Asia Pacific Data Centre Group
Asia Pacific Data Centre Holdings Limited ACN 159 621 735
Asia Pacific Data Centre Trust ARSN 161 049 556

# ASX RELEASE

**ASX Code: AJD**

23 August 2016

## Annual Financial Report for the year ended 30 June 2016

## Appendix 4E

Asia Pacific Data Centre Group (APDC) has lodged its annual financial report for the year ended 30 June 2016.

For further information please contact:

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APDC is a special purpose real estate investment trust (A-REIT) which listed on the Australian Securities Exchange on 9 January 2013 to own data centre properties. APDC has the objective of providing investors with a stable income and the potential for capital growth.

# APPENDIX 4E
# Preliminary Final Report
# For the year ended 30 June 2016

## Reporting entities and reporting periods

The reporting entities are:

1. Asia Pacific Data Centre Holdings Limited ACN 159 621 735 and its controlled entities (**Group**); and
2. Asia Pacific Data Centre Trust ARSN 161 049 556 (**APDC Trust**).

As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838 issued by the Australian Securities & Investments Commission, the financial reports of the Group and APDC Trust are combined.

Comparative figures are for the periods detailed in the table headings.

## Results for announcement to the market

| For the year ended 30 June | APDC Group 2016 $'000 | APDC Group 2015 $'000 | Variance | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 | Variance |
|---|---|---|---|---|---|---|
| Revenue from ordinary activities | 34,020 | 28,680 | Up 19% | 33,994 | 28,660 | Up 19% |
| Profit from ordinary activities after tax attributable to members | 31,664 | 26,159 | Up 21% | 31,664 | 26,159 | Up 21% |
| Profit for the year attributable to members | 31,664 | 26,159 | Up 21% | 31,664 | 26,159 | Up 21% |
| Distributable earnings[1] | 10,964 | 10,559 | Up 4% | 10,964 | 10,559 | Up 4% |

[1] The Group reports profit attributable to members in accordance with Australian Accounting Standards (AAS). Distributable earnings are a non-AAS measure that represents the Directors' view of the amount available for distribution to securityholders from ongoing activities for the year, being profit/loss after tax adjusted for unrealised fair value gains.

## Distributions for the year

The following distributions were paid and payable by APDC Trust:

| Period to | Distribution cents per security | Record date | Payment date |
|---|---|---|---|
| 30 September 2015 | 2.30 | 30 September 2015 | 28 October 2015 |
| 31 December 2015 | 2.35 | 31 December 2015 | 26 February 2016 |
| 31 March 2016 | 2.40 | 31 March 2016 | 29 April 2016 |
| 30 June 2016 | 2.43 | 30 June 2016 | 26 August 2016 |
| Total | 9.48 | | |
| Tax deferred amount | 24.77% | | |

## Explanatory comments

Revenue from ordinary activities comprises:

| For the year ended 30 June | APDC Group 2016 $'000 | APDC Group 2015 $'000 | Variance | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 | Variance |
|---|---|---|---|---|---|---|
| Rental income | 13,209 | 12,966 | Up 2% | 13,209 | 12,966 | Up 2% |
| Interest income | 111 | 114 | Down 3% | 85 | 94 | Down 10% |
| Net gain from fair value adjustment on investment properties | 20,700 | 15,600 | Up 33% | 20,700 | 15,600 | Up 33% |
| Revenue from ordinary activities | 34,020 | 28,680 | Up 19% | 33,994 | 28,660 | Up 19% |

Net tangible assets per security is:

| At 30 June | APDC Group 2016 $'000 | APDC Group 2015 $'000 | Variance | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 | Variance |
|---|---|---|---|---|---|---|
| Net tangible assets per security | $1.43 | $1.24 | Up 15% | $1.42 | $1.23 | Up 15% |

During the year, the Group:

- earned a profit of $31.66 million and distributable earnings of $10.96 million;
- paid or provided for distributions of $10.90 million or 9.48 cents per security;
- earned rental income of $13.21 million. Rentals for all three data centres increased in December 2015 by 1.5% as the result of a CPI review increase; and
- revalued all its data centre investment properties based on independent valuations resulting in an increase in fair value of the portfolio to $187.0 million.

Details of entities over which control has been gained or lost during the period:

- None.

Details of any associates and Joint Venture entities required to be disclosed:

- None.

Audit

- The accounts have been audited with an unqualified opinion.

For all other information required by Appendix 4E including a results commentary, please refer to the following documents:

- Directors' report
- Combined Financial Reports for APDC Group and APDC Trust and accompanying notes (audited)
- ASX results announcement

# Asia Pacific Data Centre Group

## Annual Financial Reports of

**Asia Pacific Data Centre Holdings Limited** (ACN 159 621 735) and its controlled entities:
Asia Pacific Data Centre Limited (ACN 159 624 585)
Asia Pacific Data Centre Trust (ARSN 161 049 556)

**and**

**Asia Pacific Data Centre Trust** (ARSN 161 049 556)

**for the year ended 30 June 2016**

Directors' Report ....... 3
Auditor's Independence Declaration ....... 14
Consolidated Statements of Profit or Loss and Other Comprehensive Income ....... 15
Consolidated Statements of Financial Position as at 30 June 2016 ....... 16
Consolidated Statement of Changes in Equity – the Group ....... 17
Statement of Changes in Equity – APDC Trust ....... 18
Consolidated Statements of Cash Flows ....... 19
Notes to the consolidated financial statements ....... 20
1. Reporting entities ....... 20
2. Basis of preparation ....... 20
3. Summary of significant accounting policies ....... 21
4. Segment information ....... 27
5. New accounting standards and interpretations ....... 27
6. Responsible entity management fees ....... 28
7. Remuneration of auditor ....... 28
8. Income tax ....... 28
9. Earnings per security ....... 29
10. Distributions paid and payable ....... 30
11. Trade and other receivables ....... 30
12. Investment properties ....... 31
13. Interest bearing liabilities ....... 34
14. Financial instruments ....... 34
15. Contributed equity ....... 39
16. Reserves ....... 40
17. Net tangible assets ....... 40
18. Cash flows from operating activities ....... 41
19. Related party disclosures ....... 41
20. Significant party disclosures ....... 42
21. Parent entity financial information ....... 43
22. Capital expenditure commitments ....... 43
23. Contingent liabilities ....... 43
24. Subsequent events ....... 43
Directors' Declaration ....... 44
Independent Auditor's Report ....... 45

# Directors' Report

The directors of Asia Pacific Data Centre Holdings Limited (APDC Holdings) and the directors of Asia Pacific Data Centre Limited (APDC Limited) as responsible entity for Asia Pacific Data Centre Trust (APDC Trust) (collectively 'the Directors') present their report for APDC Holdings and APDC Trust together with the consolidated financial report of APDC Holdings and its controlled entities (Group, APDC Group) and the financial report of APDC Trust for the year ended 30 June 2016.

APDC Holdings and APDC Limited are both companies limited by shares, incorporated and domiciled in Australia. The registered office for both companies is Level 16, 55 Hunter Street, Sydney NSW 2000 and principal place of business for both companies is Level 13, 135 King Street, Sydney NSW 2000.

The shares of APDC Holdings and units of APDC Trust are stapled and can only be traded as stapled securities. Although there is no ownership interest between APDC Holdings and APDC Trust, APDC Holdings is deemed to be the parent entity of the Group under Australian Accounting Standards.

## 1. Directors

The following persons have held office as Directors during the year:

| | |
|---|---|
| Ian Fraser | Chairman, Non-Executive Director |
| Chris Breach | Non-Executive Director |
| Francina Turner | CEO, Executive Director |
| John Wright | Non-Executive Director |

## 2. Principal activities

The Group's principal activity is to invest in data centre investment property in Australia.

APDC Trust owns the following data centre investment properties:

| | |
|---|---|
| M1 | Port Melbourne, Melbourne, VIC |
| S1 | Macquarie Park, Sydney, NSW |
| P1 | Malaga, Perth, WA |

There were no significant changes in the nature of the activities of the Group during the year.

### 2.1 Objectives

The Group's objective is to provide investors with stable income sourced from rental income earned from its data centres and the potential for capital growth.

In order to achieve this objective, the Group owns a geographically diverse portfolio of data centres in three Australian capital cities. The Group's data centre investment properties comprise the land and buildings. This includes essential building service improvements but excludes the tenant's fit out such as the plant and equipment and specialised data hall or data centre technical improvements. The land and buildings in the current portfolio are leased on long-term triple-net terms pursuant to which all maintenance, taxes, insurance and outgoings are paid by the tenant, NEXTDC Limited (NEXTDC). The leases provide for upwards only annual CPI rental increases and market reviews in every fifth year, not exceeding 110% of the preceding year's rent.

## 3. Operating and financial review

### 3.1 Results of operations

The Group earned a profit for the year of $31,664,000 representing earnings per stapled security of 27.53 cents.

