior management and board positions.

Doug is a current director of APN Outdoor and is Chairman of Konekt Limited.

Previously, Doug was Chief Executive of newspaper publisher, Davies Brothers Limited, which was acquired by News Corporation in 1989. In 1995, he was appointed the Managing Director of News International Plc.

After leaving News International in 1998, Doug joined Aegis Group Plc and was appointed as CEO in 1999, where he was instrumental in doubling the size of the company and established a global market research business Synovate and internet services business Isobar.

From 2005 to 2008, Doug served as the Chief Executive of facilities management provider Rentokil Initial Plc. Doug returned to Australia in 2008 and from April 2008 to April 2012, was a consultant to and a director of Hong Kong listed Qin Jia Yuan Media Services Ltd, a private television company operating in China. From 2009 to 2014 he was a director of Seven West Media.

Doug graduated in Chemical Engineering from the University of Newcastle, New South Wales and received a MBA with distinction from the University of Melbourne.

OTHER CURRENT DIRECTORSHIPS

Doug also holds the following positions:

- APN Outdoor (November 2014 – present)
- Konekt Limited (June 2012 – present)

FORMER DIRECTORSHIPS

- Seven West Media Limited
- iSentia Group Limited

SPECIAL RESPONSIBILITIES

- Chairman of the Board
- Member of the Audit and Risk Management Committee
- Member of the Remuneration and Nomination Committee

INTERESTS IN SHARES AND OPTIONS

Doug holds 152,531 fully paid ordinary shares in NEXTDC Limited.

CRAIG SCROGGIE

Chief Executive Officer (since June 2012)

Managing Director (since November 2010)

EXPERIENCE AND EXPERTISE

Craig Scroggie is the Chief Executive Officer and Managing Director of NEXTDC, responsible for driving the business to become one of the world's fastest growing technology companies. Craig is well recognised for his superior leadership experience within the IT and telecommunications industries across the globe.

Under Craig's leadership, NEXTDC has grown from a start-up tech company operating only a single data centre (B1 Brisbane) to now being recognised as Australia's leading Data Centre-as-a-Service company and Australia's fastest growing technology company, boasting a national footprint of eight data centres across Australia, with an additional three facilities currently in design. The company's annual data centre services revenues have grown from \$1.2 million (FY12) to exceeding \$150 million (FY18). In that time, the Company has earned a plethora of awards in the technology, business and engineering industries. In 2017, NEXTDC's B2 Brisbane and M2 Melbourne data centres were both awarded Tier IV Certification of Constructed Facility (TCCF) from the Uptime Institute, the first data centres in Australia and the first colocation data centres in the Asia-Pacific region to achieve such recognition.

Prior to his appointment as Chief Executive Officer, Craig served as a Non-Executive Director of NEXTDC for 18 months and as Chairman of the Audit and Risk Management Committee. Craig has previously held senior leadership positions with Symantec, Veritas Software, Computer Associates, EMC Corporation and Fujitsu. Craig is a Graduate and Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Management and a Fellow of the Australian Sales & Marketing Institute. Craig is a Graduate of the University of Southern Queensland and holds an Advanced Certificate in Information Technology, a Graduate Certificate in Management, a Postgraduate Diploma in Management, and a Master of Business Administration.

OTHER CURRENT DIRECTORSHIPS

Craig currently holds the position of Adjunct Professor in the Faculty of Business, Economics & Law at La Trobe University where he currently serves on the Business School Advisory Board. Craig was formerly the Chairman of the La Trobe University Graduate School of Management Board.

INTERESTS IN SHARES AND OPTIONS

Craig holds 1,552,065 fully paid ordinary shares, 806,243 performance rights, and 41,503 deferred share rights.

STUART DAVIS

Non-Executive Director (since September 2013)

EXPERIENCE AND EXPERTISE

Stuart was an international banker with over 30 years with the HSBC Group including roles in Hong Kong, New York, Taiwan, India and Australia. Most recently he was CEO India for the Hongkong and Shanghai Banking Corporation Limited (2009-2012), CEO and Executive Director for HSBC Bank Australia Limited (2002-2009) and CEO HSBC Taiwan (1999-2002). He was a member of the Australian Bankers Association from 2002 to 2009 and Deputy Chairman from 2006 to 2009.

Stuart holds a LLB from Adelaide University and is a Graduate of the Australian Institute of Company Directors.

OTHER CURRENT DIRECTORSHIPS

- PayPal Australia Limited (July 2016 – present)
- Bank of South Pacific Limited (September 2017 – present)

FORMER DIRECTORSHIPS

Stuart previously held directorships with subsidiaries of HSBC Group until 2012, Built Holdings Pty Ltd. and Moboom Limited.

SPECIAL RESPONSIBILITIES

- Chairman of the Audit and Risk Management Committee
- Member of the Remuneration and Nomination Committee

INTERESTS IN SHARES AND OPTIONS

Stuart holds 34,314 fully paid ordinary shares in NEXTDC Limited.

GREGORY J CLARK AC

Non-Executive Director (since April 2014)

EXPERIENCE AND EXPERTISE

Dr Gregory J Clark AC is a world-renowned technologist, businessman and scientist, with extensive corporate and Board experience in Australia, the USA and Europe.

Dr Clark was previously on the Board of the ANZ Banking Group where he chaired the Board's Technology Committee and was a member of the Risk, Governance and Human Resources Committees.

Dr Clark brings to the Board international business experience and a distinguished career in micro-electronics, computing and communications. He was previously Principal of Clark Capital Partners, a US based firm that has advised internationally on technology and the technology market place.

During his career, Dr Clark also held senior executive roles at IBM, News Corporation and Loral Space and Communications. At IBM he was a senior scientist in their Research Division in NY. At News Corporation he was President of Technology and on the Executive Committee with responsibility for all technical aspects of digital media creation and delivery. Dr Clark was responsible for News Corporation's transformation of its media assets from an analogue platform into a digital platform for both program creation and delivery. In addition he was responsible for all technology companies within News Corporation.

He was Chief Operating Officer at Loral Space and Communications, the world's largest commercial satellite manufacturer and one of the largest operators, with responsibility for all development, manufacturing, marketing and sales.

While at News Corporation and Loral Space and Communications, Dr Clark was Chairman and/or on the Board of a number of wholly owned subsidiaries including Globalstar, SatMex, Skynet, SpaceSystemLoral, Kesmai, Etak and others.

OTHER CURRENT DIRECTORSHIPS

Dr Clark is currently Chairman of the Australian National University Advisory Board for the Research School of Science and Engineering. He is also currently on the Board of the Sydney University Physics Foundation and Questacon, the National Science and Technology Centre.

FORMER DIRECTORSHIPS

Dr Clark served as a director on the Board of the ANZ Banking Group which he stepped down from in November 2013 after nine years of service.

SPECIAL RESPONSIBILITIES

- Chairman of the Remuneration and Nomination Committee
- Member of the Audit and Risk Management Committee

INTERESTS IN SHARES AND OPTIONS

Gregory holds 62,202 fully paid ordinary shares in NEXTDC Limited.

SHARON Warburton

Non-Executive Director (since April 2017)

EXPERIENCE AND EXPERTISE

Sharon was appointed as an Independent Non-Executive Director in April 2017.

Sharon is currently the Co-Deputy Chairman of Fortescue Metals Group Limited and a Non-Executive Director of Gold Road Resources Limited and Barmingo Holdings Pty Limited. Sharon is also a part-time member of the Federal Government's Takeovers Panel.

Sharon has previously held positions as Executive Director of Strategy and Finance with Brookfield Multiplex, Chief Planning and Strategy Office of United Arab Emirates based ALDAR Properties PJSC, and senior executive roles with Multiplex, Citigroup, and Rio Tinto.

Sharon is a Fellow of Chartered Accountants Australia and New Zealand. Sharon is a Graduate of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Building and a member of Chief Executive Women.

Sharon is a Director of the Perth Children's Hospital Foundation and the Patron of their Emerging Leaders in Philanthropy programme. She is a member of the WA Rhodes Scholar Scholarship Selection Committee.

Sharon is Curtin University alumni and the Patron for the Curtin Women in MBA scholarship programme.

Sharon holds a Bachelor of Business – Accounting and Business Law from Curtin University.

OTHER CURRENT DIRECTORSHIPS

- Fortescue Metals Group Limited (November 2013 – present)
- Gold Road Resources Limited (April 2016 – present)

FORMER DIRECTORSHIPS

- Wellard Limited (until August 2016)

SPECIAL RESPONSIBILITIES

- Member of the Audit and Risk Management Committee
- Member of the Remuneration and Nomination Committee

INTERESTS IN SHARES AND OPTIONS

Sharon holds 32,202 fully paid ordinary shares in NEXTDC Limited.

MICHAEL Helmer

Company Secretary (since February 2015)

Michael is also the General Counsel of NEXTDC Limited.

Michael has over 20 years' experience in the legal sector and, until joining the Company, was serving as Director of Legal Services (Asia Pacific) for global software maker Symantec, where he and his team were responsible for advising on compliance, licensing, litigation, privacy and cybersecurity issues throughout the region as well as supporting the regional leadership, sales and engineering teams. Previously Michael was based in London at specialist technology and IP firm Field Fisher Waterhouse. Michael has held senior legal roles in Barclays, Coles Myer and was General Counsel at European on-line shopping site shopsmart.com as well as at Australian anti-malware maker PC Tools. Michael has practised extensively in the areas of technology, data security, privacy, corporate commercial, licensing and FMCG.

He has obtained a Bachelor of Laws, Bachelor of Science (Monash) and is admitted as a legal practitioner in Australia and in England and Wales. Michael is a member of the Australian Corporate Lawyers Association (ACLA) and has served as their Victorian President as well as a member of its National Board (2012 to November 2014). Michael is also an Australian member of the Association of Corporate Counsel, the Governance Institute of Australia and holds a Certificate in Governance Practice.

Meetings of directors

The number of meetings of the Company's Board of Directors and of each board committee held during the period, and the number of meetings attended by each director are as follows:

	Meetings of committees					
	Full meetings of directors		Audit and Risk Management Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Douglas Flynn	25	25	3	3	2	2
Craig Scroggie	23	25	N/A	N/A	N/A	N/A
Stuart Davis	25	25	3	3	2	2
Gregory J Clark AC	25	25	3	3	2	2
Sharon Warburton	25	25	3	3	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

N/A = Not applicable. Not a member of the relevant committee

Remuneration Report – Audited

This report sets out the remuneration arrangements for NEXTDC's Directors and other Key Management Personnel (KMP) for the year ended 30 June 2018 (FY18). It is prepared in accordance with section 300A of the Corporations Act 2001 (Corporations Act), and has been audited as required by section 308(3C) of the Corporations Act.









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1. MESSAGE FROM THE CHAIR OF THE REMUNERATION AND NOMINATION COMMITTEE

NEXTDC's Remuneration Report details how both Company and individual performance are linked to executive remuneration outcomes for the 2018 financial year. It details our remuneration policy for FY18 and how it was designed to create alignment between executive remuneration and shareholder outcomes for the reporting period.

In FY18, NEXTDC achieved a number of key performance milestones:

Data centre services revenue (\$M)  \$152.6M ▲ \$35.0M (30%)	Underlying EBITDA(\$M)  \$62.6M ▲ \$13.6M (28%)	Operating cashflow (\$M)  \$33.4M ▼ \$11.5M (26%)
Contracted utilisation (MW)  40.2MW ▲ 8.7MW (28%)	Equity raised (\$M)  \$377.4M	Senior syndicated debt facility  \$300.0M 3-year term
 Successful opening of B2 Brisbane and M2 Melbourne	 Secured sites for 3rd data centre in Sydney (S3) and 2nd in Perth (P2)	

Company achievements such as these underpin the incentive payments made to Senior Executives for the FY18 performance period.

In formulating the remuneration strategy for NEXTDC, the Remuneration and Nomination Committee considers the Company's business plans, cash position, competitive environment and feedback from shareholders. The overall objective of the remuneration strategy is to properly incentivise executives to capitalise upon the compelling opportunities in the data centre industry and the need for robust growth to compete against private and foreign-owned corporations that are also seeking to rapidly satisfy increasing demand. With growth tied to shareholder value, the Board recognises that significant elements of executive remuneration need to be contingent on the ability to expand NEXTDC's national footprint. This includes being the first to market by securing valuable sites, integrating new infrastructure, and offering a consistent, high-value service to national and international customers.

After two years in which the Remuneration and Nomination Committee had accepted the request by the Senior Executives to forego a pay increase, to ensure key operational staff members could be appropriately remunerated and retained, a salary review was undertaken effective 1 January 2018. Modest increases to fixed remuneration for Senior Executives carried regard for Australian and international salaries for similar roles and any changes to the scope and breadth of executive responsibilities.

We look forward to further engagement with our shareholders and welcome your continued feedback on our remuneration policies and practices.



Dr Gregory J Clark AC

Chairman – Remuneration and Nomination Committee

2. THE PERSONS COVERED BY THIS REPORT

Key Management Personnel (“KMP”) include Non-Executive Directors and Senior Executives. The term “Senior Executives” refers to the CEO and those executives with authority and responsibility for planning, directing and controlling the activities of the Company and the Group, directly or indirectly.

TABLE 1: KEY MANAGEMENT PERSONNEL

NON-EXECUTIVE DIRECTORS

Name	Position
Douglas Flynn	Non-Executive Chairman since 30 April 2014 Member of the Audit and Risk Management Committee Member of the Remuneration and Nomination Committee
Stuart Davis	Non-Executive Director Chair of the Audit and Risk Management Committee Member of the Remuneration and Nomination Committee
Gregory J Clark AC	Non-Executive Director Chair of Remuneration and Nomination Committee Member of the Audit and Risk Management Committee
Sharon Warburton	Non-Executive Director Member of the Audit and Risk Management Committee Member of the Remuneration and Nomination Committee

SENIOR EXECUTIVES

Name	Position
Craig Scroggie	Chief Executive Officer, Managing Director
Simon Cooper	Chief Operating Officer
Oskar Tomaszewski	Chief Financial Officer
Adam Scully	Chief Sales Officer
David Dzienciol	Chief Customer Officer & Executive Vice President of Technology

3. OVERVIEW OF REMUNERATION GOVERNANCE FRAMEWORK

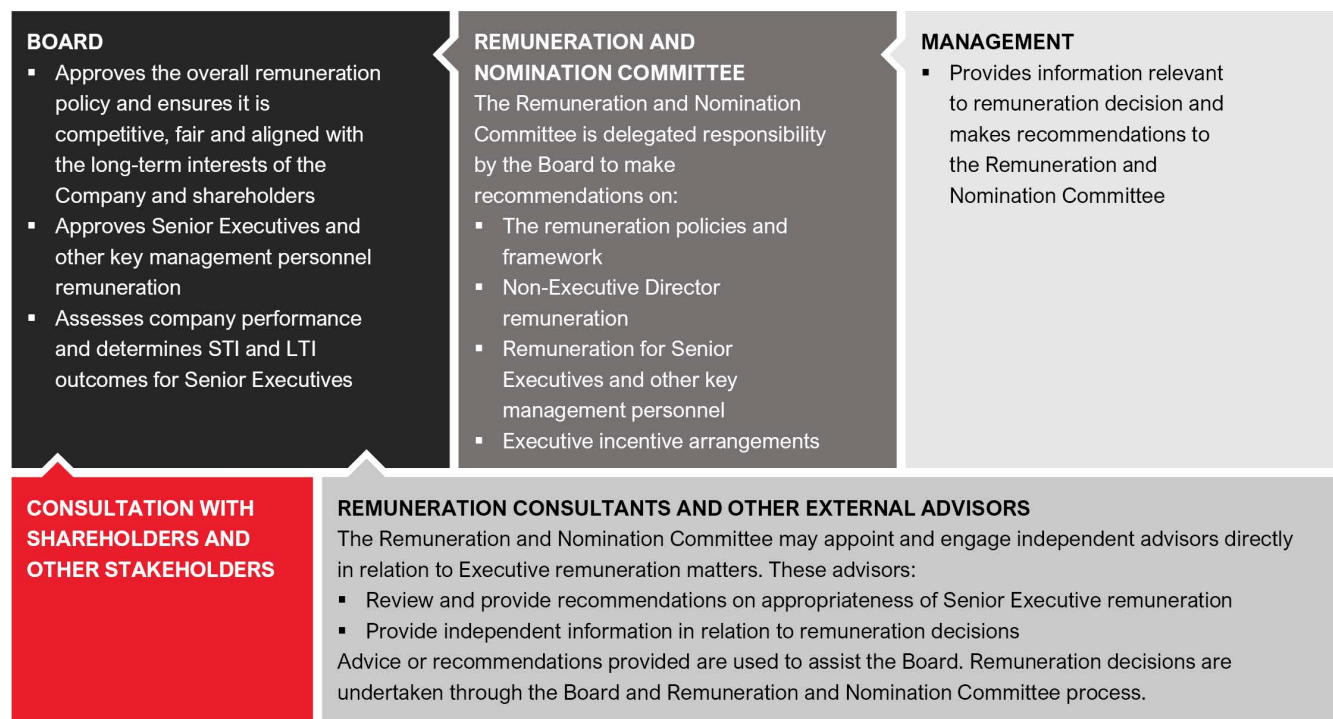
Consistent with NEXTDC’s mission to be the leading customer-centric data centre services company, delivering solutions that power, secure and connect enterprise, the remuneration policy is designed to incentivise and reward Senior Executives for achieving the Company’s overarching objectives of building market-leading sales performance; hosting the country’s largest independent ecosystem of carriers, cloud and IT service providers; and enabling customers to source and connect with suppliers and partners under an integrated hybrid cloud system.

The remuneration framework applicable to the 2018 financial year is outlined and summarised below:

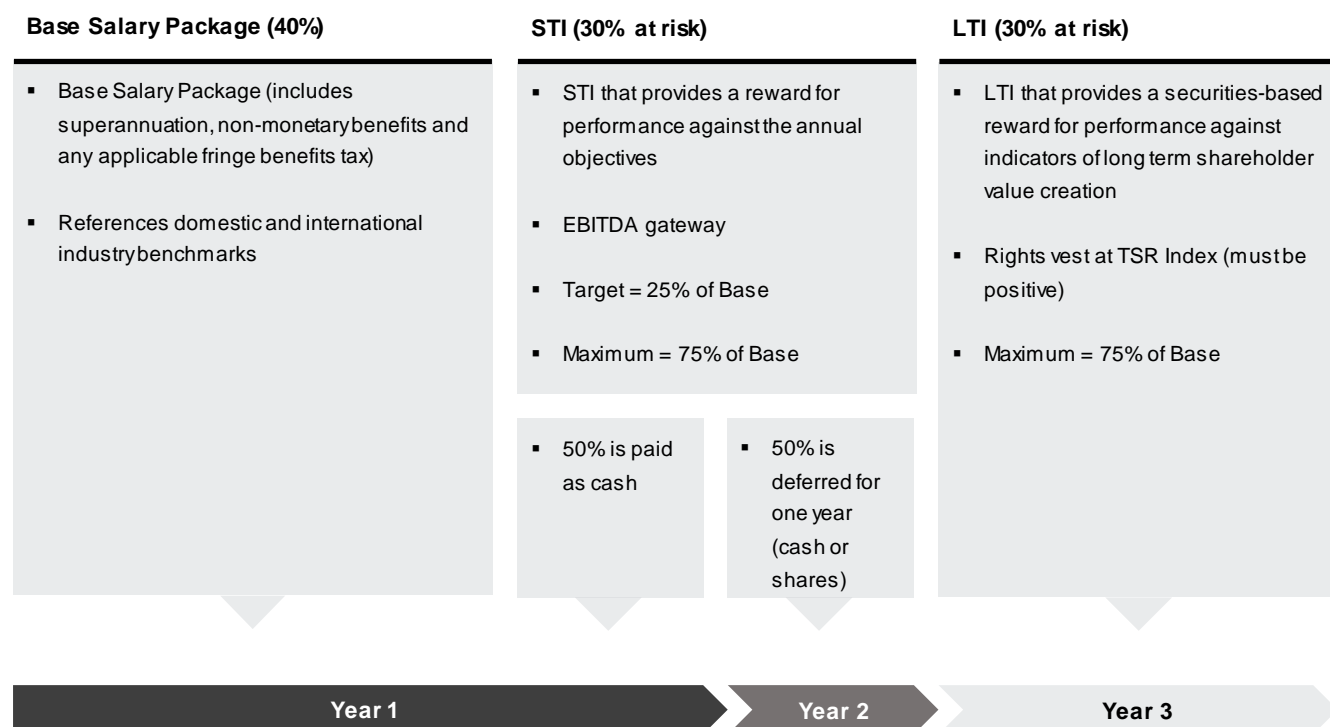
3.1 Senior Executive Remuneration (SER) Policy

The Senior Executive Remuneration Policy applies to those who are defined as:

- The Chief Executive Officer – accountable to the Board for the Company’s performance and long-term planning;
- Heads of business units, or those with key functional roles, or essential expertise, that report directly to the Chief Executive Officer;
- Other executive roles classified as KMP under the Corporations Act; and
- Other roles or individuals nominated by the Board from time to time.

FIGURE 1: REMUNERATION GOVERNANCE FRAMEWORK


The SER policy details how executive remuneration is structured, benchmarked and adjusted in response to changes in the circumstances of the Company. NEXTDC's Senior Executives Total Remuneration Package (TRP) includes the following components:

FIGURE 2: TOTAL FY18 REMUNERATION (IF MAXIMUM INCENTIVE PAYMENTS ARE RECEIVED)


3.2 Senior Executive Remuneration Benchmarks

In setting executive remuneration, the Company continues to reference domestic and international industry benchmarks. Specific adjustments are introduced to enable NEXTDC to attract and retain the necessary calibre of talent in the niche data centre industry. Many of NEXTDC's competitors and major customers are international and NEXTDC needs to compete for talent against this backdrop, which is vital for the Company. Accordingly, the Company observes the following factors in setting executive remuneration packages:

- The individual's contribution to long term revenue/EBITDA growth;
- Their relevant industry knowledge, experience and connections; and
- Domestic and international comparators with whom NEXTDC must compete for talent.

The Base Salary Package policy mid-points are set with reference to the median of the relevant market practice. TRP's at Target (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) are set with reference to the 75th percentile of the relevant market practice so as to create a strong incentive to achieve targeted objectives in both the short and long term.

Certain segments of the executive remuneration mix may not be captured solely by domestic remuneration benchmarks, noting that the retention of Senior Executive's with first-class industry relationships is of critical importance in achieving exceptional financial performance and long-term shareholder value.

3.3 Senior Executive Remuneration Mix

The Senior Executive remuneration mix refers to the proportion of remuneration executives can receive as fixed versus variable "at risk" remuneration. Assuming performance is at a level whereby incentives pay out in full, 60% of TRP remuneration received is performance-related.

The graph below sets out the remuneration mix if maximum incentive payments are received for the CEO and other Senior Executive KMP for FY18.

FIGURE 3: FY18 POTENTIAL REMUNERATION MIX

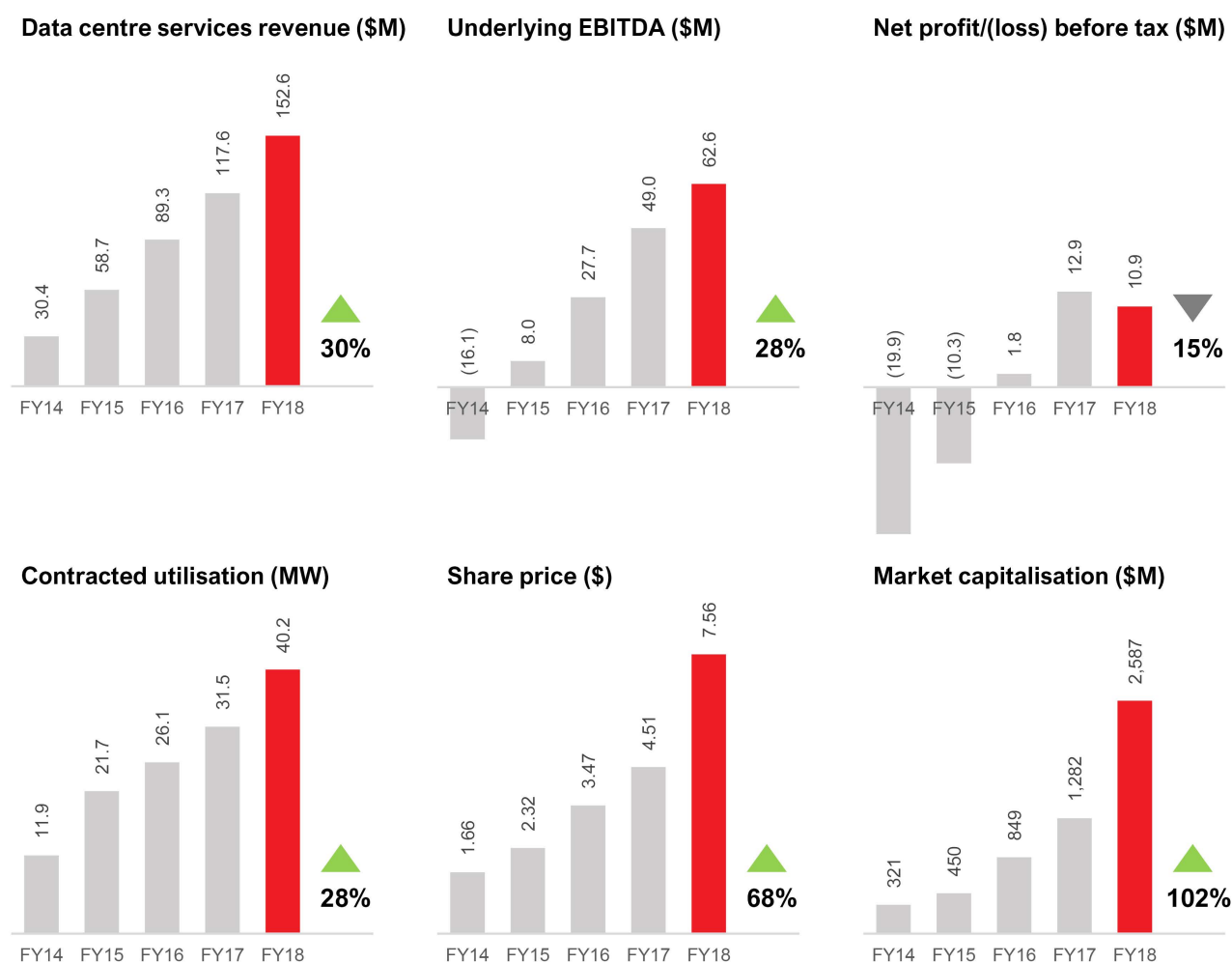


3.4 Senior Executive Remuneration and Performance

Although organic growth opportunities are compelling, the Company has powerful competition from private and foreign owned corporations. The Board has therefore determined that significant remuneration opportunity be contingent on realising this growth, as prospects for future shareholder value are heavily reliant on being amongst the first to market to secure valuable sites, build needed infrastructure, offer a regional footprint for national and international customers and retain these customers with high value services that present high barriers to entry. If successful, these components of Company performance are the drivers of tomorrow's sustainable shareholder value creation.

Senior Executive remuneration and performance is also assessed relative to NEXTDC's performance over the past five years, as summarised below:

TABLE 2: HISTORICAL COMPANY PERFORMANCE



Underlying EBITDA excludes non-recurring items such as distributions received as well as transaction costs associated with Asia Pacific Data Centre (APDC). EBITDA is a non-statutory metric representing earnings before interest, tax, depreciation and amortisation.

3.5 Variable remuneration – Short Term Incentive (STI) Plan

The highly capital-intensive nature of NEXTDC's business requires infrastructure to be built prior to generating income derived through infrastructure utilisation. With NEXTDC operating in a high-growth market, the Company needs to continually expand its infrastructure to meet customer demand. It is on this basis that the Board places emphasis on committed sales, facilities growth, margin, and EBITDA growth in incentivising Senior Executives.

FINANCIAL YEAR 2018 STI PLAN

The purpose of the STI Plan is to provide an incentive for Senior Executives to achieve against the Company's strategic objectives by delivering or exceeding annual business plan requirements for sustainable superior returns for shareholders. Key terms of the FY18 STI Plan are detailed below.

Feature	Description		
Maximum opportunity	25% of Base Salary Package and a stretch (maximum) of 75% of Base Salary Package.		
Measurement period	The Company's financial year i.e. from 1 July to the following 30 June.		
Performance metrics	The below Company Key Performance Indicators (KPIs) were selected as being the most relevant drivers for improving financial performance and growth in shareholder value and are also common measures amongst NEXTDC's global competitors.		
	Metric	Weighting	Reason for selection
	Group EBITDA	1/3	Indicates the Company's underlying profitability best suited to its stage of development
	New retail NMRR* committed	1/3	New NMRR committed is connected to the level of incremental new business signed with NEXTDC's two key customer segments – retail and wholesale
	New wholesale NMRR committed	1/3	
	No STI can be paid if the EBITDA gateway is not achieved. The FY18 EBITDA gateway was set at 95% of budget.		
Delivery of STI	<p>Payments will be in cash unless otherwise determined by the Board and will normally be paid in September following the Measurement Period subject to the deferral of 50% of the final STI payment, which may be delivered in cash or by grant of rights to acquire fully paid ordinary shares.</p> <p>Deferring 50% of the awarded STI for a period of 12 months is intended to promote sustainability of annual performance over the medium term, acts as a retention mechanism and facilitates the exercise of clawback provisions should the Board determine to exercise its discretion.</p>		
Board discretion	If the Company's overall performance during the Measurement Period is substantially lower than expectations and has resulted in a significant loss to shareholders' value, the Board may abandon the STI Plan for the Measurement Period or adjust STI payouts.		

*NMRR = Net Monthly Recurring Revenue

3.6 Variable remuneration – Long Term Incentive (LTI) Plan

FINANCIAL YEAR 2018 LTI PLAN

The purpose of the LTI Plan is to give effect to an element of Senior Executive Remuneration, which constitutes part of a market-competitive total remuneration package. The aim is to provide an incentive for Senior Executives to help achieve the Company's strategic objectives by delivering performance that will lead to sustainable, superior returns for shareholders. Another purpose of the LTI Plan is to act as a retention mechanism to maintain a stable team of performance-focused Senior Executives. The current LTI Plan is the NEXTDC Limited Equity Incentive Plan (EIP).