The Group's distributable earnings for the year was $10,964,000, representing earnings per stapled security of 9.53 cents.

APDC Group reports statutory profit for the year in accordance with Australian Accounting Standards. Distributable earnings is the primary basis upon which distributions are determined by the Directors. Distributable earnings is a non-AASB measure that represents the Directors' view of the amount available for distribution to securityholders from ongoing activities for the year.

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Profit for the year | 31,664 | 26,159 | 31,664 | 26,159 |
| Net gain from fair value adjustment on investment properties[1] | (20,700) | (15,600) | (20,700) | (15,600) |
| Distributable earnings | 10,964 | 10,559 | 10,964 | 10,559 |
| Undistributed income brought forward | 94 | - | 94 | - |
| Amount available for distribution | 11,058 | 10,559 | 11,058 | 10,559 |
| Undistributed income carried forward | (156) | (94) | (156) | (94) |
| **Total distribution for the year** | **10,902** | **10,465** | **10,902** | **10,465** |
| Basic earnings per security (cents) | - | - | 27.53 | 22.75 |
| Distributable earnings per security (cents) | - | - | 9.53 | 9.18 |
| Distributions paid and payable | - | - | 10,902 | 10,465 |
| Distributions per security (cents) | - | - | 9.48 | 9.10 |

[1] Unrealised fair value gains and losses on revaluation of investment properties. Refer to Notes 3(h) and 12 to the financial statements.

The total distribution for the year is 9.48 cents per stapled security. Interim distributions totalling 7.05 cents per stapled security were paid on 28 October 2015, 26 February 2016 and 29 April 2016. A final distribution for the year of 2.43 cents per stapled security will be paid on 26 August 2016.

Distributions to securityholders were 24.77% tax deferred.

The Group's revenue, direct trust expenses and responsible entity operating expenses for the year were:

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Rent on land and buildings: | | | | |
| M1, Melbourne | 4,938 | 4,847 | 4,938 | 4,847 |
| S1, Sydney | 5,539 | 5,437 | 5,539 | 5,437 |
| P1, Perth | 2,732 | 2,682 | 2,732 | 2,682 |
| Total rental income | 13,209 | 12,966 | 13,209 | 12,966 |
| | | | | |
| Interest income | 111 | 114 | 85 | 94 |
| Net gain from fair value adjustment on investment properties | 20,700 | 15,600 | 20,700 | 15,600 |
| Total revenue | 34,020 | 28,680 | 33,994 | 28,660 |
| | | | | |
| Administration expenses | 146 | 150 | 129 | 157 |
| Audit and taxation fees | 96 | 105 | 56 | 71 |
| Compliance expenses | 102 | 101 | 36 | 32 |
| Directors' fees | 215 | 215 | - | - |
| Employee expenses | 407 | 340 | - | - |
| Interest expense | 1,235 | 1,434 | 1,235 | 1,434 |
| Other expenses | 128 | 133 | 847 | 764 |
| Valuation fees | 27 | 43 | 27 | 43 |
| Total expenses | 2,356 | 2,521 | 2,330 | 2,501 |
| | | | | |
| **Profit for the year** | **31,664** | **26,159** | **31,664** | **26,159** |

There were no movements in the total number of securities on issue for the Group and APDC Trust during the year.

## 3.2 Direct property investments

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| M1, Melbourne | 72,000 | 62,800 | 72,000 | 62,800 |
| S1, Sydney[(1)] | 80,000 | 70,000 | 80,000 | 70,000 |
| P1, Perth | 35,000 | 33,500 | 35,000 | 33,500 |
| Total investment properties at fair value | 187,000 | 166,300 | 187,000 | 166,300 |
| | | | | |
| Net assets | 163,881 | 143,132 | 162,731 | 141,982 |
| Net tangible asset backing per security ($) | 1.43 | 1.24 | 1.42 | 1.23 |

[(1)]The Bankwest Debt Facility is secured by a mortgage over S1 Sydney data centre asset. Refer Note 13 to the financial statements.

The fair value of the assets is derived using the basis set out in Note 3(h) to the financial statements. The fair value of the investment properties is determined by the Directors by reference to the most recent independent valuation for that property updated to take into account any changes in valuation factors. Fair value of assets has increased by $36,300,000 in the last two years. Fair value may increase or decrease in future. Refer Note 12(b) and Note 12(c) to the financial statements.

All of the Group's data centres are wholly-owned by APDC Trust. All of the data centres are leased to NEXTDC on a triple net basis for initial terms of 15 years expiring 2027 and 2028, with options for up to another 25 years.

Pursuant to the leases, a CPI increase of 1.5% was applied to the M1, S1 and P1 rentals effective 21 December 2015. The annualised rental income from 21 December 2015 is $4,972,000 for M1, $5,578,000 for S1 and $2,751,000 for P1.

The terms of the lease for M1 provide for a market rent review on 21 December 2016. The independent valuation report for M1 as at 30 June 2016 contains a rental assessment which concluded that the rent is at market. If a market rent review is not undertaken, then a CPI review will apply. The terms of the leases for S1 and P1 provide for a market rent review on 21 December 2017.

### 3.3 Bankwest Debt Facility

APDC Trust has a five year facility with Bankwest (a division of Commonwealth Bank of Australia) (Bankwest) to provide the Group with up to $29 million of asset-secured debt funding (Debt Facility). The Debt Facility matures on 28 November 2018. The Debt Facility is provided at market interest rates for a five year term, and is secured by a mortgage over the S1 Sydney data centre asset.

At 30 June 2016, $25 million of the facility was drawn (Core Debt).

APDC Trust renegotiated the interest rate margin on its Debt Facility with Bankwest. The margin has reduced from 2.15% per annum to 1.50% per annum effective from 6 July 2015.

APDC Trust has a swap agreement to fix the floating interest rate component over $12.5 million of the drawn amount for five years. The effective cost of the Core Debt (loan interest, margin and swap interest) is 4.63% per annum as at 30 June 2016.

### 3.4 Real estate funds management

APDC Limited, a wholly owned subsidiary of APDC Holdings, provides responsible entity services to APDC Trust. During the year, APDC Limited charged APDC Trust a management fee equal to the cost to APDC Limited to provide these services. Refer to Note 6 to the financial statements.

### 3.5 Events subsequent to reporting date

Since the end of the year, the Directors of APDC Holdings and APDC Limited are not aware of any matter or circumstance not otherwise dealt with in the financial reports or the Directors' Report that has significantly affected or may significantly affect the operations of the Group or APDC Trust, the results of those operations or the state of affairs of the Group or APDC Trust in financial years subsequent to the year ended 30 June 2016.

## 4. Information on Directors

The Board of APDC Holdings and the Board of APDC Limited have the same members and identical Board Charters. The term Board hereafter should be read as a reference to both of these Boards.

### Mr Ian Fraser

INDEPENDENT NON-EXECUTIVE CHAIRMAN
AUDIT, RISK AND COMPLIANCE COMMITTEE MEMBER

Mr Ian Fraser is a chartered accountant and non-executive company director with 45 years experience as a business and accounting professional, including 10 years as a company director of listed and unlisted public companies and 27 years as a partner with KPMG. He retired as a senior audit and corporate advisory partner in 2004.

Mr Fraser is a Councillor of the QIMR Berghofer Medical Research Institute. He retired from the Boards of Wilson HTM Investment Group Ltd in 2013 after 7 years as a director and RP Data Ltd in 2011 after 3 years as chairman and 5 years as a director.

Mr Fraser holds a Bachelor of Commerce from the University of Queensland, is a Fellow of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.

## Mr Chris Breach

INDEPENDENT NON-EXECUTIVE DIRECTOR
AUDIT, RISK AND COMPLIANCE COMMITTEE MEMBER

Mr Christopher Breach has over 40 years experience as a property professional and an extensive career covering many types and aspects of the real estate market in Australia, New Zealand, UK and USA. Until 2010, Mr Breach was Managing Director and Licensee of Macquarie Asset Services Limited (part of Macquarie Group Limited) and an executive director of Macquarie Group Limited. Mr Breach was an early initiator of a due diligence product that became the cornerstone of real estate investment over the last 20 years.

Prior to joining Macquarie, Mr Breach was the Director of Valuations and Corporate Real Estate at Jones Lang Wootton.

Mr Breach holds a Diploma in Estate Management from Kingston upon Thames Polytechnic and a Diploma in Financial Markets from the Securities Institute of Australia. He is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Australian Institute of Company Directors. Mr Breach was the Chairman of Charities Aid Foundation from 1999 to 2009, and was also previously a director of Sydney Community Foundation.

Mr Breach is also a non-executive director of the Indigenous Real Estate Investment Trust which is an initiative of Indigenous Business Australia, to provide wholesale Indigenous investors the opportunity to invest in partnership with other Indigenous groups in an actively managed property fund.