Feature	Description	
Opportunity/Allocation	<p>Target LTI value was set at 75% of Base Salary Packages.</p> <p>The LTI grant of Performance Rights is calculated by applying the following formula:</p> <p>Number of Performance Rights = Base Package x Target LTI% ÷ Right Value</p> <p>NB: The Right Value is the volume weighted average share price of Shares over the 10 trading days following the release of the Company's FY17 results. The "Target LTI %" recognises that the stretch level of Rights will be granted when target performance is achieved.</p>	
Measurement period	<p>The Performance Rights measurement period for FY18 is a three (3) year period beginning from the end of trade on the day of release of the FY17 Results and ending upon the end of the day of release of the annual results for FY20.</p> <p>The measurement period for assessing Total Shareholder Return (TSR) performance is aligned with the release of results to ensure that the share price upon which TSR is determined at the start and end of the performance period reflects an informed market.</p>	
Performance hurdle	<p>The performance condition is market adjusted TSR which compares the TSR of the Company to the TSR of the ASX 200 Accumulation Index (Index) with the vesting percentages to be determined by the following scale:</p>	
	NEXTDC's TSR over the Measurement Period	Percentage of Rights that vest
	Less than TSR of Index	Nil
	At TSR of Index	25%
	Between TSR of Index and TSR of Index + 5% p.a.	Pro rata vesting from 25% to 100% on a straight-line basis
	TSR of Index + 5% p.a. or greater	100%
	<p>A positive TSR gateway applies to all offers such that no vesting will occur if shareholder value has not increased over the Measurement Period (i.e. TSR must be positive).</p> <p>The Remuneration and Nomination Committee has again reviewed whether the introduction of a second LTI performance measure is appropriate. It remains the Board's view that an additional measure is not appropriate at NEXTDC's current stage of development. The Remuneration and Nomination Committee regards the continued application of a relative TSR performance measure to be the most effective method for aligning long-term executive performance with shareholder wealth outcomes. The Remuneration and Nomination Committee will review the appropriateness of the single measure LTI program on an annual basis.</p>	
Reason for selection	<p>TSR was selected as it recognises the total returns (share price movement and dividends assuming they are reinvested into Company shares) that accrue to shareholders over the Measurement Period. This measure creates the most direct alignment between shareholder return and rewards realised by Senior Executives. The measurement period for assessing TSR performance is aligned with the release of results to ensure that the share price upon which TSR is determined at the start and end of the performance period reflects an informed market.</p> <p>Market adjusted TSR was selected to ensure that participants do not receive windfall gains from broad market movements unrelated to the performance of the Senior Executives.</p> <p>The positive TSR gate ensures that Senior Executives cannot benefit from the LTI Plan when shareholders have lost value over the Measurement Period. Vesting commences upon NEXTDC's TSR matching the Index TSR, with full vesting occurring once NEXTDC's TSR exceeds the Index TSR by 5% compound annual growth over the performance period. This hurdle has been determined with regard for the historic performance of the ASX 200</p>	

Feature	Description
	<p>Accumulation Index whereby 5% compound annual growth or greater represents upper quartile performance.</p> <p>This would, in the Board's view, represent an outstanding outcome for the Company.</p>
Exercise of vested Incentive Rights	<p>Upon vesting, Incentive Rights will be automatically exercised and the Board will determine the extent to which their value will be delivered in Shares and/or cash. The Board will also determine whether Shares will be issued or acquired for participants via the Employee Share Trust (EST) and if the EST is used, whether new issues or on-market purchases of Shares will be undertaken by the trustee of the EST.</p> <p>No amount is payable by participants to exercise vested Incentive Rights.</p>
Forfeiture and termination	<p>In the event of cessation of employment due to dismissal for cause, all unvested Incentive Rights are forfeited.</p> <p>In the event of cessation of employment due to resignation, all unvested Incentive Rights are forfeited unless otherwise determined by the Board.</p> <p>In the event of cessation of employment due to death, total and permanent disability or redundancy, unvested performance rights will continue on-foot and be subject to the original terms as though employment had not ceased, unless the Board determines otherwise.</p> <p>In any other circumstances the Board has discretion to determine how the unvested Performance Rights will be treated upon cessation of employment with the Company.</p>
Board discretion	<p>The Board retains discretion to modify vesting outcomes. Incentive Rights that do not vest will lapse. Board discretion to vary vesting will generally only be applied when the vesting that would otherwise apply is considered by the Board to be inappropriate, and when it would not align with shareholder returns.</p>
Change of Control	<p>In circumstances where there is a likely change in the control of NEXTDC, the Board has discretion to determine the level of vesting (if any) having regard to the portion of the performance period elapsed, performance to date against performance conditions and any other factors it considers appropriate.</p> <p>If an actual change in the control of the Company occurs before the Board can exercise this discretion, unless the Board determines otherwise, unvested Performance Rights will vest and become exercisable in proportion to the Company's performance against the TSR Hurdle up to the date of the change of control.</p>
Malus/Clawback Provisions	<p>The Board retains the ability to reduce or clawback awards where the participant has acted fraudulently or dishonestly or is in material breach of their obligations to the Company; or where the Company becomes aware of material misstatements or omissions in the financial statements of the Company; or any circumstances occur that the Board determines to have resulted in an unfair benefit to the recipient.</p>
Hedging	<p>The Company prohibits the hedging of Incentive Rights and Restricted Shares by Participants.</p>

3.7 Non-Executive Director Remuneration Policy

The Non-Executive Director Remuneration Policy applies to Non-Executive Directors of the Company in their capacity as Directors and as members of committees, and may be summarised as follows:

- Remuneration comprises:
 - Board fees
 - Committee fees
 - Superannuation
 - Other benefits
 - Securities (if appropriate at the time).
- Remuneration will be managed within the aggregate fee limit (AFL) or fee pool approved by shareholders of the Company.
- The Non-Executive Director Remuneration Policy contains guidelines regarding when the Board should seek adjustment to the AFL such as in the case of the appointment of additional Non-Executive Directors.
- Remuneration should be reviewed annually.
- Non-Executive Directors are not entitled to termination benefits.
- A policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees) will be set with reference to the median of comparable ASX listed companies.

- Committee fees may be used to recognise additional contributions to the work of the Board by members of committees, but that the inclusion of these should result in outcomes that, when combined with Board Fees, will not exceed the 75th percentile of comparable ASX listed companies.
- The Company does not currently provide securities as part of Non-Executive Director remuneration and shareholder approval would be sought for any plan that may facilitate this form of remuneration being paid.

The document also outlines the procedure that should be undertaken to review Non-Executive Director remuneration and determine appropriate changes.

As part of its annual review of Board fees the Remuneration and Nomination Committee undertook independent benchmarking of Non-Executive Director remuneration with reference to companies of a similar size in Australia as indicated by market capitalisation. No formal recommendation was provided to the Board by any third party as part of this exercise. With regard to the growth and success of NEXTDC and the resulting increased time commitment and workload for its Non-Executive Directors it was determined that an increase (as indicated in section 6.2) in Non-Executive Director remuneration was warranted and became effective from 1 January 2018.

For FY19, the Remuneration and Nomination Committee has considered the current AFL for Non-Executive Directors which has remained unchanged at the current limit of \$750,000 p.a. since the Company's FY13 AGM. To allow for sufficient capacity to appoint up to a further two additional Non-Executive Directors, overlapping tenures as part of the Board's orderly succession planning, and for future adjustments of Non-Executive Director fees, the Remuneration and Nomination Committee has proposed that an increase to the AFL of \$500,000 be sought at the Company's FY18 AGM, being an increase in the AFL from \$750,000 to \$1,250,000.

4. EMPLOYMENT TERMS FOR DIRECTORS AND SENIOR EXECUTIVES

NON-EXECUTIVE DIRECTORS

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the Director.

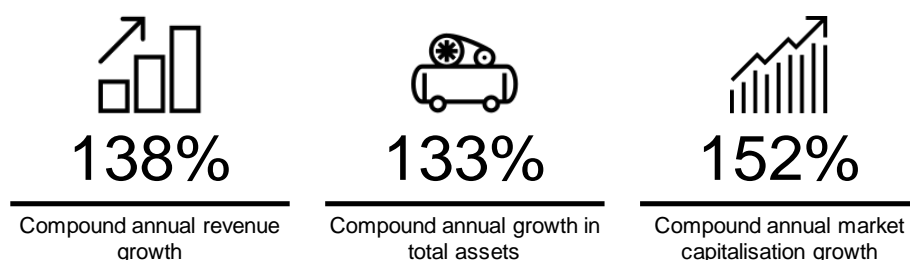
All of the current Non-Executive Directors carry an initial contract duration of three years (subject to re-election by shareholders). The employment contracts for the Non-Executive Directors do not carry notice period provisions, nor do they provide for any termination benefits.

Directors must retire from office at the third annual general meeting after the Director was last elected and will then be eligible for re-election. Upon cessation of a Director's appointment, the Director will be paid his or her Director's fees on a pro-rata basis, to the extent that they are unpaid, up to the date of cessation.

SENIOR EXECUTIVES

Remuneration and other terms of employment for the Chief Executive Officer and other key management personnel are also formalised in service agreements.

The CEO's base salary package increased to \$1.26 million in FY18, from \$1.20 million in FY17, which was his base pay since his appointment to the role in 2012. Over this period, the CEO has overseen the company's expansion, and has delivered:



NEXTDC is unique among ASX-listed companies due to its high capital-intensity and growth prospects requiring further capital to be invested ahead of demonstrable revenues and profits. Most comparable peers are US-based, as is the more comparable executive talent. The Board considered the Company's long-term strategy and potential, and determined that the CEO's remuneration remains appropriate in context of the skills and experience necessary to lead NEXTDC.

Other major provisions of the agreements relating to service agreements are set out below.

TABLE 3: SERVICE AGREEMENTS

Name	Duration of Contract	Notice Period	Termination Payments ¹
Craig Scroggie	No fixed term	12 months	12 months
Simon Cooper	No fixed term	6 months	6 months
Oskar Tomaszewski	No fixed term	6 months	6 months
Adam Scully	No fixed term	6 months	6 months
David Dzienciol	No fixed term	6 months	6 months

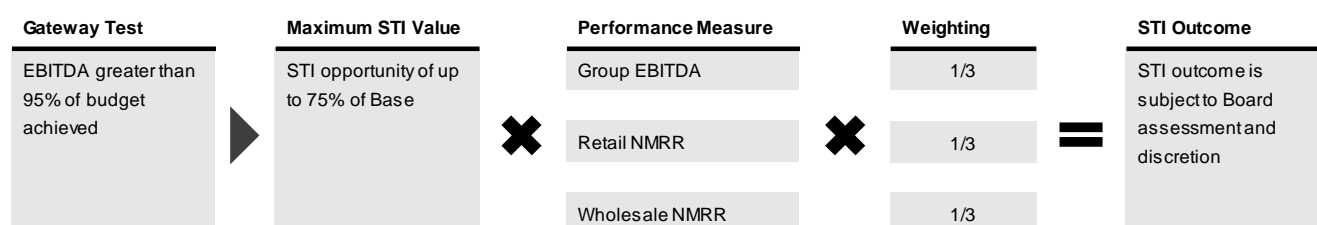
5. STI AND LTI PERFORMANCE OUTCOMES FOR FY18

5.1 STI Vesting Outcomes

The below performance measures were chosen as being the most relevant drivers for improving financial performance and growing shareholder value. More specifically, the metrics were chosen because:

- **Group EBITDA:** This metric indicates the Company's underlying profitability at this stage of its development;
- **New NMRR Committed:** This metric is connected to the level of incremental new business signed with NEXTDC's two key customer segments: Retail and Wholesale.

FIGURE 4: CALCULATION OF STI OUTCOMES



The joint assessment of these three performance objectives in the context of the Company's overall performance resulted in overall performance falling in between target and stretch for the FY18 performance period. The actual EBITDA and NMRR targets are not quantified as they are considered to be commercially sensitive and are therefore not disclosed in the interests of shareholders.

Based on performance against these three objectives, the Board has determined that 66% of the FY18 STI opportunity has been achieved.

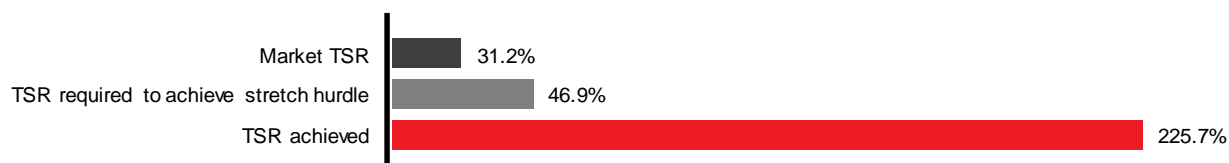
¹ Base salary payable if the Company terminates employees with notice, and without cause (for example, reasons other than unsatisfactory performance).

5.2 LTI Vesting Outcomes

The measurement period for the FY16 LTI was for the period 1 July 2015 to 30 June 2018. The vesting condition attached to the FY16 LTI was based on NEXTDC's TSR over the measurement period, against the relative performance of the All Ordinaries Accumulation Index (XAOAI).

NEXTDC's performance against the vesting conditions is summarised below:

TABLE 4: TSR PERFORMANCE



Based on the above assessment, the stretch target has been achieved, and the Board has determined that 100% of the LTI granted in FY16 will vest, and rights will be converted to ordinary shares following the release of the FY18 Annual Report.

6. STATUTORY REMUNERATION

6.1 Senior Executive Remuneration

The following table outlines the remuneration received or due to be received by Senior Executives of the Company during the 2018 and 2017 financial years and has been prepared in accordance with the Corporations Act and the relevant accounting standards. The figures provided under the LTI are based on accounting values and do not necessarily reflect actual payments received during the year.

6. STATUTORY REMUNERATION (CONTINUED)

TABLE 5: STATUTORY REMUNERATION

Name	Year	Basic package				STI		LTI		Total remuneration package
		Salary	Super-contributions	Non-monetary benefits	Leave benefits ⁽¹⁾	Subtotal	STI ⁽²⁾	% of TRP	LTI	
Craig Scroggie	2018	1,230,000	30,000	1,966	168,705	1,430,671	623,700	24%	497,266	2,551,637
Simon Cooper	2018	449,951	20,049	1,966	19,517	491,483	232,650	26%	178,163	902,296
Oskar Tomaszewski	2018	429,951	20,049	-	43,662	493,662	222,750	25%	168,676	885,088
Adam Scully	2018	367,451	20,049	-	37,381	424,881	191,813	25%	142,744	759,438
David Dzienciol	2018	414,951	20,049	-	53,245	488,245	215,325	25%	149,762	853,332
Total	2018	2,892,304	110,196	3,932	322,510	3,328,942	1,486,238	25%	1,136,611	5,951,791

Name	Year	Basic package				STI		LTI		Total remuneration package
		Salary	Super-contributions	Non-monetary benefits	Leave benefits ⁽¹⁾	Subtotal	STI	% of TRP	LTI	
Craig Scroggie	2017	1,170,000	30,000	2,122	109,544	1,311,666	574,697	25%	457,782	2,344,145
Simon Cooper	2017	430,385	19,616	2,122	508	452,631	216,861	26%	154,207	823,699
Oskar Tomaszewski	2017	410,385	19,616	-	30,458	460,459	204,966	25%	158,683	824,108
Adam Scully	2017	355,385	19,616	-	27,694	402,695	177,905	25%	119,272	699,872
David Dzienciol	2017	380,385	19,616	-	22,414	422,415	192,766	26%	119,005	734,186
Total	2017	2,746,540	108,464	4,244	190,618	3,049,866	1,367,195	25%	1,008,949	5,426,010

(1) Leave benefits in the basic package includes the net movement of short-term leave benefits such as annual leave and long-term leave benefits such as long service leave.

(2) 50% of the 2018 STI will be deferred for 12 months, with employees being able to elect whether this is delivered in cash or equity.

6.2 Non-Executive Director Remuneration

Non-Executive Director fees are managed within the current aggregate annual fees cap of \$750,000 which was approved by shareholders at the FY13 AGM in October 2013.

The rates of fees including superannuation contributions in respect of the 2018 and 2019 financial years is as follows:

TABLE 6: NON-EXECUTIVE DIRECTOR FEE SCHEDULE

	FY18	FY19
Board Chair	\$232,500 per annum	\$275,000 per annum
Non-Executive Directors	\$116,500 per annum	\$135,000 per annum
Audit and Risk Management Committee Chair	\$25,000 per annum	\$30,000 per annum
Remuneration and Nomination Committee Chair	\$22,500 per annum	\$25,000 per annum
Committee Member	\$11,500 per annum	\$13,000 per annum

These fees are consistent with the Company's policy of benchmarking fees at the market median. Remuneration received by Non-Executive Directors in FY18 and FY17 is disclosed below.