## Ms Francina Turner

EXECUTIVE DIRECTOR, CEO & COMPANY SECRETARY

Ms Francina Turner is a senior executive with over 15 of years experience in funds management, real estate, specialised assets and risk management. Over her career, Ms Turner has held leadership roles in listed and unlisted real estate funds with up to $1bn of funds under management.

Ms Turner started her career at Macquarie Group Limited where she worked for 13 years in various real estate divisions and funds, including as General Manager of Macquarie Leisure Trust (now Ardent Leisure Group). Following this, Ms Turner held management roles in group-level risk functions at Lend Lease Corporation and Stockland Group before joining the Group.

Ms Turner holds a Bachelor of Commerce (Marketing & Hospitality Management) from University of New South Wales and a Graduate Diploma in Applied Finance from Securities Institute of Australia. Ms Turner is a Fellow of the Royal Institution of Chartered Surveyors. Ms Turner was previously a director of Youth Hostels of Australia (NSW) Limited and Omni Leisure Operations Limited, and Responsible Officer of Macquarie Leisure Management Limited. She has held the role of CEO since November 2012.

## Mr John Wright

INDEPENDENT NON-EXECUTIVE DIRECTOR
CHAIRMAN OF AUDIT, RISK AND COMPLIANCE COMMITTEE

Mr John Wright has over 40 years experience in accounting and real estate funds management. He started his career at Price Waterhouse as a chartered accountant and has a Bachelor of Economics from the University of Sydney. Following this he worked for a number of funds management and property groups and spent 16 years working for Macquarie Group Limited.

Mr Wright has extensive experience in real estate investment trusts (REITs) having spent 14 years at Macquarie Real Estate where he was responsible for the administration aspects for 7 listed REITs (including 3 IPOs), as well as involvement in the establishment of 11 unlisted REITs. His last position was as Head of Corporate Affairs for Charter Hall Group where he was responsible for the integration of the Macquarie real estate platform with Charter Hall.

He was an executive director of Macquarie Group Limited for 6 years and director of Macquarie Leisure Group (now Ardent Leisure Group) for 2 years as well as alternate director for 3 other listed REITs during 2002-2009.

### 4.1 Meetings of Directors

The number of Directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of APDC Holdings and APDC Limited during the year are:

| Director | APDC Holdings Board meetings | | APDC Limited Board meetings | |
|---|---|---|---|---|
| | Total number of meetings eligible to attend | Attended | Total number of meetings eligible to attend | Attended |
| Ian Fraser (Chairman) | 8 | 8 | 11 | 11 |
| Chris Breach | 8 | 8 | 11 | 11 |
| Francina Turner | 8 | 8 | 11 | 11 |
| John Wright | 8 | 8 | 11 | 11 |

| Director | Audit, Risk and Compliance Committee meetings | |
|---|---|---|
| | Total number of meetings eligible to attend | Attended |
| John Wright (Chairman) | 4 | 4 |
| Chris Breach | 4 | 4 |
| Ian Fraser | 4 | 4 |

## 5. Company Secretary

Ms Francina Turner is the company secretary. She was appointed to this position by the Board on 3 December 2012.

## 6. Remuneration Report – audited

### 6.1 Remuneration objectives and approach

The Remuneration Report of APDC Group reflects the following circumstances:

- APDC Trust currently owns three investment properties, all of which are leased to the same tenant, NEXTDC; and
- APDC Group has two employees.

The objective of APDC Group's executive remuneration framework is to attract and retain high quality executives by ensuring that executive remuneration:

- is competitive with prevailing employment market conditions; and
- is aligned to APDC Group's strategic goals and objectives and the creation of value for securityholders.

For the year ended 30 June 2016, the remuneration framework provided for fixed pay and performance based pay. Performance based pay is designed to ensure there is an appropriate relationship between remuneration, contribution and APDC Group's performance, including its earnings and securityholder wealth.

The Board has adopted policies relating to remuneration as part of its Board Charter.

### 6.2 Executive remuneration

#### (a) Fixed annual remuneration (FAR)

| | |
|---|---|
| What is FAR? | FAR is the guaranteed salary of the executive and includes superannuation and any salary sacrificed components such as motor vehicles, computers and superannuation. |
| How is FAR set? | FAR is set by reference to external market data for comparable roles and responsibilities for an executive manager for a four day week of similar listed entities within Australia. |
| When is FAR reviewed? | FAR is reviewed each year with any changes being effective from 1 January. |

#### (b) Summary of key contract terms

| Executive | Position | Contract Length | Fixed Annual Remuneration | Notice by APDC | Notice by executive |
|---|---|---|---|---|---|
| Francina Turner | CEO, Executive Director and Company Secretary | Ongoing | $237,500* | 3 months | 3 months |

* For the period 1 January 2016 to 31 December 2016, inclusive of superannuation entitlements.

Ms Turner commenced in her position on 12 November 2012 for a fixed term which expired on 12 November 2015. During the year, Ms Turner signed a new employment agreement that commenced on 13 November 2015 with no fixed term subject to the notice provisions in the table above.

In the event of the termination of Ms Turner's employment and depending on the reason for the termination, amounts may be payable for unpaid accrued entitlements. If employment is terminated in circumstances of redundancy or without cause then Ms Turner is entitled to a minimum amount of three months fixed remuneration.

## 6. Remuneration Report – audited (cont.)

### 6.2 Executive remuneration (cont.)

#### (c) Remuneration details for year ended 30 June 2016

Details of the remuneration of the Key Management Personnel for the year ended 30 June 2016 are set out in the following table:

| Executive | Short term | | | Post employment benefits | Other long term benefits | Equity based payments | Total |
|---|---|---|---|---|---|---|---|
| | Salary | Performance incentive | Total | Superannuation benefits | | | |
| | $ | $ | $ | $ | $ | $ | $ |
| Francina Turner | | | | | | | |
| Year ended 30 June 2016 | 213,470 | 54,795 | 268,265 | 25,485 | - | - | 293,750 |
| Year ended 30 June 2015 | 203,596 | 45,662 | 249,258 | 23,680 | - | - | 272,938 |

The value of fixed remuneration as a proportion of total remuneration was 80% (30 June 2015: 82%). The value of performance based remuneration as a proportion of total remuneration was 20% (30 June 2015: 18%).

Short term incentives are based on performance relative to individual key performance indicators (KPIs). Both financial measures such as distributable income, and non-financial measures such as operational and strategic responsibilities are considered. For the year ended 31 December 2015 the Board assessed the performance of the CEO against the CEO's KPIs and noted these had been met and that APDC Group had achieved solid overall performance for securityholders. Consequently Directors resolved to recognise the CEO's performance in the period and paid her a performance incentive of $60,000, inclusive of superannuation entitlements.

APDC Group does not have a long term incentive plan or equity based plan.

### 6.3 APDC Group performance since establishment

The table below sets out summary information about APDC Group's earnings and movements in securityholder wealth since APDC Group's establishment:

| | | 2016 Actual | 2015 Actual | 2014 Actual | 2013[(1)] Actual |
|---|---|---|---|---|---|
| Distributable earnings | $'000 | 10,964 | 10,559 | 9,953 | 3,314 |
| Distribution paid or payable | cents per security | 9.48 | 9.10 | 9.00 | 3.18 |
| Management operating expenses | $'000 | 1,121 | 1,087 | 1,116 | 552 |
| Security price[(2)] | | $1.47 | $1.26 | $1.06 | $1.07 |
| Accumulated securityholder return | Annual | 24.7%[(3)] | 28.1%[(3)] | 7.7%[(3)] | 15.5%[(4)] |

(1) For the period from 24 July 2012 to 30 June 2013.
(2) Security price is the closing price for AJD securities on the last trading day of the period.
(3) Annualised return for the year to 30 June.
(4) Nominal return for the period from listing, 9 January 2013 to 30 June 2013.

The total securityholder return for the year ended 30 June 2016 is 24.7%. This compares to the S&P 300 ASX-AREIT index accumulated return of 24.6% and S&P/ASX 200 index accumulated return of 0.6% for the same period.

**6. Remuneration Report – audited (cont.)**

## 6.4 Non-executive director remuneration

The remuneration of non-executive directors (NEDs) is determined by the Board. Securityholders have approved an aggregate amount of $400,000.

NEDs receive a cash fee for service and they have no entitlement to any performance based remuneration, nor can they participate in any security incentive scheme. NEDs do not receive any equity based payments, retirement benefits or other incentive payments.

NED fees for the year ended 30 June 2016 are as follows:

| Non-executive director | Board Fees | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Fees | Superannuation benefits | Total | Fees | Superannuation benefits | Total |
| | $ | $ | $ | $ | $ | $ |
| Ian Fraser(1) | 68,493 | 6,507 | 75,000 | 59,361 | 5,639 | 65,000 |
| Chris Breach | 54,795 | 5,205 | 60,000 | 45,662 | 4,338 | 50,000 |
| John Wright | 54,795 | 5,205 | 60,000 | 45,662 | 4,338 | 50,000 |
| Greg Baynton(2) | - | - | - | 29,578 | - | 29,578 |
| | **178,083** | **16,917** | **195,000** | **180,263** | **14,315** | **194,578** |

| Non-executive director | Audit, Risk and Compliance Committee Fees | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Fees | Superannuation benefits | Total | Fees | Superannuation benefits | Total |
| | $ | $ | $ | $ | $ | $ |
| Ian Fraser | 4,566 | 434 | 5,000 | 4,566 | 434 | 5,000 |
| Chris Breach | 4,566 | 434 | 5,000 | 4,566 | 434 | 5,000 |
| John Wright(3) | 9,132 | 868 | 10,000 | 9,132 | 868 | 10,000 |
| | **18,264** | **1,736** | **20,000** | **18,264** | **1,736** | **20,000** |

(1) Ian Fraser is the Chairman of the Board.
(2) Greg Baynton resigned from the Board on 4 February 2015.
(3) John Wright is the Chairman of the Audit, Risk and Compliance Committee.

The Board reviews its fees to ensure that NEDs are remunerated fairly for their services, recognising the level of skill, expertise and experience required to conduct the role. The Board ensures it is remunerating directors at a level that enables APDC Group to attract and retain appropriate NEDs. The Board may obtain the advice of independent remuneration consultants to ensure that NED fees and payments are appropriate and in line with the market.

NEDs remuneration was reviewed during the year to better reflect market rates. Base remuneration for each NED set in 2012 increased from $50,000 p.a. to $60,000 p.a. from 1 July 2015. Remuneration for the Chairman increased from $65,000 p.a. to $75,000 p.a.

## 6.5 Directors' interests in stapled securities

| | Number held at 1 July 2015 | Net movement | Number held at 30 June 2016 | Number held at 22 August 2016 |
|---|---|---|---|---|
| Ian Fraser | 50,000 | - | 50,000 | 50,000 |
| Chris Breach | 16,605 | - | 16,605 | 16,605 |
| Francina Turner | - | - | - | - |
| John Wright | 50,000 | - | 50.000 | 50.000 |

## 7. Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

## 8. Indemnification and insurance of officers and auditors

APDC Holdings provides a Deed of Indemnity and Access (Deed) in favour of each of the directors and officers of APDC Holdings and its subsidiary companies. The Deed indemnifies these persons on a full indemnity basis to the extent permitted by law for losses, liabilities, costs and charges incurred as a director or officer of APDC Holdings, its subsidiaries or such other entities.

The auditor is not indemnified out of the assets of the Group.

During the year, APDC Holdings has paid insurance premiums to insure the directors and officers of APDC Holdings and its subsidiary companies. 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 directors or officers of APDC Holdings and its subsidiary companies, and any other payment arising from liabilities incurred by directors or officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving wilful breach of duty by the directors or officers or the improper use by the directors or officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to APDC Holdings and its subsidiary companies.

The terms of the policy prohibit disclosure of details of the amount of the insurance cover and the premium paid.

## 9. Environmental regulation

The operations of the Group and APDC Trust are not subject to any particular and significant environmental regulation under a law of the Commonwealth, State or Territory. There have been no known breaches of any environmental regulations applicable to the Group or APDC Trust.

## 10. Non-audit services

During the year KPMG, the auditor of the Group and APDC Trust, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with a recommendation from the Audit, Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with and did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Board and have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- 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 year, the following fees were paid or payable for non-audit services provided by the auditor of the Group and APDC Trust and its network firms:

| | APDC Group 2016 $ | APDC Group 2015 $ | APDC Trust 2016 $ | APDC Trust 2015 $ |
|---|---|---|---|---|
| Tax compliance services | 24,190 | 19,525 | 16,390 | 16,325 |
| **Total remuneration of KPMG Australia non-audit services** | **24,190** | **19,525** | **16,390** | **16,325** |

### 11. Rounding of amounts to the nearest thousand dollars

The Group and APDC Trust are of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the Directors' Report and financial reports have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise stated.

This report is made in accordance with resolutions of the Directors of Asia Pacific Data Centre Holdings Limited and Asia Pacific Data Centre Limited as responsible entity for Asia Pacific Data Centre Trust.

I. H. Fraser

Ian Fraser
Chairman

Brisbane
23 August 2016

***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Asia Pacific Data Centre Holdings Limited and the directors of Asia Pacific Data Centre Limited the Responsible Entity of Asia Pacific Data Centre Trust

I declare that, to the best of my knowledge and belief, in relation to the audits of Asia Pacific Data Centre Holdings Limited and Asia Pacific Data Centre Trust for the financial year ended 30 June 2016 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audits; and
- no contraventions of any applicable code of professional conduct in relation to the audits.

KPMG

KPMG

Jillian Richards

Jillian Richards
Partner

Brisbane
23 August 2016

## Consolidated Statements of Profit or Loss and Other Comprehensive Income

| | Note | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Rental income | | 13,209 | 12,966 | 13,209 | 12,966 |
| Interest income | | 111 | 114 | 85 | 94 |
| Net gain from fair value adjustment on investment properties | 12(c) | 20,700 | 15,600 | 20,700 | 15,600 |
| Total revenue | | 34,020 | 28,680 | 33,994 | 28,660 |
| **Expenses** | | | | | |
| Operating expenses | | 1,121 | 1,087 | 1,095 | 1,067 |
| Interest expense and finance costs | | 1,235 | 1,434 | 1,235 | 1,434 |
| Total expenses | | 2,356 | 2,521 | 2,330 | 2,501 |
| **Profit before income tax expense** | | **31,664** | **26,159** | **31,664** | **26,159** |
| Income tax expense | 8 | - | - | - | - |
| **Profit for the year** | | **31,664** | **26,159** | **31,664** | **26,159** |
| **Profit for the year attributable to:** | | | | | |
| Owners of APDC Holdings | | - | - | - | - |
| Owners of APDC Trust | | - | - | 31,664 | 26,159 |
| Non-controlling interest - members of APDC Trust | | 31,664 | 26,159 | - | - |
| **Total profit for the year** | | **31,664** | **26,159** | **31,664** | **26,159** |
| **Other comprehensive income** | | | | | |
| Items that may be reclassified to profit or loss: | | | | | |
| Effective portion of changes in fair value of cash flow hedge | 14(b) | (13) | (231) | (13) | (231) |
| **Other comprehensive income, net of tax** | | **(13)** | **(231)** | **(13)** | **(231)** |
| **Total comprehensive income for the year** | | **31,651** | **25,928** | **31,651** | **25,928** |
| **Total comprehensive income for the year attributable to:** | | | | | |
| Owners of APDC Holdings | | - | - | - | - |
| Owners of APDC Trust | | - | - | 31,651 | 25,928 |
| Non-controlling interest - members of APDC Trust | | 31,651 | 25,928 | - | - |
| **Total comprehensive income for the year** | | **31,651** | **25,928** | **31,651** | **25,928** |
| Basic and diluted earnings per security (cents) | 9 | - | - | 27.53 | 22.75 |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Financial Position as at 30 June 2016

| | Note | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | | 5,814 | 5,507 | 4,230 | 3,933 |
| Trade and other receivables | 11 | 2 | - | 500 | 500 |
| Security deposit | | 8 | 9 | - | - |
| Prepayments | | 24 | 26 | - | - |
| **Total current assets** | | **5,848** | **5,542** | **4,730** | **4,433** |
| | | | | | |
| **Non-current assets** | | | | | |
| Investment properties | 12 | 187,000 | 166,300 | 187,000 | 166,300 |
| Property, plant and equipment | | 1 | 1 | - | - |
| Deferred tax asset | | 15 | 15 | - | - |
| **Total non-current assets** | | **187,016** | **166,316** | **187,000** | **166,300** |
| **Total assets** | | **192,864** | **171,858** | **191,730** | **170,733** |
| | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | | 700 | 672 | 730 | 710 |
| Distribution payable | 10 | 2,794 | 2,645 | 2,794 | 2,645 |
| Provision for employee benefits | | 14 | 13 | - | - |
| **Total current liabilities** | | **3,508** | **3,330** | **3,524** | **3,355** |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Interest bearing liabilities | 13 | 24,838 | 24,772 | 24,838 | 24,772 |
| Derivatives | 14(d) | 637 | 624 | 637 | 624 |
| **Total non-current liabilities** | | **25,475** | **25,396** | **25,475** | **25,396** |
| **Total liabilities** | | **28,983** | **28,726** | **28,999** | **28,751** |
| | | | | | |
| **Net assets** | | **163,881** | **143,132** | **162,731** | **141,982** |
| | | | | | |
| **Equity** | | | | | |
| Contributed equity | 15 | 1,150 | 1,150 | 115,110 | 115,110 |
| Asset revaluation reserve | 16(a) | - | - | 48,102 | 27,402 |
| Cashflow hedge reserve | 16(a) | - | - | (637) | (624) |
| Undistributed income | | - | - | 156 | 94 |
| Total equity attributable to owners of APDC Holdings/ APDC Trust | | 1,150 | 1,150 | 162,731 | 141,982 |
| Non-controlling interest attributable to APDC Trust | | 162,731 | 141,982 | - | - |
| **Total equity** | | **163,881** | **143,132** | **162,731** | **141,982** |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity – the Group