TABLE 7: NON-EXECUTIVE DIRECTOR REMUNERATION

Name	Financial year	Board fees	Superannuation	Total
Douglas Flynn	2018	233,333	22,167	255,500
Gregory J Clark AC	2018	137,443	13,057	150,500
Stuart Davis	2018	139,726	13,274	153,000
Sharon Warburton	2018	127,397	12,103	139,500
Total	2018	637,899	60,601	698,500
Douglas Flynn	2017	191,781	18,219	210,000
Gregory J Clark AC	2017	116,895	11,105	128,000
Stuart Davis	2017	116,895	11,105	128,000
Sharon Warburton	2017	26,941	2,559	29,500
Total	2017	515,374	48,960	564,334

Recommended Non-Executive Director Shareholding

Non-Executive Directors are encouraged to accumulate shares on their own behalf, over a three year period, of equivalent value to their average annual Directors' fees over the three years.

6.3 Changes in Securities Held Due to Remuneration

TABLE 8: CHANGES IN SECURITIES HELD DUE TO REMUNERATION

Name	Instrument	Balance at start of the year	Granted	Exercised	Accounting value at exercise date (\$)	Lapsed	Balance at end of the year
Craig Scroggie	Loan Funded Shares	1,768,093	-	(1,768,093)	820,523	-	-
Craig Scroggie	Performance Rights	1,116,874	194,987	(505,618)	632,174	-	806,243
Craig Scroggie	Deferred Rights	-	41,503	-	-	-	41,503
Simon Cooper	Performance Rights	404,081	73,121	(174,860)	171,170	-	302,342
Simon Cooper	Deferred Rights	-	15,661	-	-	-	15,661
Oskar Tomaszewski	Performance Rights	380,832	69,871	(161,798)	158,384	-	288,905
Adam Scully	Performance Rights	317,421	60,934	(126,404)	123,737	-	251,951
Adam Scully	Deferred Rights	-	12,848	-	-	-	12,848
David Dzienciol	Performance Rights	330,156	64,996	(126,404)	123,737	-	268,748
David Dzienciol	Deferred Rights	-	13,921	-	-	-	13,921

Legacy Loan Funded Share Plan

The following table details shares that have been provided to key management personnel through the Loan Funded Share Plan:

TABLE 9: LOAN FUNDED SHARE PLAN

Name	Issue Date	Number of Loan Funded Shares Allocated	Number of Loan Funded Shares Vested	Number of Shares Exercised	Number of Shares Remaining	Average Issue Price (\$)	Average Fair Value (\$)	Total Amount of Loan (\$)
Craig Scroggie	20 Dec 2012	534,760	534,760	(534,760)	-	1.87	0.60	-
		500,000	500,000	(500,000)	-	2.00	0.53	-
		400,000	400,000	(400,000)	-	2.50	0.37	-
		333,333	333,333	(333,333)	-	3.00	0.26	-
Simon Cooper	31 Oct 2011	142,857	142,857	(142,857)	-	1.75	0.22	-
		142,857	142,857	(142,857)	-	1.75	0.35	-
		142,857	142,857	(142,857)	-	1.75	0.45	-
		142,857	142,857	(142,857)	-	1.75	0.53	-
Adam Scully	6 June 2013	50,000	50,000	(50,000)	-	2.00	0.61	-
		50,000	50,000	(50,000)	-	2.50	0.43	-
TOTAL		2,439,521	2,439,521	(2,439,521)	-	-	-	-

As part of NEXTDC's long-term incentives, eligible KMP participants had previously been offered a Loan Funded Share Plan (Share Plan).

While no further grants will be made under this plan, previous grants must be allowed to run out, and therefore this legacy incentive plan remained grandfathered during the course of FY18. NEXTDC holds the shares for the benefit of participants by issuing the shares to NEXTDC Share Plan Pty Ltd (the Trustee), a wholly-owned subsidiary of NEXTDC. Under the Share Plan, ordinary shares are issued to participants with the purchase price lent to the employee under a limited recourse loan. The loan is interest free and is provided for a maximum term of five years. The terms of the Share Plan are such that participants receive an upfront entitlement to a certain number of shares. After the participant has repaid the respective loan balance in full, shares are transferred to the participant in four annual tranches. The vesting of these shares is not dependent on performance conditions, only service conditions, which is one of the reasons that the Share Plan will no longer be used to make grants.

There were no shares in the loan funded share plan issued to key management personnel and outstanding at the end of the year (2017: 1,768,093).

The weighted average fair value of the shares has been calculated by using the Binomial Option pricing method.

Performance Rights

The following table details performance rights that have been provided to key management personnel.

TABLE 10: PERFORMANCE RIGHTS PROVIDED TO KEY MANAGEMENT PERSONNEL

Name	Financial Year Granted	Number of Performance Rights	Vested and paid during the year	Forfeited during the year	Unvested at the end of the year
Craig Scroggie	2015	505,618	(505,618)	-	-
	2016	387,931	-	-	387,931
	2017	223,325	-	-	223,325
	2018	194,987	-	-	194,987
		1,311,861	(505,618)	-	806,243
Simon Cooper	2015	174,860	(174,860)	-	-
	2016	145,474	-	-	145,474
	2017	83,747	-	-	83,747
	2018	73,121	-	-	73,121
		477,202	(174,860)	-	302,342
Oskar Tomaszewski	2015	161,798	(161,798)	-	-
	2016	139,009	-	-	139,009
	2017	80,025	-	-	80,025
	2018	69,871	-	-	69,871
		450,703	(161,798)	-	288,905
Adam Scully	2015	126,404	(126,404)	-	-
	2016	121,228	-	-	121,228
	2017	69,789	-	-	69,789
	2018	60,934	-	-	60,934
		378,355	(126,404)	-	251,951
David Dzienciol	2015	126,404	(126,404)	-	-
	2016	129,310	-	-	129,310
	2017	74,442	-	-	74,442
	2018	64,996	-	-	64,996
		395,152	(126,404)	-	268,748

The fair values of each performance right at grant date are as follows:

Financial year granted	Fair value at grant date
2015	Between \$0.98 and \$1.25
2016	\$1.25
2017	\$1.63
2018	\$3.32

Deferred Rights

The following table details deferred rights that have been provided to those key management personnel who elected to receive the deferred component of their STI in shares rather than cash.

TABLE 11: DEFERRED RIGHTS PROVIDED TO KEY MANAGEMENT PERSONNEL

Name	Financial Year Granted	Number of Deferred Share Rights	Vested and paid during the year	Forfeited during the year	Unvested at the end of the year
Craig Scroggie	2018	41,503	-	-	41,503
Simon Cooper	2018	15,661	-	-	15,661
Adam Scully	2018	12,848	-	-	12,848
David Dzienciol	2018	13,921	-	-	13,921
Total		83,933	-	-	83,933

The fair value of the deferred rights at grant date is as follows:

Financial year granted	Fair value at grant date
2018	\$4.62

Deferred rights under the Senior Executive STI Plan are granted following release of the annual results. The shares vest one year from the grant date. On vesting, each right automatically converts into one ordinary share. Senior Executives do not receive any dividends and are not entitled to vote in relation to the rights during the vesting period. If a Senior Executive ceases employment before the rights vest, they have six months from the cessation of employment or the vesting date, whichever is later, to exercise their deferred rights. Any rights not exercised in this period will automatically lapse.

The fair value of the rights is determined based on the volume weighted average trading price of the Company's shares over the 10 trading days following release of the Company's annual results.

6.4 Director and Senior Executive Shareholdings

During FY18, KMP and their related parties held shares in NEXTDC directly, indirectly or beneficially as follows:

TABLE 12: DIRECTOR AND SENIOR EXECUTIVE SHAREHOLDINGS

Holder	Opening balance	Received during the year as compensation	Received during the year on the exercise of an option or right	Other changes	Closing balance	Shares held nominally at 30 June 2018
DIRECTORS						
Douglas Flynn	148,127	-	-	4,404	152,531	152,531
Gregory J Clark AC	35,000	-	-	27,202	62,202	62,202
Stuart Davis	32,112	-	-	2,202	34,314	34,314
Sharon Warburton	-	-	-	32,202	32,202	-
SENIOR EXECUTIVES						
Craig Scroggie	1,042,043	-	2,273,711	(1,763,689)	1,552,065	379,601
Simon Cooper	81,000	-	174,860	(125,500)	130,360	11,000
Oskar Tomaszewski	-	-	161,798	(80,697)	81,101	-
Adam Scully	3,000	-	126,404	(45,000)	84,404	3,000
David Dzienciol	161,935	-	126,404	(97,798)	190,541	-

The Non-Executive Directors of the Company did not receive any shares in NEXTDC on behalf of the Company in respect of the 2017 and 2018 financial reporting periods.

Loans to Directors and Executives

Excluding loans provided under the loan funded share plan, there were no loans to Directors or other key management personnel at any time during the year.

6.5 Remuneration Received (Non-statutory)

Remuneration received in FY18

The amounts disclosed below as Senior Executive remuneration for FY18 reflect the actual benefits received by each Senior Executive during the reporting period. The remuneration values disclosed have been determined as follows:

Fixed remuneration

Fixed remuneration includes base salaries received, paid leave, payments made to superannuation funds, and the taxable value of non-monetary benefits received, and excludes any accruals of annual or long service leave.

Short-term incentives

Cash STI represents bonuses that were awarded to each Senior Executive in relation to FY18 performance, which will be paid in FY19. Starting from FY18, 50% of the STI bonuses awarded will be deferred for 12 months, with employees being able to elect whether the award will be delivered in cash or equity.

Long term incentives

The value of vested Loan Funded Share Plan (LFSP) shares and rights were determined based on the intrinsic value of the LFSP shares and rights at the date of vesting, being the difference between the share price on that date, and the exercise price payable by the Senior Executive. The LFSP shares and performance rights that vested in FY18 were granted in 2012 and 2015 respectively.

TABLE 13: REMUNERATION RECEIVED IN FY18

Name	Fixed Remuneration	Awarded STI (cash)	Vested LTI	Total Value
Craig Scroggie	1,261,966	311,850	10,348,718	11,922,534
Simon Cooper	471,966	116,325	743,155	1,331,446
Oskar Tomaszewski	450,000	111,375	687,642	1,249,017
Adam Scully	387,500	95,906	537,217	1,020,623
David Dzienciol	435,000	107,663	537,217	1,079,880
Total	3,006,432	743,119	12,853,949	16,603,500

The amounts disclosed above are not the same as the remuneration expensed in relation to each KMP in accordance with accounting standards. The Directors believe that the remuneration received is more relevant to users for the following reasons:

- The statutory remuneration expensed is based on historic cost and does not reflect the value of the equity instruments when they are actually received by the Senior Executives
- The statutory remuneration shows benefits before they are actually received by the Senior Executives
- Where rights do not vest because a market based performance condition is not satisfied (eg. TSR), the company must still recognise the full amount of expenses even though the Senior Executives will never receive any benefits
- Share based payment awards are treated differently under the accounting standards depending on whether the performance conditions are market conditions (no reversal of expense) or non-market conditions (reversal of expense when shares fail to vest), even though the benefit received by the Senior Executives is the same (nil where equity instruments fail to vest).

The information in this section has been audited together with the rest of the remuneration report.

NON-AUDIT SERVICES

The Group may decide to employ the auditor, PricewaterhouseCoopers, on assignments in addition to their statutory audit duties, where the auditor's expertise and experience with the Group are important. Details of the amounts paid or payable to the auditor for non-audit services provided during the period are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of auditor independence imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the period the following fees were paid or payable for non-audit services provided by the auditor of the Group, its related practices and non-related audit firms.

PwC Australia	2018 \$	2017 \$
(i) Taxation Services	16,710	15,710
(ii) Other Assurance Services	47,504	-
Total remuneration of PwC Australia for non-audit services	64,214	15,710

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 41.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the Directors.



Craig Scroggie

Managing Director and Chief Executive Officer

31 August 2018



Auditor's Independence Declaration

As lead auditor for the audit of NEXTDC Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of NEXTDC Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'S. Neill'.

Simon Neill
Partner
PricewaterhouseCoopers

Brisbane
31 August 2018

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Liability limited by a scheme approved under Professional Standards Legislation.

Corporate Governance

Corporate Governance is of central importance to NEXTDC and its Board of Directors (“the Board”). The Board endorses the 3rd edition of the Australian Securities Exchange (“ASX”) Corporate Governance Council’s Corporate Governance Principles and Recommendations (“ASX Principles”).

At NEXTDC, Corporate Governance means the overarching environment that supports everything the Company does. It is the combination of processes and structures implemented by the Board and Senior Executives to inform, direct, manage and monitor NEXTDC’s activities to meet its strategic objectives.

Corporate governance provides evidence to investors and Australian Securities & Investments Commission (ASIC) that the Company:

- complies with legislation such as the Corporations Act;
- meets expectations as a company listed on the ASX; and
- manages the company that is being funded by investors according to best practices.

This is important given that investors want to have confidence that the Company is being managed properly. Elements of NEXTDC’s Corporate Governance to ensure the Company stays on track to meet strategic objectives include:

- an effective risk management framework and internal controls;
- procedures, processes and structures, including policies relating to code of conduct, the stock market and business operations (e.g. Whistleblower Policy, Shareholder Communications Policy, Continuous Disclosure Policy, Environmental Policy, Information Security Policy, WHS Policy);
- regular reporting to the Board and Senior Executives from department heads to understand how NEXTDC is performing as a company and how NEXTDC is managing its risks;
- undertaking internal audits against best practice standards to independently review corporate governance, risks and controls, and implement continuous improvements if any gaps are identified; and
- ensuring a sufficient level of management and oversight. Corporate governance roles and responsibilities have been delegated to various committees and outlined in respective charters at the Board level, Senior Executive level and senior management level.

Further details on how NEXTDC’s Corporate Governance aligns with the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (3rd Ed.) and Appendix 4G can be found at <https://www.nextdc.com/our-company/corporate-governance>.



NEXTDC Limited

ABN 35 143 582 521

Financial report for the year ended 30 June 2018

Financial Report

These financial statements are the consolidated financial statements of the consolidated entity consisting of NEXTDC Limited (ABN 35 143 582 521) and its subsidiaries. NEXTDC Limited is a company limited by shares, incorporated and domiciled in Australia. The financial statements are presented in the Australian currency.

NEXTDC's registered office is:
Level 6, 100 Creek Street Brisbane Qld 4000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 31 August 2018.

The Directors have the power to amend and reissue the financial statements.

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Consolidated Statement of Comprehensive Income
For the year ended 30 June 2018

		30 June 2018 \$'000	30 June 2017 \$'000
	Note		
REVENUE FROM CONTINUING OPERATIONS			
Data centre services revenue	3	152,560	117,580
Other revenue	3	8,969	5,970
Total revenue		161,529	123,550
OTHER INCOME			
Other income		284	263
EXPENSES			
Direct costs		(27,558)	(16,603)
Employee benefits expense		(26,955)	(22,674)
Data centre facility costs	4	(24,794)	(21,475)
Depreciation and amortisation expense		(33,038)	(23,339)
Professional fees		(3,266)	(1,591)
Marketing costs		(476)	(483)
Office and administrative expenses		(9,032)	(6,044)
Finance costs	4	(25,803)	(18,777)
Profit before income tax		10,891	12,827
Income tax benefit/(expense)	21	(4,252)	10,172
Profit after income tax		6,639	22,999
PROFIT IS ATTRIBUTABLE TO:			
Owners of NEXTDC Limited		6,639	22,999
OTHER COMPREHENSIVE INCOME			
Total comprehensive income		6,639	22,999
Attributable to:			
Owners of NEXTDC Limited		6,639	22,999
		Cents	Cents
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE GROUP:			
Basic earnings per share	2	2.25	8.35
Diluted earnings per share	2	2.21	8.17

The notes following the financial statements form part of the financial report.