| | Contributed equity $'000 | Total equity attributable to owners of APDC Holdings $'000 | Non-controlling interest attributable to APDC Trust $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Total equity at 1 July 2014** | **1,150** | **1,150** | **126,519** | **127,669** |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | - | - | 26,159 | 26,159 |
| Other comprehensive income for the year | - | - | (231) | (231) |
| **Total comprehensive income for the year** | - | - | 25,928 | 25,928 |
| **Transactions with owners of the Group: Contributions by and distributions to owners of the Group** | | | | |
| Distributions paid or provided for | - | - | (10,465) | (10,465) |
| **Total contribution by and distributions to owners of the Group** | - | - | (10,465) | (10,465) |
| **Total equity at 30 June 2015** | **1,150** | **1,150** | **141,982** | **143,132** |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | - | - | 31,664 | 31,664 |
| Other comprehensive income for the year | - | - | (13) | (13) |
| **Total comprehensive income for the year** | - | - | 31,651 | 31,651 |
| **Transactions with owners of the Group: Contributions by and distributions to owners of the Group** | | | | |
| Distributions paid or provided for | - | - | (10,902) | (10,902) |
| **Total contribution by and distributions to owners of the Group** | - | - | (10,902) | (10,902) |
| **Total equity at 30 June 2016** | **1,150** | **1,150** | **162,731** | **163,881** |

The accompanying notes are an integral part of these consolidated financial statements.

## Statement of Changes in Equity – APDC Trust

| | Contributed equity $'000 | Undistributed Income $'000 | Asset revaluation reserve $'000 | Cashflow hedge reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Total equity at 1 July 2014** | **115,110** | **-** | **11,802** | **(393)** | **126,519** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | 26,159 | - | - | 26,159 |
| Other comprehensive income for the year | - | - | - | (231) | (231) |
| **Total comprehensive income for the year** | - | 26,159 | - | (231) | 25,928 |
| **Transactions with owners of the Trust: Contributions by and distributions to owners of the Trust** | | | | | |
| Transfer to asset revaluation reserve | - | (15,600) | 15,600 | - | - |
| Distributions paid or provided for | - | (10,465) | - | - | (10,465) |
| **Total contribution by and distributions to owners of the Trust** | - | (26,065) | 15,600 | - | (10,465) |
| **Total equity at 30 June 2015** | **115,110** | **94** | **27,402** | **(624)** | **141,982** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | 31,664 | - | - | 31,664 |
| Other comprehensive income for the year | - | - | - | (13) | (13) |
| **Total comprehensive income for the year** | - | 31,664 | - | (13) | 31,651 |
| **Transactions with owners of the Trust: Contributions by and distributions to owners of the Trust** | | | | | |
| Transfer to asset revaluation reserve | - | (20,700) | 20,700 | - | - |
| Distributions paid or provided for | - | (10,902) | - | - | (10,902) |
| **Total contribution by and distributions to owners of the Trust** | - | (31,602) | 20,700 | - | (10,902) |
| **Total equity at 30 June 2016** | **115,110** | **156** | **48,102** | **(637)** | **162,731** |

The accompanying notes are an integral part of these consolidated financial statements

## Consolidated Statements of Cash Flows

| | Note | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|---|
| **Cashflows from operating activities** | | | | | |
| Receipts from lessee | | 14,601 | 14,367 | 14,601 | 14,367 |
| Payments to suppliers and employees | | (1,124) | (979) | (1,089) | (1,052) |
| Net GST payment to ATO | | (1,335) | (1,497) | (1,355) | (1,347) |
| Interest received | | 110 | 114 | 85 | 94 |
| **Net cash inflows from operating activities** | 18 | **12,252** | **12,005** | **12,242** | **12,062** |
| **Cashflows from investing activities** | | - | - | - | - |
| **Cashflows from financing activities** | | | | | |
| Payment of interest and finance costs | | (1,192) | (1,398) | (1,192) | (1,398) |
| Payment of distributions | | (10,753) | (10,408) | (10,753) | (10,408) |
| **Net cash outflows from financing activities** | | **(11,945)** | **(11,806)** | **(11,945)** | **(11,806)** |
| **Net increase in cash and cash equivalents** | | **307** | **199** | **297** | **256** |
| Cash and cash equivalents at the beginning of the year | | 5,507 | 5,308 | 3,933 | 3,677 |
| **Cash and cash equivalents at the end of the year** | | **5,814** | **5,507** | **4,230** | **3,933** |

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. Reporting entities

Asia Pacific Data Centre Group (APDC Group) comprises Asia Pacific Data Centre Holdings Limited (APDC Holdings) and its wholly owned subsidiary Asia Pacific Data Centre Limited (APDC Limited), and Asia Pacific Data Centre Trust (APDC Trust).

The shares of APDC Holdings are stapled to units in APDC Trust. The stapled securities cannot be traded or dealt with separately. The Constitutions of APDC Holdings and APDC Trust ensure that, for so long as the two entities remain jointly quoted, the number of shares of APDC Holdings and the number of units in APDC Trust are equal and shareholders and unitholders are identical.

APDC Holdings was registered as a company on 24 July 2012, APDC Limited registered as a company on 25 July 2012, and APDC Trust was established on 1 November 2012. All of the entities are domiciled in Australia. APDC Group was established on 3 December 2012 and was quoted on the Australian Securities Exchange (ASX Code: AJD) from 9 January 2013.

The reporting entities are APDC Holdings and its controlled entities (APDC Limited and APDC Trust) and APDC Trust (collectively 'Group entities').

The consolidated financial statements of APDC Holdings incorporate the assets and liabilities of APDC Holdings and its controlled entities APDC Limited and APDC Trust (Group, APDC Group).

As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838 issued by the Australian Securities & Investments Commission, this report presents the consolidated financial statements of the Group and the financial statements of APDC Trust, and their accompanying notes.

The Group entities are for-profit for the purpose of preparing the financial statements.

### 2. Basis of preparation

#### (a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

The 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.

The Group and APDC Trust are of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the Directors' Report and financial reports have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise stated.

#### (b) Basis of measurement

The financial statements have been prepared under the historical cost convention except for investment properties and derivative financial instruments which have been measured at fair value.

#### (c) Significant judgements and estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

In applying accounting policies, management continually evaluates estimates, assumptions and historical judgments based on experience and other factors, including expectations about future events that may have an impact on the Group entities. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

**Notes to the consolidated financial statements**

## 2. Basis of preparation (cont.)

### (c) Significant judgements and estimates (cont.)

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

- Investment properties – operating leases

  APDC Trust has commercial property leases and earned rent on the Melbourne (M1), Sydney (S1) and Perth (P1) properties during the year.

  The Directors have determined that APDC Trust retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases (refer Note 3(g)).

- Investment properties – valuation

  At each reporting date, the fair values of the investment properties are assessed by the Directors according to the accounting policy on valuing assets and applying generally accepted valuation criteria, methodology and assumptions (refer Note 3(h)).

### (d) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the functional currency of each of the Group entities.

## 3. Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these consolidated financial statements for the year ended 30 June 2016 are set out below. These policies have been consistently applied, unless otherwise stated.

The Group entities have not early adopted any accounting standards.

### (a) Changes in accounting policies

There was no material impact on the financial report as a result of adoption of the new and amended accounting standard and interpretations effective for annual reporting periods beginning on or after 1 July 2015.

### (b) Principles of consolidation

#### Stapling

The shares of APDC Holdings are stapled to units of APDC Trust. These stapled shares and units are also referred to as stapled securities and/or securities.

Stapling transactions are considered business combinations and are accounted for under AASB 3 Business Combinations using the acquisition method at the acquisition date.

AASB 3 requires one of the combining entities in a stapling transaction to be identified as the acquirer for accounting purposes. The acquirer is also the parent entity of the Group. The parent entity is required to prepare consolidated financial statements in accordance with the principles of AASB 10 Consolidated Financial Statements.

**Notes to the consolidated financial statements**

## 3. Summary of significant accounting policies (cont.)

### (b) Principles of consolidation (cont.)

Where a business combination occurs through contract alone, the acquirer attributes the acquiree's net assets recognised in accordance with AASB 3 to the owners. Any equity interest held by the parties other than the acquirer is a non-controlling interest.

APDC Holdings has been identified as the acquirer and the parent for the purposes of preparing the consolidated financial statements of the Group. Therefore APDC Limited and APDC Trust are included in the consolidated financial statements of APDC Holdings.

APDC Holdings does not own any units in the APDC Trust and there was no consideration paid.

Non-controlling interests in the financial statements of the Group represent the equity attributable to unitholders of APDC Trust. Non-controlling interest is defined as that portion of the profit or loss and net assets of APDC Trust and its subsidiaries which are not owned by APDC Holdings (parent) directly or indirectly through subsidiaries. On the basis that APDC Holdings has no ownership interest in APDC Trust, the net assets of the APDC Trust are identified as non-controlling interests and presented in the Group's Statement of Financial Position within equity separately from the APDC Holding's shareholders equity.

The $1.00 issue price per stapled security is allocated as $0.99 to each APDC Trust unit and $0.01 to each APDC Holdings share. The profit or loss of APDC Trust is separately disclosed as non-controlling interest in the profit or loss of the Group.

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

### (c) Revenue recognition

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

The Group and APDC Trust recognise 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.

Revenue is recognised for each of the business activities as follows:

#### Rental income

Rental income is recognised on a straight-line basis over the lease term.

#### Interest income

Interest income is recognised using the effective interest method.

**Notes to the consolidated financial statements**

## 3. Summary of significant accounting policies (cont.)

### (d) Expenses

All expenses are accounted for on an accruals basis.

Expenses which are incidental to the acquisition of an investment property are included within the cost of that property.

### (e) Taxation

#### APDC Holdings and APDC Limited

APDC Holdings and its subsidiary APDC Limited, have formed an income tax consolidated group under the tax consolidation regime effective on 1 January 2013. APDC Holdings and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is provided on all temporary differences at balance date on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the asset is realised through the continued use or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance date.

#### APDC Trust

Under current Australian tax legislation, the APDC Trust is not liable for income tax, provided that the taxable income (including any assessable component of any capital gains from the sale of investment assets) is fully distributed to unitholders each year.

Distributions in excess of the taxable income of the APDC Trust are treated as tax deferred distributions.

The tax deferred component reduces a securityholder's capital gains tax base applicable to the units held in APDC Trust.

### (f) Goods and Services Tax

The Group entities are part of a Goods and Services Tax (GST) consolidated group.

Revenues, expenses and assets are recognised net of the amount of GST except where the GST is incurred on a purchase of goods and services and is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense.

**Notes to the consolidated financial statements**

### 3. Summary of significant accounting policies (cont.)

#### (f) Goods and Services Tax (cont.)

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

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

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

#### (g) Operating leases

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

Properties leased under operating leases are classified as investment properties. The Directors have determined that APDC Trust retains all the significant risks and rewards of ownership of its investment properties and has thus classified the leases as operating leases.

#### (h) Investment properties

Investment properties comprising freehold land and buildings (including certain plant and equipment) are held for long term rental yields and capital appreciation and are not occupied by the Group or APDC Trust.

The acquisition of land and buildings is accounted for as an asset acquisition. Investment properties are initially recognised at cost including any acquisition costs.

##### Fair value

Investment properties are carried at fair value at each reporting date with any gain or loss arising from a change in fair value recognised as profit or loss in the year. Land and buildings (including certain plant and equipment) that comprise investment property are not depreciated.

The fair value of investment properties is assessed by the Directors, in accordance with AASB 13 *Fair Value Measurement,* using a valuation technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants under current market conditions.

At each reporting date, the fair value of the investment properties is assessed by the Directors by reference to independent valuation reports or through other appropriate valuation techniques.

The potential effect of capital gains tax (CGT) on disposal has not been taken into account in the determination of the revalued carrying amount as it is expected that all realised gains on the sale of assets will be distributed to securityholders.

##### Subsequent costs

APDC Trust recognises in the carrying amount of an investment property the cost of replacing part of that investment property when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

#### (i) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired.

Cost is measured at the fair value of the assets given up.

Securities issued or liabilities assumed at the date of acquisition plus incidental costs are directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

**Notes to the consolidated financial statements**

### 3. Summary of significant accounting policies (cont.)

### (j) Cash and cash equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts, if applicable, are shown within borrowings in current liabilities in the Statements of Financial Position.

### (k) Trade and other receivables

#### 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. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

The effective interest rate is a method of calculating the amortised cost of a financial asset or a financial liability and of collating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flow estimates consider all contractual terms of the financial instruments.

Short term receivables are not discounted where the effect is not material.

#### Impairment

An assessment is made 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.

### (l) Non-derivative financial liabilities

Non-derivative financial liabilities comprise interest bearing loans and trade and other payables. The Group entities classify non-derivative financial liabilities into the other liabilities category.

Such liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Short term non-derivative financial liabilities are not discounted where the effect is not material.

### (m) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposure.

Derivatives (including interest rate swaps) are recognised initially at fair value. Any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are remeasured to their fair value at each reporting date.

The Group documents at the inception of the hedging transaction the relationship between the hedging instrument and hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedge item affects profit or loss.

**Notes to the consolidated financial statements**

## 3. Summary of significant accounting policies (cont.)

### (m) Derivative financial instruments and hedge accounting (cont.)

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

If the hedging instrument is held to maturity, no profit or loss would result on expiry.

### (n) Provisions

Provisions are recognised when the Group entities have 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 measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date.

### (o) Employee benefits

#### Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave are expensed as the related service is provided. The liability for annual leave is recognised for the amounts expected to be paid in provisions.

#### Other long term employee benefit obligations

The liability for long service 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 using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### Retirement benefit obligations

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

### (p) Contributed equity

#### APDC Holdings

Ordinary shares are classified as equity.

#### APDC Trust

Under its Constitution, APDC Trust has been established as an indefinite life trust and the distributions are at the discretion of the Directors of the responsible entity. Accordingly, the units issued are classified as equity.

#### Costs of issue of new stapled securities

Costs directly attributable to the issue of new stapled securities are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new stapled securities or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

### (q) Dividends/distributions

#### APDC Holdings

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### APDC Trust

Each reporting period the Directors of the responsible entity are required to determine the distribution entitlement of the unitholders of the Trust in respect of the period. Any amounts so determined but not paid by the end of the period, are recorded as a liability.

**Notes to the consolidated financial statements**

## 3. Summary of significant accounting policies (cont.)

### (r) Earnings per security

Basic earnings per security

Basic earnings per security is determined by dividing profit attributable to securityholders by the weighted average number of ordinary securities on issue during the period.

Diluted earnings per security

Diluted earnings per security is determined by dividing profit attributable to securityholders by the weighted average number of ordinary securities and dilutive potential ordinary securities on issue during the period.

Profit attributable to APDC Trust

The issued units of APDC Trust are presented as a non-controlling interest, and therefore the profit attributable to APDC Trust is excluded from the calculation of basic and diluted earnings per security presented in the consolidated statement of profit or loss and other comprehensive income.

## 4. Segment information

The Group entities present operating segments based on the internal information that is available to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker.

The Group entities operate wholly within Australia and derive rental income from investments in commercial property and 100 per cent of this income is derived from one tenant and as such this is considered to be the only segment in which the Group and APDC Trust are engaged.

The operating results are regularly reviewed by the CEO to make decisions about resources to be allocated and to assess performance. There are no reconciling items that exist between the discrete financial information reviewed by the CEO and the financial statements relating to revenue, profit or loss, assets and liabilities or other material items.

## 5. New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for future annual reporting periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group entities are set out below. The Group entities do not plan to adopt these standards early.

### (a) AASB 9 Financial Instruments (includes financial assets and financial liability requirements) (effective 1 January 2018).

AASB 9 Financial Instruments provides revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published.

The Group entities do not expect the new standard to have a significant effect on existing financial assets and financial liabilities.

### (b) AASB 15 Revenue from Contracts with Customers (effective 1 January 2018)

AASB 15 Revenue from Contracts with Customers establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group is yet to perform a detailed analysis of the new guidance.

### (c) AASB 16 Leases (effective 1 January 2019)

AASB 16 Leases removes the classification of leases as either operating or finance leases for the lessee, effectively treating all leases as finance leases. Short term leases and leases of low-value are exempt from the lease accounting requirements. Lessor accounting remains similar to current practice.

The Group does not expect the new standard to have a significant effect on its current leases.

**Notes to the consolidated financial statements**

## 6. Responsible entity management fees

APDC Limited, the responsible entity of APDC Trust, is entitled to a management fee calculated as up to 2% per annum of the gross asset value of APDC Trust. It is payable from the income (or other assets) of APDC Trust, as and when incurred.