Consolidated Balance Sheet
As at 30 June 2018

		30 June 2018 \$'000	30 June 2017 \$'000
	Note		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		417,982	271,838
Term deposits		-	96,500
Trade and other receivables	5	37,086	16,215
Other assets	6	9,154	11,273
Total current assets		464,222	395,826
NON-CURRENT ASSETS			
Property, plant and equipment	10	679,950	434,267
Other assets	6	6,635	1,152
Intangible assets	11	12,907	8,538
Deferred tax assets	22	9,687	12,601
Available-for-sale financial assets	9	62,523	-
Total non-current assets		771,702	456,558
TOTAL ASSETS		1,235,924	852,384
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	33,217	38,612
Other liabilities	8	2,960	4,400
Finance lease liability	15	307	290
Total current liabilities		36,484	43,302
NON-CURRENT LIABILITIES			
Other liabilities		932	104
Provisions		692	429
Borrowings	15	298,104	295,973
Finance lease liability	15	5,735	6,042
Total non-current liabilities		305,463	302,548
TOTAL LIABILITIES		341,947	345,850
NET ASSETS		893,977	506,534
EQUITY			
Contributed equity	13	904,247	524,458
Reserves		6,005	4,990
Accumulated losses		(16,275)	(22,914)
TOTAL EQUITY		893,977	506,534

The notes following the financial statements form part of the financial report.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2018

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016		375,507	3,534	(45,913)	333,128
Profit for the-year		-	-	22,999	22,999
Total comprehensive income		-	-	22,999	22,999
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:					
Contributions of equity, net of transaction costs and tax	13(b)	148,951	-	-	148,951
Share-based payments - value of employee services	20(d)	-	1,456	-	1,456
Balance at 30 June 2017		524,458	4,990	(22,914)	506,534
Balance at 1 July 2017		524,458	4,990	(22,914)	506,534
Profit for the-year		-	-	6,639	6,639
Total comprehensive income		-	-	6,639	6,639
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS:					
Contributions of equity, net of transaction costs and tax	13(b)	378,567	-	-	378,567
Acquisition of treasury shares	13(g)	(165)	-	-	(165)
Share based payments - conversion of rights to shares	13(b)	1,387	(1,387)	-	-
Share-based payments - value of employee services	20(d)	-	1,963	-	1,963
Share based payments - deferred STI		-	439	-	439
Balance at 30 June 2018		904,247	6,005	(16,275)	893,977

The notes following the financial statements form part of the financial report.

Consolidated Statement of Cash Flows
For the year ended 30 June 2018

	30 June 2018 \$'000	30 June 2017 \$'000
Note		
OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	144,630	133,220
Payments to suppliers and employees (inclusive of GST)	(98,632)	(78,765)
	45,998	54,455
Interest paid	(22,127)	(13,311)
Payments for bank guarantees	1,607	(1,694)
Distributions received	1,561	-
Interest received	6,351	5,475
Net cash inflow from operating activities	23(a) 33,390	44,925
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(282,546)	(143,550)
Payments for available-for-sale financial assets	(62,523)	-
Receipts of / (payments for) term deposits	96,500	(96,500)
Payments for intangible assets	(10,246)	(5,031)
Net cash (outflow) from investing activities	(258,815)	(245,081)
FINANCING ACTIVITIES		
Proceeds from issue of Notes	-	300,000
Repayment of Notes	-	(160,000)
Transaction costs in relation to loans and borrowings	(5,486)	(5,648)
Proceeds from issues of shares and other equity securities	381,690	151,261
Transaction costs paid in relation to issue of shares	(4,345)	(4,738)
Repayment of finance lease principal amounts	23(b) (290)	(274)
Net cash inflow from financing activities	371,569	280,601
Net increase in cash and cash equivalents	146,144	80,445
Cash and cash equivalents at the beginning of the year	271,838	191,393
Cash and cash equivalents at the end of the year	417,982	271,838

The notes following the financial statements form part of the financial report.

Contents of the notes to the consolidated financial report

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Notes to the Consolidated Financial Report
30 June 2018
(continued)

The 2018 financial statements notes have been grouped into the following sections:

- Section 1 Business performance
- Section 2 Operating assets and liabilities
- Section 3 Capital and financial risk management
- Section 4 Items not recognised
- Section 5 Employee remuneration
- Section 6 Other

Each section sets out the accounting policies applied along with details of any key judgements and estimates made or information required to understand the note.

NEXTDC Limited (the Company) is domiciled in Australia. The registered office is Level 6, 100 Creek Street, Brisbane Qld 4000.

The nature of the operations and principal activities of the Company and its controlled entities (referred to as 'the Group') are described in the Segment information.

The consolidated general purpose financial statements of the Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 30 August 2018.

The financial statements:

- Have been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards as issued by the International Accounting Standards Board;
- Have been prepared on a historical cost basis, except for derivative financial instruments and environmental scheme certificates that are carried at their fair value; and trade and other receivables that are initially recognised at fair value, and subsequently measured at amortised cost less accumulated impairment losses;
- Are presented in Australian dollars and, unless otherwise stated, all values have been rounded to the nearest thousand dollars (\$'000) under the option available under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191;
- Present reclassified comparative information where required for consistency with the current year's presentation;
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2017;
- Do not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

Business performance

1 Segment performance

(a) Description of segments

Management considers the business from a geographic perspective and has identified six reportable segments, the first five being each state where the Group operates data centre facilities and the last capturing financial information from operations that do not naturally fit into any particular geography. These segments do not exist as a separate legal entity, consequently, information such as income tax expense and segment liabilities are not prepared and provided to management for review and therefore not presented.

(b) Segment information provided to management

The segment information provided to management for the reportable segments is as follows:

30 June 2018	Vic	NSW	Qld	WA	ACT	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	64,317	56,184	16,892	11,481	2,786	900	152,560
Direct and facility costs	(18,171)	(19,699)	(4,151)	(5,393)	(4,482)	(456)	(52,352)
Employee benefits expense	(1,611)	(1,196)	(1,269)	(790)	(789)	(548)	(6,203)
Other expenses	(151)	(100)	(141)	(88)	(143)	(453)	(1,076)
Segment EBITDA	44,384	35,189	11,331	5,210	(2,628)	(557)	92,929
Depreciation and amortisation	(10,273)	(9,084)	(5,049)	(2,998)	(2,252)	(1,473)	(31,129)
Finance charge	-	-	(351)	-	-	-	(351)
Segment profit/(loss) before tax	34,111	26,105	5,931	2,212	(4,880)	(2,030)	61,449
Segment assets	205,813	274,009	108,660	52,058	32,459	4,934	677,933
Unallocated assets	-	-	-	-	-	557,991	557,991
Total segment assets	205,813	274,009	108,660	52,058	32,459	562,925	1,235,924
30 June 2017	Vic	NSW	Qld	WA	ACT	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	51,315	41,004	14,697	8,306	1,700	558	117,580
Direct and facility costs	(12,851)	(13,560)	(3,105)	(4,907)	(3,634)	(21)	(38,078)
Employee benefits expense	(1,159)	(1,127)	(789)	(804)	(589)	(236)	(4,704)
Other expenses	(115)	(339)	(63)	(112)	(122)	(731)	(1,482)
Segment EBITDA	37,190	25,978	10,740	2,483	(2,645)	(430)	73,316
Depreciation and amortisation	(7,412)	(7,071)	(2,387)	(2,497)	(895)	(2,220)	(22,482)
Finance charge	-	-	(367)	-	-	-	(367)
Segment profit/(loss) before tax	29,778	18,907	7,986	(14)	(3,540)	(2,650)	50,467
Segment assets	152,792	118,222	90,420	41,561	24,413	6,864	434,272
Unallocated assets	-	-	-	-	-	418,112	418,112
Total segment assets	152,792	118,222	90,420	41,561	24,413	424,976	852,384

1 Segment performance (continued)

(b) Segment information provided to management (continued)

There was no impairment charge or other significant non-cash item recognised in 2018 (2017: nil).

(c) Other segment information

(i) Profit before tax

Management assesses the performance of the operating segments based on a measure of EBITDA. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of profit before income tax is provided as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Total segment profit before tax	61,449	50,467
Employee benefits expense (non-facility staff)	(20,752)	(17,969)
Interest revenue	5,778	5,970
Distributions from investments	3,191	-
Other income	284	263
Finance costs	(25,452)	(18,410)
Head office depreciation	(1,909)	(857)
Overheads and other expenses	(11,698)	(6,637)
Profit before tax	10,891	12,827

A reconciliation of depreciation and amortisation is provided as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Segment depreciation and amortisation expense	31,129	22,482
Head office depreciation and amortisation expense	1,909	857
Total depreciation and amortisation expense	33,038	23,339

(ii) Segment liabilities

As noted above, the segment liabilities for each operating segment are not required by executive management for purposes of their decision making. As such, these are not provided to management and not categorised.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive management team. The executive team is responsible for allocating resources and assessing performance of the operating segments. The executive team is the chief operating decision making body and consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Customer Officer and Executive Vice-President of Technology, as well as Chief Sales Officer.

2 Earnings per share

(a) Earnings per share

	30 June 2018 Cents	30 June 2017 Cents
Total basic EPS attributable to the ordinary equity holders of the Group	<u>2.25</u>	8.35

(b) Diluted earnings per share

Total diluted EPS attributable to the ordinary equity holders of the Group	<u>2.21</u>	8.17
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(c) Reconciliation of earnings used in calculating earnings per share

	30 June 2018 \$'000	30 June 2017 \$'000
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BASIC EARNINGS PER SHARE

Profit attributable to equity holders of the Group used in calculating basic EPS:

Profit used in calculating basic earnings per share	<u>6,639</u>	<u>22,999</u>
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DILUTED EARNINGS PER SHARE

Profit from continuing operations attributable to the equity holders of the Group:

Used in calculating diluted earnings per share	<u>6,639</u>	<u>22,999</u>
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Profit attributable to the equity holders of the Group used in calculating diluted EPS

	<u>6,639</u>	<u>22,999</u>
--	--------------	---------------

(d) Weighted average number of shares used as the denominator

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>295,208,799</u>	275,298,500
Plus potential ordinary shares	<u>4,943,617</u>	6,084,962
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>300,152,416</u>	<u>281,383,462</u>

(e) Information concerning the classification of securities

(i) Performance rights and deferred rights

Performance rights and deferred rights are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share. However, they are not included in the calculation where the inclusion would result in decreased earnings per share.

(ii) Loan funded shares

For the purposes of diluted earnings per share calculations, loan funded shares granted to employees are considered potential ordinary shares and have been included in the calculation of diluted earnings per share. However, they are not included in the calculation where the inclusion would result in decreased earnings per share.

2 Earnings per share (continued)

(f) Earnings per share

(i) Basic earnings per share

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) 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 weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Revenue and other income

	30 June 2018 \$'000	30 June 2017 \$'000
FROM CONTINUING OPERATIONS		
Data centre services revenue	152,560	117,580
Interest income	5,778	5,970
Distributions from investments	3,191	-
Subtotal - other revenue	8,969	5,970
Total revenue	161,529	123,550

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities are as follows:

(i) Data centre services

Revenue is recognised only when the service has been provided, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Upfront discounts provided to customers are amortised over the contract term - refer to Note 6(b).

(ii) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iii) Distributions from investments

Distributions from investments are recognised as revenue when the right to receive payment is established.

4 Expenses

	Note	30 June 2018 \$'000	30 June 2017 \$'000
EXPENSE			
Finance costs	4(a)	(25,803)	(18,777)
Data centre rent paid to APDC	4(b)	(13,785)	(13,393)

(a) Finance costs

At 30 June 2018, the Group had \$300 million in unsecured notes (Notes III) on issue, carrying an annual coupon rate of 6.25% paid semi-annually. Although these Notes are due 9 June 2021, the Group may repay as early as 9 June 2019, and each six months thereafter. Regardless of when Notes III is redeemed, an additional 1.5% interest will also be payable on redemption. In addition, the Group may at any time prior to 9 June 2019, redeem all or part of the Notes, upon not less than 7 days and no more than 60 days prior notice.

(b) Data centre rent paid to APDC

Asia Pacific Data Centre ("APDC") is the landlord of three of NEXTDC's data centre facilities: M1 Melbourne, S1 Sydney and P1 Perth. Throughout the year, NEXTDC paid rent and ancillary amounts to APDC totalling \$13.8 million (2017: \$13.4 million). The payments relate to the three operating leases for the facilities. These leases expire in 2027 and have options for a further 2 x 10 years and 1 x 5 years. Data centre rent is included in the Consolidated Statement of Comprehensive Income in Data centre facility costs.

Operating assets and liabilities

5 Trade and other receivables

		30 June 2018 \$'000	30 June 2017 \$'000
Note			
Trade receivables		36,522	14,151
Provision for impairment	5(a)	(1,254)	(242)
		35,268	13,909
Interest receivable	5(c)	27	600
GST receivable		162	1,689
Other receivables		1,629	17
Total		37,086	16,215

(a) Impaired trade receivables

The ageing of these receivables is as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
1 to 3 months	126	33
4 months or greater	1,128	209
Total impaired trade receivables	1,254	242

Movements in the provision for impairment of receivables are as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Opening balance	242	983
Provision for impairment recognised during the year	1,166	198
Receivables written off during the year as uncollectible	(74)	(491)
Unused amount reversed	(80)	(448)
Closing balance	1,254	242

(b) Past due but not impaired

As at 30 June 2018, trade receivables of approximately \$5.8 million (2017: \$0.8 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Up to 3 months	5,291	382
More than 3 months	537	457
Total past due but not impaired	5,828	839

5 Trade and other receivables (continued)

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these other receivables.

(c) Interest receivable

Interest receivable relates to interest accrued on term deposits. Credit risk of this is assessed in the same manner as cash and cash equivalents which is detailed in Note 14.

(d) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Consolidated Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

6 Other assets

		30 June 2018 \$'000	30 June 2017 \$'000
	Note		
CURRENT			
Prepayments		3,827	4,333
Security deposits	6(a)	4,151	5,758
Customer incentives	6(b)	764	893
Other current assets		412	289
Total other assets - current		9,154	11,273
NON-CURRENT			
Customer incentives	6(b)	1,145	1,152
Prepayments		5,490	-
Total other assets - non-current		6,635	1,152

(a) Security deposits

Included in the security deposits was \$4.2 million (2017: \$5.8 million) relating to deposits held as security for bank guarantees.

6 Other assets (continued)

(b) Customer incentives

Where customers are offered incentives in the form of free or discounted periods, the dollar value of the incentive is capitalised and amortised on a straight-line basis over the life of the contract.

7 Trade and other payables

	30 June 2018 \$'000	30 June 2017 \$'000
Trade payables	27,640	14,116
Accrued capital expenditure	575	20,397
Accrued expenses	2,114	1,818
Other creditors	2,888	2,281
Total trade and other payables	33,217	38,612

Risk exposure

As all payables are in Australian dollars, management does not believe there are any significant risks in relation to these financial liabilities. Refer to Note 14 for details of the Group's financial risk management policies.

Recognition and measurement

Trade and other payables, including accruals, are recorded when the Group is required to make future payments as a result of purchases of assets or services. Trade and other payables are financial liabilities initially recognised at fair value and carried at amortised cost using the effective interest method.

8 Other liabilities

	30 June 2018 \$'000	30 June 2017 \$'000
CURRENT		
Other liabilities	2,960	4,400

(a) Other liabilities

Included in other liabilities are payments received from customers in advance of services and in some circumstances, potential overpayments from customers. If the overpayments or credits relating to future services are not expected to be used by customers in the ordinary course of business, NEXTDC may settle the liability by repaying the excess amount.

9 Available-for-sale financial assets

	30 June 2018 \$'000	30 June 2017 \$'000
Non-current assets		
Listed securities	62,523	-
Equity securities	62,523	-

9 Available-for-sale financial assets (continued)

(i) Classification of financial assets as available-for-sale

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Impairment indicators for available-for-sale financial assets

A security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. See note 25(i) for further details about the Group's impairment policies for financial assets.

(iii) Fair value of investments

The Company holds 29.2% of the quoted securities of Asia Pacific Data Centres ("APDC"), but judgement exists in accounting for the asset as an available-for-sale financial asset as opposed to an associate. An investment is accounted for as an associate only where significant influence can be demonstrated. Significant influence over APDC could not be demonstrated due to; the presence of a controlling security holder, no NEXTDC representation on the Board of APDC and observable market interactions between the Company and APDC. Given that the Company is unable to exert significant influence using its security holding, it has been determined that the investment should be accounted for as an available-for-sale financial asset. The available-for-sale financial asset has been recognised at fair value, which approximates \$1.86 per security. Quoted equity prices have not been solely relied upon in determining fair value due to low trading volumes, due in part to 96.5% of total securities being held by only two parties. In the absence of an active market, the Company has determined that \$1.86 is an appropriate estimate of fair value.

(iv) Significant estimates

Management believes that the carrying value of its investment in Asia Pacific Data Centres (ASX: AJD) at approximately \$1.86 per security, is an approximate basis for fair value.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. These have been used to compute a range of fair value outcomes, the significant inputs of which include observable market information and have been used to determine the adopted fair value. The ongoing dispute with the controlling security holder has also been considered, however its impact on the fair value was not significant.

(v) Recognised fair value measurements

(i) Fair value hierarchy

Recurring fair value measurements At 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Available-for-sale financial assets				
Equity securities – property sector	-	62,523	-	62,523
Total financial assets	-	62,523	-	62,523
Recurring fair value measurements At 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Total financial assets	-	-	-	-

9 Available-for-sale financial assets (continued)

(v) *Recognised fair value measurements (continued)*

(i) *Fair value hierarchy (continued)*

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded securities in a liquid market) is based on quoted market prices at the end of the reporting year. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or thinly traded securities) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

10 Property, plant and equipment

Movements	Assets in the course of construction \$'000	Land and buildings \$'000	Plant and machinery \$'000	Computer equipment \$'000	Office furniture and equipment \$'000	Total \$'000
30 June 2018						
Opening net book amount	135,812	15,659	277,115	4,957	724	434,267
Additions	277,279	-	1,098	195	45	278,617
Depreciation charge	-	(1,798)	(26,813)	(2,363)	(275)	(31,249)
Disposal	-	-	(79)	(827)	(35)	(941)
Transfers	(320,036)	189,120	124,308	5,854	754	-
Transfers between classes	-	-	-	(744)	-	(744)
Closing net book amount	93,055	202,981	375,629	7,072	1,213	679,950
Cost	93,055	207,537	460,356	12,891	1,999	775,838
Accumulated depreciation	-	(4,556)	(84,727)	(5,819)	(786)	(95,888)
Net book amount	93,055	202,981	375,629	7,072	1,213	679,950
30 June 2017						
Opening net book amount	62,859	16,146	217,127	5,695	919	302,746
Additions	153,809	-	22	185	13	154,029
Depreciation charge	-	(487)	(19,390)	(2,248)	(226)	(22,351)
Disposal	(157)	-	-	-	-	(157)
Transfers	(80,699)	-	79,356	1,325	18	-
Closing net book amount	135,812	15,659	277,115	4,957	724	434,267
Cost or fair value	135,812	18,420	338,005	11,062	1,800	505,099
Accumulated depreciation	-	(2,761)	(60,890)	(6,105)	(1,076)	(70,832)
Net book amount	135,812	15,659	277,115	4,957	724	434,267

10 Property, plant and equipment (continued)

LEASED ASSETS

Buildings include the following amounts where the Group is a lessee under a finance lease:

	30 June 2018 \$'000	30 June 2017 \$'000
Buildings – at cost	7,665	7,665
Accumulated depreciation	(2,595)	(2,213)
Net book amount	5,070	5,452

(a) Property, plant and equipment

Land and buildings are shown at historical cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the lease term (if shorter) as follows:

Category	Useful life
Leasehold building	20 years
Plant and machinery	2-25 years
Computer equipment	1-15 years
Office furniture and equipment	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Consolidated Statement of Comprehensive Income.

(b) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the 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 property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

10 Property, plant and equipment (continued)

(b) Leases (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 16). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the year of the lease.

11 Intangible assets

	30 June 2018 \$'000	30 June 2017 \$'000
Rights and licences	13	43
Internally generated software	6,385	442
Software under development	6,509	8,053
Total intangible assets	12,907	8,538

Movements	Rights and licences \$'000	Internally generated software \$'000	Software under development \$'000	Total \$'000
30 June 2018				
Opening net book amount at 1 July 2017	43	442	8,053	8,538
Additions – externally acquired	13	-	5,253	5,266
Additions – internally developed	-	-	1,256	1,256
Amortisation	(43)	(1,746)	-	(1,789)
Transfers	-	7,563	(7,563)	-
Transfers between classes	-	744	-	744
Disposals	-	(618)	(490)	(1,108)
Closing net book amount	13	6,385	6,509	12,907

At 30 June 2018				
Cost	104	9,555	6,509	16,168
Accumulated amortisation	(91)	(3,170)	-	(3,261)
Net book amount	13	6,385	6,509	12,907

30 June 2017				
Opening net book amount at 1 July 2016	58	901	3,335	4,294
Additions – externally acquired	-	-	4,053	4,053
Additions – internally developed	-	-	1,179	1,179
Amortisation	(15)	(973)	-	(988)
Transfers	-	514	(514)	-
Closing net book amount	43	442	8,053	8,538

At 30 June 2017				
Cost	91	1,866	8,053	10,010
Accumulated amortisation	(48)	(1,424)	-	(1,472)
Net book amount	43	442	8,053	8,538

11 Intangible assets (continued)

(a) Intangible assets

RIGHTS AND LICENCES

Certain licences that NEXTDC possesses have an indefinite useful life and are carried at cost less impairment losses and are subject to impairment review at least annually and whenever there is an indication that it may be impaired.

Other licences that NEXTDC acquires are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

INTERNALLY GENERATED SOFTWARE

Internally developed software is capitalised at cost less accumulated amortisation. Amortisation is calculated using the straight-line basis over the asset's useful economic life which is generally two to three years. Their useful lives and potential impairment are reviewed at the end of each financial year.

SOFTWARE UNDER DEVELOPMENT

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and services and employee costs.

Assets in the course of construction include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Capital and financial risk management

12 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In future, the Directors may pursue funding options such as debt, sale and leaseback of assets, additional equity and various other funding mechanisms as appropriate in order to undertake its projects and deliver optimum shareholders' return.

The Group intends to maintain a gearing ratio appropriate for a company of its size and growth.

	30 June 2018 \$'000	30 June 2017 \$'000
Total borrowings	304,146	302,306
Less: cash, cash equivalents and term deposits	(417,982)	(271,838)
Net debt (surplus cash)	(113,836)	30,468
Total equity	893,977	506,534
Total capital	780,141	537,002
Gearing ratio	-%	6.0%

The Group manages its capital structure by regularly reviewing its gearing ratio to ensure it maintains an appropriate level of gearing within facility covenants. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial liabilities, less cash and cash equivalents and term deposits. Total capital is calculated as equity, as shown in the Consolidated Balance Sheet, plus net debt.

13 Contributed equity

(a) Share capital

		30 June 2018 Number of Shares	30 June 2018 \$	30 June 2017 Number of Shares	30 June 2017 \$
Fully paid ordinary shares	13(c)	342,252,120	904,247,017	284,197,434	524,458,284
Treasury shares - LFSP	13(e)	861,813	1,851,502	2,769,602	6,202,000
Treasury shares - EST		21,608	165,000	-	-
Total share capital		343,135,541	906,263,519	286,967,036	530,660,284

13 Contributed equity (continued)

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	\$'000
	Opening balance		247,784,282	382,484
14 September 2016	Issue of capital - institutional investors	(c)	39,182,754	150,484
14 September 2016	Transaction costs		-	(4,737)
	Conversion of loan funded shares	(e)	411,428	776
	Adjustment from loan funded shares	(e)	(411,428)	(776)
30 June 2017	Deferred tax credit recognised directly in equity		-	2,429
	Sub-total		286,967,036	530,660
30 June 2017	Less shares held by NEXTDC Share Plan Pty Ltd	(e)	(2,769,602)	(6,202)
	Balance		284,197,434	524,458

Date	Details	Note	Number of shares	\$'000
	Opening balance		286,967,036	530,660
14 September 2017	Conversion of rights to shares	(d)	1,273,812	1,387
23 April 2018	Issue of capital - institutional investors	(c)	21,581,399	146,969
23 April 2018	Issue of capital - institutional investor	(c)	21,489,972	150,000
22 May 2018	Issue of capital - share purchase plan	(c)	11,801,714	80,370
	Transaction costs		-	(4,460)
30 June 2018	Deferred tax credit recognised directly in equity		-	1,338
	Conversion of loan funded shares	(e)	1,907,789	4,350
	Adjustment from loan funded shares	(e)	(1,907,789)	(4,350)
	Sub-total		343,113,933	906,264
	Less shares held by NEXTDC Share Plan Pty Ltd	(e)	(861,813)	(1,852)
	Less shares held by NEXTDC Employee Share Plan Trust	(g)	(21,608)	(165)
30 June 2018	Balance		342,230,512	904,247

(c) Ordinary shares

On 23 April 2018, the Group issued 21,581,399 ordinary shares to institutional investors, and 21,489,972 ordinary shares to an institutional investor at an average price of \$6.81 and \$6.98 respectively. On 22 May 2018, the Group issued an additional 11,801,714 ordinary shares under the Share Purchase Plan for a price of \$6.81 per share.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

13 Contributed equity (continued)

(d) Performance Rights

Performance Rights, which subject to satisfaction of a performance hurdle, give rise to an entitlement to the value of an ordinary share in NEXTDC Limited. The Board has discretion to determine if the value will be provided in shares, cash or a combination of shares and cash. The Board determined that 100% of the FY15 LTI would vest in shares, with 1,273,812 shares issued to employees on 14 September 2017.

(e) Loan funded share plan

The Group operates a Loan Funded Share Plan remuneration scheme to attract and retain key employees. The arrangement involves the issue of shares to NEXTDC Share Plan Pty Ltd, whose sole purpose is to hold shares as trustee for its beneficiaries (its participants). The participants are required to meet service requirements before being entitled to access these shares.

Further, the participants are required to repay the loan to the subsidiary in order to access the shares. Consequently, until such time that the participants repay the loan, there is no flow of cash to the Group.

Due to the structure of the plan, in particular the use of a limited recourse loan, the Accounting Standards require that grants be treated the same as the issue of an option and do not permit the recognition of a loan balance.

The fair value at grant date of the shares was determined using either a Black-Scholes or binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the loan. The assessed fair value is recognised as share-based payments.

The 861,813 (2017: 2,769,602) ordinary shares on issue at the end of the year are subject to dealing restrictions until the loan is repaid. Due to the loan being limited recourse, equity contributions are recognised on receipt of loan repayments. Loan repayments of \$4,349,998 were received during the year (2017: \$776,249).

	30 June 2018	30 June 2017
Number of loan-funded shares held by key management personnel	-	1,768,093
Number of shares held by other staff	-	139,696
Shares held by the Trust but not allocated	861,813	861,813
Total number of loan-funded shares	861,813	2,769,602

(f) Dividend reinvestment plan

The Group does not have a dividend reinvestment plan in place.

(g) Other equity

	Note	2018 Shares	2017 Shares	30 June 2018 \$'000	30 June 2017 \$'000
Treasury shares	(g)(i)	(21,608)	-	(165)	-
				(165)	-

(i) Treasury shares

Treasury shares are shares in NEXTDC Limited that are held by the NEXTDC Employee Share Plan Trust for the purpose of issuing shares under the NEXTDC Limited Employee share scheme and the executive short-term incentive (STI) and long-term incentive (LTI) schemes. Shares issued to employees are recognised on a first-in-first-out basis.

13 Contributed equity (continued)

(g) Other equity (continued)

(i) Treasury shares (continued)

Details	Number of shares	\$'000
Balance 30 June 2017	-	-
Acquisition of shares by the Trust	(21,608)	(165)
Balance 30 June 2018	(21,608)	(165)

14 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price 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.

At 30 June 2018, NEXTDC had an undrawn A\$300 million Syndicated Senior Secured Debt Facility.

The Group's purchases are predominantly conducted in Australian dollars. Overall, management assesses the Group's exposure to financial risk as low. However, the Group does have a financial risk management program in place.

The Group holds the following financial instruments:

	30 June 2018 \$'000	30 June 2017 \$'000
FINANCIAL ASSETS		
Cash and cash equivalents	417,982	271,838
Term deposits	-	96,500
Trade and other receivables	37,086	16,215
Available-for-sale financial assets	62,523	-
Total financial assets	517,591	384,553
FINANCIAL LIABILITIES		
Trade and other payables	33,217	38,612
Unsecured notes	298,104	295,973
Finance lease liabilities	6,042	6,332
Total financial liabilities	337,363	340,917

(a) Market risk

Market risk is the risk that the fair value or 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 currently only operates in Australia and its purchases are predominantly conducted in Australian dollars. Consequently, management has determined that the Group has little exposure to foreign exchange risk. On this basis, the Group does not have any active risk mitigation strategies in relation to foreign exchange risk.

(ii) Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the Consolidated Balance Sheet as available-for-sale.

14 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from its various fixed-rate term deposits and its senior debt facility (refer to Note 15(b)) which remained undrawn at 30 June 2018.

The interest rate for the Group's Notes III unsecured notes and finance lease liability are fixed consequently the interest rate risk in relation to these instruments is limited.

SENSITIVITY

At 30 June 2018, if interest rates had increased by 100 basis points or decreased by 100 basis points from the year end rates with all other variables held constant, post-tax profit for the period would have been \$2,023,144 higher / \$2,023,144 lower (2017: \$1,857,560 higher / \$1,857,560 lower), mainly as a result of higher/lower interest income from cash and cash equivalents and term deposits.

(b) Credit risk

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

(i) Cash and cash equivalents

Deposits are placed with Australian banks or independently rated parties with a minimum rating of 'BBB+'. To reduce exposure deposits are placed with a variety of financial institutions.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	30 June 2018 \$'000	30 June 2017 \$'000
CASH AT BANK AND SHORT-TERM DEPOSITS		
A rated	-	25,000
AA rated	417,981	343,337
TOTAL	417,981	368,337

In determining the credit quality of these financial assets, NEXTDC has used the long-term rating from Standard & Poor's as of July 2018.

(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. Outstanding customer receivables are monitored regularly.

The Group aims to minimise concentration of credit risk by undertaking transactions with a large number of customers. In addition, receivable balances are monitored on an ongoing basis with the intention that the Group's exposure to bad debts is minimised. The analysis of impairment is presented in Note 5.

Revenues from data centre services of \$44.4 million were derived from one customer (2017: \$37.9 million from one customer) whose revenue comprised more than 29% (2017: 32%) of total data centre services revenue.

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of the financial assets mentioned above and each class of receivable disclosed in Note 5. The Group does not require collateral in respect of financial assets.

(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.

14 Financial risk management (continued)

(c) Liquidity risk (continued)

At the end of the year, the Group held no term deposits (2017: \$96.5 million).

Management also actively monitors rolling forecasts of the Group's cash and term deposits.

(i) *Maturities of financial liabilities*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual Maturities of Financial Liabilities	Within 12 months	Between 1 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000
2018					
Trade payables	27,640	-	-	27,640	27,640
Unsecured notes	18,750	342,000	-	360,750	298,104
Lease liabilities	641	2,565	5,451	8,657	6,042
Total non-derivatives	47,031	344,565	5,451	397,047	331,786
2017					
Trade payables	14,116	-	-	14,116	14,116
Unsecured notes	18,750	360,750	-	379,500	295,973
Lease liabilities	641	2,565	6,092	9,298	6,332
Total non-derivatives	33,507	363,315	6,092	402,914	316,421

The cash flows for unsecured notes assume that the early redemption options would not be exercised by the Group.