As long as there is an internal management structure, wherein APDC Limited provides responsible entity services to APDC Trust and APDC Trust is stapled to APDC Holdings, APDC Limited will charge APDC Trust on a cost recovery basis for the direct APDC Trust expenses and for the operating expenses of APDC Holdings and APDC Limited.

Management fees of $837,000 were expensed by APDC Trust during the year (2015: $753,000). At 30 June 2016, management fees of $89,000 were payable to APDC Limited (2015: $59,000).

## 7. Remuneration of auditor

During the year, the auditor of the Group entities earned the following remuneration:

| | APDC Group 2016 $ | APDC Group 2015 $ | APDC Trust 2016 $ | APDC Trust 2015 $ |
|---|---|---|---|---|
| Audit and review of financial statements | 57,870 | 71,887 | 31,350 | 45,957 |
| Other regulatory audits | 14,045 | 13,730 | 8,645 | 8,450 |
| Taxation services | 24,190 | 19,525 | 16,390 | 16,325 |
| **Total auditor remuneration** | **96,105** | **105,142** | **56,385** | **70,732** |

## 8. Income tax

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| **Profit for the year** | **31,664** | **26,159** | **31,664** | **26,159** |
| Tax expense at the Australian tax rate of 30% | 9,499 | 7,848 | 9,499 | 7,848 |
| **Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:** | | | | |
| APDC Trust income | (9,499) | (7,848) | (9,499) | (7,848) |
| **Income tax expense** | - | - | - | - |

### APDC Trust

Under current Australian tax legislation, APDC Trust is not liable for income tax, provided that the taxable income (including any assessable component of any capital gains from the sale of investment assets) is fully distributed to unitholders each year.

Distributions in excess of the taxable income of APDC Trust are treated as tax deferred distributions.

The tax deferred component reduces a securityholder's capital gains tax base applicable to the units held in APDC Trust.

**Notes to the consolidated financial statements**

## 9. Earnings per security

| | APDC Group 2016 | APDC Group 2015 | APDC Trust 2016 | APDC Trust 2015 |
|---|---|---|---|---|
| Earnings used in the calculation of earnings per security ($'000) | - | - | 31,664 | 26,159 |
| Basic earnings per security (cents) | - | - | 27.53 | 22.75 |
| Diluted earnings per security (cents) | - | - | 27.53 | 22.75 |
| Weighted average number of securities on issue used in the calculation of basic and diluted earnings per security | 115,000,100 | 115,000,100 | 115,000,100 | 115,000,100 |
| Distributable earnings ($'000)[1] | - | - | 10,964 | 10,559 |
| Distributable earnings per security (cents) | - | - | 9.53 | 9.18 |
| Weighted average number of securities on issue used in the calculation of distributable earnings per security | - | - | 115,000,100 | 115,000,100 |

(1) Refer to Note 10.

**Notes to the consolidated financial statements**

## 10. Distributions paid and payable

The following distributions were paid and payable by APDC Trust:

| | Distribution cents per stapled security | Total amount $'000 | Tax deferred % | Taxable % |
|---|---|---|---|---|
| **For the year ended 30 June 2016:** | | | | |
| Distributions for the quarter ended: | | | | |
| 30 September 2015 | 2.30 | 2,645 | | |
| 31 December 2015 | 2.35 | 2,703 | | |
| 31 March 2016 | 2.40 | 2,760 | | |
| 30 June 2016 (payable 26 August 2016) | 2.43 | 2,794 | | |
| | **9.48** | **10,902** | **24.77** | **75.23** |
| **For the year ended 30 June 2015:** | | | | |
| Distributions for the quarter ended: | | | | |
| 30 September 2014 | 2.25 | 2,587 | | |
| 31 December 2014 | 2.25 | 2,588 | | |
| 31 March 2015 | 2.30 | 2,645 | | |
| 30 June 2015 (paid 27 August 2015) | 2.30 | 2,645 | | |
| | **9.10** | **10,465** | **24.75** | **75.25** |

The 24.77% tax deferred component of the distribution includes building allowance, building depreciation and timing differences.

Distributable earnings for the year was $10,964,000 or 9.53 cents per stapled security as per the table below:

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Profit for the year | 31,664 | 26,159 | 31,664 | 26,159 |
| Net gain from fair value adjustment on investment properties(1) | (20,700) | (15,600) | (20,700) | (15,600) |
| Distributable earnings | 10,964 | 10,559 | 10,964 | 10,559 |
| Undistributed income brought forward | 94 | - | 94 | - |
| Amount available for distribution | 11,058 | 10,559 | 11,058 | 10,559 |
| Distributions paid and payable | (10,902) | (10,465) | (10,902) | (10,465) |
| **Undistributed income carried forward** | **156** | **94** | **156** | **94** |

(1) Unrealised gains or losses, including unrealised fair value gains and losses on revaluation of investment properties. Refer to Notes 3(h) and 12.

## 11. Trade and other receivables

At 30 June 2016, APDC Trust has an intercompany receivable of $500,000 (2015: $500,000) representing an advance for working capital to APDC Limited. The loan is repayable on demand and interest free.

**Notes to the consolidated financial statements**

## 12. Investment properties

APDC Trust has three data centre investment properties, Melbourne (M1), Sydney (S1) and Perth (P1). All of the data centres are leased to NEXTDC Limited (NEXTDC) for initial terms of 15 years expiring in 2027 and 2028 with options for up to another 25 years. NEXTDC has made rental payments for M1, S1 and P1 in accordance with the lease agreements.

The land and buildings in the current portfolio are leased on long-term triple net terms pursuant to which all maintenance, taxes, insurance and outgoings are paid by the tenant, NEXTDC. The leases provide for upwards only annual CPI rental increases and market reviews in every fifth year, not exceeding 110% of the preceding year's rent.

### (a) Basis of valuation

The carrying amount of investment property is the fair value of the property as assessed by the Directors (refer Note 3(h)).

The Directors assess fair value based on the most recent independent valuation updated to take into account any changes in estimated rental income, property capitalisation rates or estimated yields with reference to market evidence of transaction prices for similar properties.

Independent valuations when obtained, are performed by an independent valuer with a recognised professional qualification and recent experience in the location and category of property being valued. The independent valuations utilise the following methodologies: active market prices, capitalisation of net income and discounted cash flow:

i. The active market prices method assesses a property's value based on the sale price of comparable properties that have recently traded in commercial, arms length transactions.

ii. The capitalisation of net income method capitalises the current rent received, at a rate analysed from the most recent transactions of comparable property investments, adjusted to take into consideration a number of factors including:
   - lease term remaining;
   - the relationship of current rent to the market rent;
   - the location;
   - prevailing investment market conditions; and
   - other property specific conditions.

iii. The discounted cash flow method calculates a property's value by using projections of future cash flows and terminal value derived from the term of any existing leases, and from external evidence such as current market rents for similar properties in the same area and condition, and using discount rates that reflect the current market assessments of the uncertainty in the amount and timing of cash flows specific to the asset.

Independent valuations for each investment property will take place every three years or earlier should the Directors consider it appropriate.

### (b) Measurement of fair value

#### Fair value hierarchy

AASB 13 *Fair Value Measurement* (AASB 13) requires the disclosure of fair values for each of the following measurement categories:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The fair value measurement of investment properties of $187,000,000 has been categorised as Level 3.

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value categories.

**Notes to the consolidated financial statements**

**12. Investment properties (cont.)**

**(b) Measurement of fair value (cont.)**

### Significant unobservable inputs

Refer to the table in Note 12(c) for significant unobservable inputs and the valuation method used for each investment property.

The table includes the following descriptions and definitions relating to valuation techniques and significant unobservable inputs made in determining the fair values:

| | |
|---|---|
| Annual Net Property Income ($m^2$ per annum) | The annual rent per square metre at which space could be let in the market conditions prevailing at the date of valuation. |
| Capitalisation Rate | The rate at which net property income is capitalised to determine the value of a property. The rate is determined with regard to market evidence. |
| Discount Rate | The rate used to discount the net cash flows generated from rental and investment activities during the period of analysis (estimated for up to 10 years). |
| Lease Term | The remaining term of the lease (excluding option). |

The relationship between fair value and the significant unobservable inputs is as follows:

- There is a higher likelihood of a positive effect on fair value when any of these changes in unobservable inputs occur:
  - increase in Annual Net Property Income
  - decrease in Capitalisation Rate
  - decrease in Discount Rate
  - increase in Lease Term.
- Alternatively there is a higher likelihood of a negative effect on fair value when any of these changes in unobservable inputs occur:
  - decrease in Annual Net Property Income
  - increase in Capitalisation Rate
  - increase in Discount Rate
  - decrease in Lease Term.