(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.

(ii) *Borrowings*

The fair value of borrowings is disclosed in Note 15(d) and Note 15(e).

15 Borrowings

	Note	30 June 2018 \$'000	30 June 2017 \$'000
CURRENT			
Finance lease - secured		307	290
NON-CURRENT			
Finance lease liability		5,735	6,042
Unsecured notes	15(a)	298,104	295,973
Total borrowings		303,839	302,015
Total borrowings		304,146	302,305

(a) Unsecured Notes

At 30 June 2018, the Group had \$300 million in Notes III on issue, carrying an annual coupon rate of 6.25% paid semi-annually. Although these Notes are due 9 June 2021, the Group may repay as early as 9 June 2019, and each six months thereafter. Regardless of when Notes III is redeemed, an additional 1.5% interest will also be payable on redemption.

In addition, the Group may at any time prior to 9 June 2019, redeem all or part of the Notes, upon not less than 7 days nor more than 60 days prior notice.

(b) Bank Loan

At 30 June 2018, NEXTDC had an undrawn A\$300 million Syndicated Senior Secured Debt Facility.

The Company intends to use the majority of this facility to fund future growth capital expenditure for its existing facilities and for developments that the Company is planning.

(c) Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during the 2018 financial year (2017: complied).

(d) Fair value – bank borrowings

Whilst NEXTDC has an existing \$300.0 million bank facility, the facility remained undrawn as at 30 June 2018.

(e) Fair value – unsecured notes

Material differences are identified for the following borrowings:

	2018		2017	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Unsecured notes	298,104	304,500	295,973	304,500

15 Borrowings (continued)

(f) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Items not recognised

16 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting year but not recognised as liabilities is as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Property, plant and equipment	146,890	65,539
Total capital commitments	146,890	65,539

(b) Lease commitments: Group as lessee

(a) Non-cancellable operating leases

The Group leases its M1, S1, P1 and C1 data centres under 15-year non-cancellable operating leases in addition to various offices under non-cancellable operating leases expiring within five years. The leases have varying terms, escalation clauses and renewal rights. The Group's leases of M1, S1 and P1 each have consecutive option terms of 10 years, 10 years and 5 years (total 25 years). Further, the rent increases by CPI each year and is subject to market review on the fifth and tenth year of the lease term.

	30 June 2018 \$'000	30 June 2017 \$'000
Within one year	19,442	17,401
Later than one year but not later than 5 years	76,285	68,754
Later than 5 years	115,336	102,924
Total lease commitments	211,063	189,079

Not included above are contingent rental payments which may arise annually in line with rises in the consumer price index.

16 Commitments (continued)

(b) Lease commitments: Group as lessee (continued)

(ii) Finance leases

The land and building of the Group's Brisbane B1 data centre facility is currently under finance lease. The lease period is for an initial term of 20 years, which can be extended with a further four 5-year options.

	30 June 2018 \$'000	30 June 2017 \$'000
Within one year	641	641
Later than one year but not later than 5 years	2,565	2,565
Later than 5 years	5,451	6,092
Minimum lease payments	8,657	9,298
Future finance charges	(2,615)	(2,966)
Recognised as a liability	6,042	6,332

The present value of finance lease liabilities is as follows:

Within one year	307	290
Later than one year but not later than 5 years	1,417	1,339
Later than 5 years	4,318	4,703
Total finance lease liabilities	6,042	6,332

17 Contingencies

(a) Contingent assets

The Group did not have any contingent assets during the year or as at the date of this report.

(b) Contingent liabilities

The Group did not have any contingent liabilities during the year or as at the date of this report.

GUARANTEES

For information about guarantees given by entities within the Group, please refer to Note 6(a).

18 Events occurring after the reporting period

In July 2018, the Group issued a further \$300 million in unsecured notes ("Notes IV"), comprising of a floating rate tranche of \$200 million priced at 3.75% over 3-month BBSW and a fixed rate tranche of \$100 million at 6.0%. Notes IV is complementary to the \$300 million fixed rate Notes III issued by the Company in May 2017, albeit a different maturity date of June 2022, compared to June 2021 for Notes III.

Employee remuneration

19 Key management personnel

(a) Key management personnel compensation

	30 June 2018 \$	30 June 2017 \$
Short-term employee benefits	5,020,373	4,633,353
Post-employment benefits	170,797	157,424
Long-term benefits	322,510	190,618
Share-based payments	1,136,611	1,008,949
Total key management personnel compensation	6,650,291	5,990,344
Comprising		
Senior Executives	5,951,791	5,426,010
Non-Executive Directors	698,500	564,334
Total	6,650,291	5,990,344

Detailed remuneration disclosures are provided in the Remuneration Report.

(b) Loans to key management personnel

Except for the loans provided to key management personnel in respect of the Loan Funded Share Plan, there were no other loans made to key management personnel during the year (2017: nil).

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year (2017: nil).

20 Share-based payments

(a) Performance rights

The performance rights plan was established by the Board of Directors to provide long-term incentives to the Group's Senior Executives based on total shareholder returns (TSR) taking into account the Group's financial and operational performance. Under the Plan, eligible participants may be granted performance rights on terms and conditions determined by the Board from time to time. Performance rights were granted during the course of FY16, FY17 and FY18. The vesting conditions for the FY16 grant relate to TSR exceeding the All-Ordinaries Accumulation Index over the measurement period. The vesting conditions for the FY17 and FY18 grants relate to TSR exceeding the ASX 200 Accumulation Index over the measurement period. Vesting of the rights will be tested on or around 30 June 2018, 2019, and 2020 respectively.

Performance rights are granted by the Company for nil consideration. The Board has discretion to determine if the value will be provided in shares, cash or a combination of shares and cash. Rights granted under the plan carry no dividend or voting rights.

The fair value of the rights at the date of valuation, ignoring vesting conditions, was determined to be equal to the volume weighted-average price (VWAP) ending on the day before the grant date, less the dividends expected over the period from the expected grant date to the completion of the measurement period. This value was confirmed using the Black-Scholes Option Pricing Model.

20 Share-based payments (continued)

(a) Performance rights (continued)

	30 June 2018 Number of Rights	30 June 2018 Average Fair Value	30 June 2017 Number of Rights	30 June 2017 Average fair value
Opening balance	3,460,195	\$1.26	2,616,301	\$1.13
Granted during the year	762,577	\$3.32	887,225	\$1.63
Vested during the year	(1,273,812)	\$1.09	-	\$0.00
Forfeited during the year	-	\$0.00	(43,331)	\$1.11
Closing balance	2,948,960	\$1.87	3,460,195	\$1.26

(b) Loan Funded Share Plan

Shares have been issued to NEXTDC Share Plan Pty Ltd, a wholly-owned subsidiary of NEXTDC Limited as part of the Group's Loan Funded Share Plan remuneration scheme to attract and retain key employees. The arrangement involved the issue of shares to NEXTDC Share Plan Pty Ltd, whose sole purpose is to hold shares as trustee for its beneficiaries (its participants). The participants are required to meet service requirements before being entitled to access these shares. Further, the participants are required to repay the loan to the subsidiary in order to access the shares. Consequently, until such time that the participants repay the loan, there is no flow of cash to the Group.

	30 June 2018 Number of Shares	30 June 2018 Average Exercise Price	30 June 2017 Number of Shares	30 June 2017 Average Exercise Price
As at 1 July	1,907,789	\$2.28	2,319,217	\$2.21
Granted during the year	-	-	-	-
Settled/repaid during the year	(1,907,789)	\$2.28	(411,428)	\$1.89
As at 30 June (allocated to employees)	-	\$0.00	1,907,789	\$2.28
Vested and exercisable at 30 June	-	\$0.00	1,907,789	\$2.28

The total number of shares in the loan funded share plan issued to employees reconciles to the total number of shares in the loan funded share plan on issue as follows:

	30 June 2018	30 June 2017
Number of loan funded shares issued to employees	-	1,907,789
Number of loan funded shares unallocated	861,813	861,813
Total number of loan funded shares on issue	861,813	2,769,602

20 Share-based payments (continued)

(c) Deferred shares - executives short-term incentive scheme

Under the Group's short-term incentive (STI) scheme for FY17, executives received 67% of the annual STI achieved in cash, with 33% deferred for 12 months. Employees were able to elect whether the deferred component would be delivered in cash or equity. For FY18, this will increase to 50% deferred STI. The FY17 tranche of deferred rights were granted in September 2017 and will vest on or around September 2018, being 12 months after the date on which they were granted. They automatically convert into one ordinary share each on vesting at an exercise price of nil. The executives do not receive any dividends and are not entitled to vote in relation to the deferred shares during the vesting period. If an executive ceases to be employed by the Group within this period, they will have 6 months from cessation of employment or the vesting date (whichever is later) to exercise the deferred share right. Any rights not exercised within this period will automatically lapse.

The number of rights to be granted was determined based on the currency value of the achieved STI divided by the volume weighted-average price at which the Company's shares were traded on the Australian Securities Exchange over the 10 days following the release of the Group's FY17 results, being \$4.62.

	2018	2017
Number of rights to deferred shares granted	95,103	-

(d) Expenses arising from share-based payment transactions

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

	30 June 2018 \$'000	30 June 2017 \$'000
Loan funded shares	-	18
Performance rights	1,798	1,438
Shares issued under employee share scheme	165	-
Total expenses arising from share-based payment transactions	1,963	1,456

Other

21 Income tax

Income tax expense

	30 June 2018 \$'000	30 June 2017 \$'000
<i>Current tax</i>		
Current tax on profits for the year	3,935	4,424
Under / (over) provision in prior years	(63)	-
Sub-total	3,872	4,424
<i>Deferred income tax</i>		
Decrease / (increase) in deferred tax assets less deferred tax credited to equity	707	(14,368)
(Decrease) in deferred tax liabilities	(327)	(228)
Sub-total	380	(14,596)

Income tax expense is attributable to:

Profit from continuing operations	4,252	(10,172)
Profit from continuing operations	4,252	(10,172)

Numerical reconciliation of income tax expense to prima facie tax payable

	30 June 2018 \$'000	30 June 2017 \$'000
Profit from continuing operations before income tax expense	10,891	12,827
Tax credit at the Australian tax rate of 30%	3,267	3,848
<i>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</i>		
Non-deductible expenses	79	18
Share-based payments	589	437
Recognition of previously unrecognised timing differences	-	(1,851)
Recognition of unused tax losses as a tax benefit	-	(12,624)
Non-deductible borrowing expense write-off	337	-
Adjustments for current tax of prior periods	(63)	-
Sundry items	43	-
Income tax expense	4,252	(10,172)

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate in Australia adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Australia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

21 Income tax (continued)

Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

22 Deferred tax

(a) Deferred tax assets

	30 June 2018 \$'000	30 June 2017 \$'000
The balance comprises temporary differences attributable to:		
Tax losses	4,328	8,200
Black-hole expenditure deductible in future years	2,555	2,159
Finance lease provisions	1,813	1,900
Employee benefits	1,626	1,296
Borrowing costs	-	253
Provisions for doubtful debts	376	73
Expenses deductible in future years	172	166
Revenue received in advance	919	983
Total deferred tax assets	11,789	15,030
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 22(b))	(2,102)	(2,429)
Net deferred tax assets	9,687	12,601

(b) Deferred tax liabilities

	30 June 2018 \$'000	30 June 2017 \$'000
The balance comprises temporary differences attributable to:		
Accrued interest	8	180
Finance lease asset	1,521	1,636
Customer incentives	573	613
Total deferred tax liabilities	2,102	2,429
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 22(a))	(2,102)	(2,429)
Net deferred tax liabilities	-	-

23 Cash flow information

(a) Reconciliation of profit after income tax to net cash inflow from operating activities

	30 June 2018 \$'000	30 June 2017 \$'000
Profit for the year after income tax	6,639	22,784
Depreciation and amortisation	33,038	23,339
Non-cash employee benefits expense share-based payments	1,798	1,456
Net (gain) loss on disposal of non-current assets	280	-
CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) / decrease in trade debtors	(19,197)	1,778
(Increase) / decrease in prepayments and other current assets	(2,431)	561
(Increase) / decrease in interest receivable	573	(495)
(Increase) / decrease in cash used in bank guarantee	1,607	(1,694)
(Increase) / decrease in other assets	(301)	197
(Increase) / decrease in GST	589	(409)
(Increase) / decrease in deferred tax assets	4,252	(9,957)
Decrease / (increase) in customer incentives	136	872
Decrease / (increase) in trade payables	1,920	(723)
Decrease / (increase) in other operating liabilities	(479)	953
Decrease / (increase) in employee entitlements	1,655	1,073
Decrease / (increase) in interest payable	3,311	5,190
Net cash inflow from operating activities	33,390	44,925

(b) Net debt reconciliation

	30 June 2018 \$'000	30 June 2017 \$'000
Net debt		
Cash and cash equivalents	417,982	271,838
Borrowings - repayable within one year (including overdraft)	(307)	(290)
Borrowings - repayable after one year	(303,839)	(302,016)
Net debt	113,836	(30,468)
Cash and liquid investments	417,982	271,838
Gross debt - fixed interest rates	(304,146)	(302,306)
Net debt	113,836	(30,468)

23 Cash flow information (continued)

(b) Net debt reconciliation (continued)

	Other assets	Liabilities from financing activities			
		Finance leases due within 1 year	Finance leases due after 1 year	Borrow. due after 1 year	Total
	Cash \$'000	\$'000	\$'000	\$'000	\$'000
Net debt as at 1 July 2016	191,393	-	(6,606)	(159,547)	25,240
Cash flows	80,445	274	-	(134,352)	(53,633)
Other non-cash movements	-	(274)	274	(2,075)	(2,075)
Net debt as at 30 June 2017	271,838	-	(6,332)	(295,974)	(30,468)
Cash flows	146,144	290	-	-	146,434
Other non-cash movements	-	(290)	290	(2,130)	(2,130)
Net debt as at 30 June 2018	417,982	-	(6,042)	(298,104)	113,836

24 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PwC Australia

	2018 \$	2017 \$
AUDIT AND OTHER ASSURANCE SERVICES		
Audit and review of financial statements	265,490	224,400
Other assurance services		
Other assurance services	47,504	-
Total remuneration for audit and other assurance services	312,994	224,400
TAXATION SERVICES		
Tax compliance services	16,710	15,710
Total remuneration of PwC Australia	329,704	240,110

(b) Related practices of PwC Australia

No other remuneration was provided to any related practices of PwC Australia.

(c) Non-PwC audit firms

NEXTDC Limited did not engage with any other non-PwC audit firms.

25 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of NEXTDC Limited and its subsidiaries. NEXTDC is a public company limited by shares, incorporated and domiciled in Australia.

(a) Reporting Period and Comparative information

These financial statements cover the period 1 July 2017 to 30 June 2018. The comparative reporting period is 1 July 2016 to 30 June 2017.

(b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. NEXTDC Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the NEXTDC Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on the date the Directors' Report is signed. The Directors have the power to amend and reissue the financial statements.

(ii) New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2017.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(c) Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

25 Summary of significant accounting policies (continued)

(c) Critical accounting estimates (continued)

(i) Fair value of investments

The Company holds 29.2% of the quoted securities of Asia Pacific Data Centres ("APDC"), but judgement exists in accounting for the asset as an available-for-sale financial asset as opposed to an associate. An investment is accounted for as an associate only where significant influence can be demonstrated. Significant influence over APDC could not be demonstrated due to; the presence of a controlling security holder, no NEXTDC representation on the Board of APDC and observable market interactions between the Company and APDC. Given that the Company is unable to exert significant influence using its security holding, it has been determined that the investment should be accounted for as an available-for-sale financial asset. The available-for-sale financial asset has been recognised at fair value, which approximates \$1.86 per security. Quoted equity prices have not been solely relied upon in determining fair value due to low trading volumes, due in part to 96.5% of total securities being held by only two parties. In the absence of an active market, the Company has determined that \$1.86 is an appropriate estimate of fair value.

(ii) Deferred taxation

Full provision is made for deferred taxation at the prevailing tax rates at the year-end dates. Deferred tax assets are recognised where it is considered probable that they will be recovered in the future and, as such, are subjective. The deferred tax assets include an amount of \$4.3 million which relates to carried forward tax losses of NEXTDC Limited. The Group has incurred the losses during its start-up operations and has concluded that the deferred assets are probable of recovery using the estimated future taxable income. The tax losses can be carried forward indefinitely and have no expiry date. Refer to Notes 21 and 22 for further detail.

(iii) Income taxes

The Group is subject to income taxes in Australia. Judgement 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.

(iv) Lease classification

NEXTDC has classified its C1 lease and its three leases (M1, S1 and P1) with APDC Group as operating leases after giving consideration to the criteria outlined in *AASB 117 Leases*. Due to the long term nature of the leases in place, judgement exists in their determination as operating leases.

(d) Employee Share Trust

The Group has formed two trusts to administer the Group's employee share schemes. The trusts are consolidated, as the substance of the relationships are that the trusts are controlled by the Group. Shares held by NEXTDC Share Plan Pty Ltd and NEXTDC Employee Share Plan Trust are disclosed as treasury shares and deducted from contributed equity.

(e) Share-based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of long-term incentives issued to participants
- the grant date fair value of shares issued to participants
- the issue of shares held by NEXTDC Share Plan Pty Ltd and NEXTDC Employee Share Plan Trust

(f) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

25 Summary of significant accounting policies (continued)

(g) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Cash and cash equivalents

For the purpose of presentation in the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and term deposits 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.

(i) Investments and other financial assets

LOANS AND RECEIVABLES

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Consolidated Balance Sheet.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(i) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ASSETS CARRIED AT AMORTISED COST

For loans and receivables, the amount of the 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 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 Comprehensive Income. Impairment testing of trade receivables is described in Note 5.

25 Summary of significant accounting policies (continued)

(j) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period 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 from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(k) Provisions

Provisions for asset replacement and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(l) Employee benefits

SHORT-TERM OBLIGATIONS

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of each reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in payables.

OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

SHARE-BASED PAYMENTS

Share-based compensation benefits are provided to participants via the Long Term Incentive Plan or the Loan Funded Share Plan.

The fair value of performance rights and the Loan Funded Share Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in the assumptions. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Consolidated Statement of Comprehensive Income, with a corresponding adjustment to equity.

25 Summary of significant accounting policies (continued)

(l) Employee benefits (continued)

SHARE-BASED PAYMENTS (continued)

When the loan shares are settled, the net proceeds are credited directly to equity.

RETIREMENT BENEFIT OBLIGATIONS

Except for the statutory superannuation guarantee charge, the Group does not have any other retirement benefit obligations.

(m) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(o) Parent entity financial information

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

(p) New and amended standards adopted by the Company

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Group.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 16 Leases

AASB 16 Leases addresses the recognition, measurement, presentation and disclosure of leases. This standard applies to annual reporting periods beginning on or after 1 January 2019, however the Group intends to early adopt AASB 16 from the reporting period beginning 1 July 2018.

The adoption of AASB 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The lease liability is measured at the present value of the lease payments that are not paid at the balance date, and is unwound over time using the interest rate implicit in the lease repayments. The right-of-use asset comprises the initial lease liability amount, and initial direct costs incurred when entering into the lease less any lease incentives received. The asset is depreciated over the term of the lease. The new standard replaces the company's operating lease expense with an interest and depreciation expense.

25 Summary of significant accounting policies (continued)

(p) New and amended standards adopted by the Company (continued)

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

AASB 16 Leases (continued)

The company has elected to apply the "Modified Retrospective Approach" when transitioning to the new standard. Under this approach, NEXTDC will not be required to restate the comparative information for its operating leases, as the right-of-use asset will be brought on at the same value as the lease liability on transition date. For existing finance leases currently accounted for under AASB 117, there will be a revaluation of existing lease liabilities recognised in the balance sheet with a corresponding adjustment to the right of use asset.

The full assessment of the impact on the Group is ongoing, however the Group estimates adoption will have the following impacts on financial results for the year ending 30 June 2019:

- A right-of-use asset of \$262.6, and lease liability of \$263.6 million will be recognised on 1 July 2018
- Opening accumulated loss adjustment of \$0.8 million will be recognised on 1 July 2018 in relation to the lease incentives previously accounted for under AASB 117
- Operating lease expense of \$19.1 million will be replaced by a depreciation charge of \$8.3 million for the right-of-use asset, and an interest expense of \$17.3 million on the lease liability
- Profit before tax will decrease by \$5.7 million and EBITDA will increase by \$19.1 million.

AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 Financial Instruments replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement, and addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 July 2018:

- The Group currently holds equity instruments classified as available-for-sale that will satisfy conditions for classification as at fair value through other comprehensive income (FVOCI). Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, any gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.
- There will be no impact on the Group's accounting for financial liabilities, as the Group does not have any financial liabilities designated at fair value through profit or loss. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under AASB 139. It will apply to the Group's financial assets classified at amortised cost, and will impact the Group's loss allowance on trade debtors. However, the new impairment model is not expected to have a significant impact on the value of the loss provision.

AASB 15 Revenue from Contracts with Customers

In December 2014, the AASB issued AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. In October 2015, the AASB issued AASB 2015-8: Amendments to Australian Accounting Standards - Effective Date of AASB 15 which deferred the effective date of the new revenue standard from 1 January 2017 to 1 January 2018. In May 2016, the AASB issued AASB 2016-3 Amendments to Australian Accounting Standards - Clarifications to AASB 15. All of these standards apply to the Group from 1 July 2018, and are further collectively referred to as AASB 15.

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

25 Summary of significant accounting policies (continued)

(p) New and amended standards adopted by the Company (continued)

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

AASB 15 Revenue from Contracts with Customers (continued)

AASB 15 also provides guidance relating to the treatment of contract costs not included in the scope of other standards, such as the incremental costs of obtaining a contract.

The application of AASB 15 will not affect our cash flows from operations or the manner in which we transact with our customers.

We have substantially completed our analysis of the impact of AASB 15 on our financial results. However, we will continue to fully integrate the new requirements into our processes throughout the coming period.

Based on our preliminary analysis, significant changes anticipated on adoption, along with the most reliable estimates of the expected impacts, are summarised below:

- Accounting for project fees - our project fees are primarily comprised of installation services relating to a customer's initial deployment and professional services that we perform. Historically the Group has recognised revenue from project fees upfront, as the services are provided. Under AASB 15, this revenue will need to be deferred and recognised over the term of the contract with the customer. This will result in an increase in accumulated losses of \$23.0 million on 1 July 2018, and a corresponding increase in income in advance.
- Accounting for incremental costs of obtaining a contract - eligible costs that are expected to be recovered will be capitalised as a contract asset and amortised over the term of the customer contract from 1 July 2018. This will result in a reduction to accumulated losses of \$1.1 million on 1 July 2018, with a corresponding increase in contract assets.

These estimates may be subject to change as we progress to fully operationalise the new requirements from 1 July 2018. Final adjustments, along with detailed disclosures will be included in our financial statements for the year ending 30 June 2019.

The Group intends to adopt the standard using the modified retrospective approach from 1 July 2018, which means that the cumulative impact of the adoption will be recognised in accumulated losses as of 1 July 2018, and that comparatives will not be restated.

(q) Assets in the course of construction

Assets in the course of construction are shown at historical cost. Historical cost includes directly attributable expenditure on data centre facilities which at reporting date, has not yet been finalised and/or ready for use. Assets in the course of construction are not depreciated.

Assets in the course of construction are transferred to property, plant and equipment upon successful testing and commissioning.

Directors' Declaration
30 June 2018

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 45 to 87 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 2018 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, 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

Note 25 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 Directors.



Craig Scroggie
Managing Director and Chief Executive Officer

Sydney
31 August 2018



Independent auditor's report

To the members of NEXTDC Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of NEXTDC Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$1.5 million, which represents approximately 2.5% of the Group's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. NEXTDC has Data Centres operating in capital cities across Australia, with its finance function based in Brisbane, where we performed most of our audit procedures. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Quote to Cash system replacement, Carrying value of investment in Asia Pacific Data Centre, Non-current asset additions. These are further described in the <i>Key audit matters</i> section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of investment in Asia Pacific Data Centre (Refer to note 9) \$62.5m</p> <p>During the year NEXTDC acquired a 29.2% stake in Asia Pacific Data Centre (APDC) for a total cost of \$62.5m. APDC is also 67.3% owned by 360 Capital. NEXTDC's investment is carried at fair value with gains or losses recognised through profit or loss.</p> <p>We considered this a key audit matter because:</p> <ul style="list-style-type: none"> the investment value is financially significant to the balance sheet, judgement exists in determining the classification of the investment, and the fair value of the investment is based on inputs other than quoted equity prices in an active market. 	<p>Our audit approach included testing the number of securities held by NEXTDC together with the cost of those securities. The following tests were performed to address key judgements:</p> <ul style="list-style-type: none"> Assessed the level of influence able to be applied over APDC by NEXTDC in determining whether or not the investment should be accounted for as an associate or as an asset held for sale. Obtained observable market information relating to the ASX quoted equity prices which included trading volumes. Assessed available market information made available by APDC, including the financial report and ASX releases.
<p>Non-current asset additions Refer to notes 10 (\$278.6m) and 11 (\$6.5m) of the financial report</p> <p>NEXTDC has recently announced investment into three new data centres in Sydney, Melbourne and Perth, and is continuing its investment into existing data centre infrastructure. In addition, NEXTDC is developing new products such as ONEDC and AXON. Each of these projects requires significant capital outlay which results in the capitalisation of external and internal costs into Property, Plant and Equipment and Intangible Assets.</p> <p>During the current year, \$278.6m has been capitalised as additions to Property, Plant and Equipment, while \$6.5m has been capitalised to Intangible Assets.</p> <p>Costs should be capitalised in line with Australian Accounting Standards which outline the criteria required for the eligibility of costs to be capitalised.</p>	<p>Our audit approach included the testing of individually large value additions, while the residual balance of additions were tested on a sample basis. Additional focus was paid to internal costs capitalised as these are deemed more judgemental. In particular, costs relating to salaries and wages were an area of focus.</p> <p>Our testing included:</p> <ul style="list-style-type: none"> Developing an understanding of and evaluating the Group's cost capitalisation policy. Consideration of the processes implemented by the Group for the measurement of capitalised costs. Testing the samples noted above to supporting documentation and considering whether they meet the criteria for capitalisation with reference to Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
<p>Judgement is often required to determine whether the criteria for capitalisation has been met for Intangible assets, and subsequently whether certain costs or classes of transactions meet the criteria for capitalisation.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> • Significance of the additions' balance to the Consolidated Balance Sheet, • Judgement involved in assessing whether internally generated intangible assets meet the criteria for capitalisation through reference to the appropriate accounting requirements, and • Potential significance of the additions balance to the Statement of Comprehensive Income should the costs not meet the criteria required for capitalisation. 	
<p>Quote to Cash system replacement</p> <p>As part of the Group's growth strategy, a number of system and process enhancement programs have been implemented which included the billings system in the current year. The new Quote to Cash system, which includes billings, was effective 1 April 2018, replacing the existing system for a number of key revenue streams.</p> <p>We considered this a key audit matter because:</p> <ul style="list-style-type: none"> • the billings system is used to raise invoices and calculate revenue. Billings from this system have been recognised in the current year's financial results since the effective implementation date, and • data migration activities were required between the existing system and the new system and this data is used to raise invoices and calculate revenue in the new system. 	<p>In addition to our normal revenue procedures, the following tests were performed to specifically address the additional risk introduced due to the billing system replacement:</p> <ul style="list-style-type: none"> • We developed an understanding of the new system as it relates to financial reporting, including any new or replaced processes and controls arising as a result of its implementation and the design of automated functionalities. • We utilised computer assisted auditing techniques (CAATs) to assess the completeness and accuracy of the data migration process through comparing expected revenue billings using data from the retired system to actual revenue billings generated from the new system. • We evaluated the automated generation of an invoice for a sample of transactions, together with the related revenue recognition. This included recalculating expected revenue outputs based on customer contracts.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Letter from Chairman and CEO, About NEXTDC, Directors' Report, Corporate Governance Statement, Shareholder information and Corporate Directory, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 20 to 39 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of NEXTDC Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A blue ink signature, likely of a PwC representative, written in a cursive style.

PricewaterhouseCoopers

A blue ink signature, likely of Simon Neill, written in a cursive style.

Simon Neill
Partner

Brisbane
31 August 2018

The following shareholder information was applicable as at 23 July 2018.

Distribution of equity securities

Holding	Number of investors	Number of securities
100,001 and over	113	269,246,773
10,001 - 100,000	1,697	38,032,220
5,001 - 10,000	2,270	16,108,881
1,001 - 5,000	6,346	16,536,953
1 - 1000	5,226	2,327,293
Total	15,652	342,252,120
Unmarketable parcels	382	4,090

Equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number held	Percentage of issued shares
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	81,983,271	23.95
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	55,708,128	16.28
3. CITICORP NOMINEES PTY LIMITED	33,694,277	9.84
4. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	29,701,018	8.68
5. NATIONAL NOMINEES LIMITED	18,035,315	5.27
6. BNP PARIBAS NOMS PTY LTD <DRP>	9,802,440	2.86
7. AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,250,000	1.24
8. CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	1,657,035	0.48
9. AMP LIFE LIMITED	1,653,336	0.48
10. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,560,562	0.46
11. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,557,474	0.46
12. BNP PARIBAS NOMS (NZ) LTD <DRP>	1,323,895	0.39
13. CRAIG SCROGGIE	1,172,464	0.34
14. AUST EXECUTOR TRUSTEES LTD <GFFD>	1,032,137	0.30
15. FORESTER INVESTMENTS PTY LIMITED <WELLINGTON SUPER FUND A/C>	923,477	0.27
16. BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	922,444	0.27
17. SUAVE INVESTMENTS PTY LTD	752,998	0.22
18. MIRRABOOKA INVESTMENTS LIMITED	710,000	0.21
19. NEW ECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	673,921	0.20
20. UBS NOMINEES PTY LTD	662,186	0.19
	247,776,378	72.39

Unquoted equity securities	Number on issue	Number of holders
Performance rights - issued in FY16	1,307,885	12
Performance rights - issued in FY17	878,497	16
Performance rights - issued in FY18	762,577	15
Deferred share rights - issued in FY18	95,103	5

Substantial holders

Substantial holders in the Company are set out below:

Substantial holders	Number held	Percentage of issued shares
UniSuper	28,477,391	8.30%

Voting rights

The voting rights attaching to each class of equity securities are set out below:

(i) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(ii) Performance rights and deferred share rights

No voting rights.

NEXTDC Limited
Corporate Directory

Directors

Douglas Flynn
Chairman

Craig Scroggie
Chief Executive Officer

Stuart Davis
Non-Executive Director

Gregory J Clark (AC)
Non-Executive Director

Sharon Warburton
Non-Executive Director

Company secretary

Michael Helmer

Registered office

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Website address

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Auditor

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+61 7 3257 5000

Solicitors

Clayton Utz
Level 28, Riparian Plaza
71 Eagle Street
Brisbane Qld 4000

Herbert Smith Freehills
ANZ Tower
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Sydney NSW 2000

Share register

Link Market Services
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Tel: 1300 554 474 (in Australia)
Tel: +61 (2) 8280 7111 (overseas)

Stock exchange listing

NEXTDC Limited shares are listed on the Australian Securities Exchange (ASX) under ticker code NXT.

FY18



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