**(c) Fair value of investment properties**

| Property | Acquisition date | Cost $'000 | Previous fair value adjustments $'000 | Fair value 2015 $'000 | Fair value adjustments 2016 $'000 | Fair value 2016 $'000 |
|---|---|---|---|---|---|---|
| M1, Melbourne | 21/12/2012 | 52,005 | 10,795 | 62,800 | 9,200 | 72,000 |
| S1, Sydney | 21/12/2012 | 57,548 | 12,452 | 70,000 | 10,000 | 80,000 |
| P1, Perth | 21/12/2012 | 28,470 | 5,030 | 33,500 | 1,500 | 35,000 |
| **Total** | | **138,023** | **28,277** | **166,300** | **20,700** | **187,000** |

The investment properties are carried at fair value of the property as assessed by the Directors by reference to the most recent independent valuation for that property updated to take into account any changes in valuation factors (refer Note 12(a) Basis of Valuation). Fair value of assets has increased by $36,300,000 in the last two years. Fair value may increase or decrease in future. Refer Note 12(b).

**Notes to the consolidated financial statements**

## 12. Investment properties (cont.)

### (c) Fair value of investment properties (cont.)

| Property | Date of last independent valuation | Independent valuation | Annual net property income ($m^2$ per annum) | Adopted capitalisation rate | Adopted discount rate | Lease expiry |
|---|---|---|---|---|---|---|
| M1, Melbourne | 30/06/2016 | 72,000[(2)] | $ 287 | 6.75% | 7.75% | 20/12/2027 |
| S1, Sydney[(1)] | 30/06/2016 | 80,000[(3)] | $ 279 | 6.75% | 7.75% | 14/05/2028 |
| P1, Perth | 30/06/2016 | 35,000[(4)] | $ 288 | 7.75% | 8.50% | 29/11/2028 |

All independent valuations used the capitalisation and discounted cash flow valuation methods.

(1) The Bankwest Debt Facility is secured by a mortgage over S1 Sydney data centre asset. Refer Note 13.
(2) Valued by Andrew Lett, AAPI CBRE Valuations Pty Ltd
(3) Valued by Kenny Duncanson, AAPI MRICS, CBRE Valuations Pty Ltd
(4) Valued by Jason Fenner, AAPI, CBRE Valuations Pty Ltd

A reconciliation of the carrying amount of investment properties is set out below:

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Carrying amount at the beginning of the year | 166,300 | 150,700 | 166,300 | 150,700 |
| Fair value adjustments | 20,700 | 15,600 | 20,700 | 15,600 |
| **Carrying amount at the end of the year** | **187,000** | **166,300** | **187,000** | **166,300** |

### (d) Investment property related amounts recognised in the Statement of Comprehensive Income

| Property | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Rental income | 13,209 | 12,966 | 13,209 | 12,966 |
| Net gain from fair value adjustment for investment properties | 20,700 | 15,600 | 20,700 | 15,600 |
| Direct operating expenses of properties that generated rental income | - | - | - | - |

**Notes to the consolidated financial statements**

## 12. Investment properties (cont.)

### (e) Leases as a Lessor

The minimum lease payments receivable under non-cancellable operating leases of investment properties at current rentals are as follows:

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Within one year | 13,301 | 13,105 | 13,301 | 13,105 |
| Later than one year but not later than five years | 53,206 | 52,420 | 53,206 | 52,420 |
| Later than five years | 91,033 | 102,829 | 91,033 | 102,829 |
| | **157,540** | **168,354** | **157,540** | **168,354** |

## 13. Interest bearing liabilities

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Commercial loan - Bankwest | 25,000 | 25,000 | 25,000 | 25,000 |
| Unamortised finance costs | (162) | (228) | (162) | (228) |
| **Total interest bearing loans** | **24,838** | **24,772** | **24,838** | **24,772** |

APDC Trust has a five year facility with Bankwest (a division of Commonwealth Bank of Australia) (Bankwest) to provide the Group with up to $29 million of asset-secured debt funding (Debt Facility). The Debt Facility matures on 28 November 2018. The Debt Facility is provided at market interest rates for a five year term, and is secured by a mortgage over the S1 Sydney data centre asset. The Debt Facility comprises a cash advance facility with a maximum limit of $25 million and a multi option facility with a maximum limit of $4 million.

At 30 June 2016, $25 million of the facility was drawn (Core Debt) and there were no drawdowns against the multi option facility.

The Debt Facility is a variable rate loan with interest charged at 1.50% above the Bank Bill Swap Rate from 6 July 2015. For the period 1 July 2015 to 5 July 2015, the interest margin was 2.15% per annum.

## 14. Financial instruments

### (a) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. In this note, references to the Group include APDC Trust.

#### Risk management framework

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit, Risk and Compliance Committee (the Committee), which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board on its activities.

The Group's risk management framework is designed to ensure that it has explicitly identified the risks it faces and has measures in place to keep those risks to an acceptable minimum.

**Notes to the consolidated financial statements**

**14. Financial instruments (cont.)**

**(a) Financial risk management (cont.)**

Risks are managed through the effective implementation of various measures and controls which include:

- Board approved compliance arrangements and the risk management framework;
- documented policies, procedures, compliance registers and checklists;
- ongoing monitoring of regulatory obligations;
- ongoing supervision of management personnel and service providers; and
- internal and external reporting.

As at 30 June 2016, the following financial instruments are held:

| | Valuation Basis | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | Amortised cost | 5,814 | 5,507 | 4,230 | 3,933 |
| Trade and other receivables | Amortised cost | 2 | - | 500 | 500 |
| Security deposit held | Amortised cost | 8 | 9 | - | - |
| **Total financial assets** | | **5,824** | **5,516** | **4,730** | **4,433** |
| **Financial liabilities** | | | | | |
| Trade and other payables | Amortised cost | 700 | 672 | 730 | 710 |
| Interest bearing loans | Amortised cost | 24,838 | 24,772 | 24,838 | 24,772 |
| Derivatives | Fair value | 637 | 624 | 637 | 624 |
| **Total financial liabilities** | | **26,175** | **26,068** | **26,205** | **26,106** |

## 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 of three types of risk: foreign exchange risk, price risk and interest rate risk.

### Foreign exchange risk

The Group currently only operates in Australia and its transactions are in Australian dollars. Consequently, the Group has no exposure to foreign exchange risk.

### Price risk

The Group is not exposed to equity securities price risk.

### Interest rate risk

The Group is exposed to interest rate risk predominantly through interest bearing loans. Loans issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

As detailed in Note 13, the Bankwest Debt Facility is a variable rate loan, with interest charged at 1.50% above the Bank Bill Swap Rate. Therefore, the Group is mainly exposed to cash flow interest rate risk.

The Group uses derivative financial instruments such as interest rate swaps to manage its interest rate risk Refer to Note 14(b).

The weighted average interest rate on all cash assets at 30 June 2016 was 1.9% per annum (2015: 1.7% per annum).

At 30 June 2016, if interest rates increased by 100 or decreased by 100 basis points from the year end rates with all other variables held constant, profit for the year would have been $317,000 higher/$317,000 lower, mainly as a result of higher/lower interest income from deposits and interest expense on borrowings.

**Notes to the consolidated financial statements**

## 14. Financial instruments (cont.)

### (a) Financial risk management (cont.)

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk arises from cash and cash equivalents, outstanding receivables and committed transactions. The Group's exposure to credit risk is influenced mainly by the individual characteristics of its tenant. The Group has one tenant (NEXTDC) and therefore there is significant concentration of credit risk with the Group. The Group does not have the benefit of a bank guarantee from NEXTDC. Therefore, the credit worthiness of the tenant is monitored and assessed by the Board, taking into account its financial position and operating results.

During the year, all cash assets were placed with Commonwealth Bank of Australia and Bankwest in interest bearing bank accounts.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to maintain sufficient cash balances and adequate committed credit facilities.

The Group manages its liquidity risk by using detailed forward cash flow planning and by maintaining relationships with banks and investors in the capital markets.

APDC Trust's Debt Facility includes a multi option facility with a maximum limit of $4 million that can be used for working capital purposes.

The following table provides the contractual maturity of the Group's financial liabilities.

| | Carrying amount $'000 | Contractual cash flows Less than 1 year $'000 | 1 to 2 years $'000 | 2 to 3 years $'000 | 3 to 5 years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **APDC Group:** | | | | | | | |
| **30 June 2016:** | | | | | | | |
| Trade and other payables | **700** | (700) | - | - | - | - | (700) |
| Interest bearing loans and projected interest cost(1) | **24,838** | (735) | (958) | (25,461) | - | - | (27,154) |
| Derivatives and projected interest cost(1) | **637** | (154) | (201) | (130) | - | - | (485) |
| **Total financial liabilities** | **26,175** | **(1,589)** | **(1,159)** | **(25,591)** | - | - | **(28,339)** |
| **30 June 2015:** | | | | | | | |
| Trade and other payables | **672** | (672) | - | - | - | - | (672) |
| Interest bearing loans and projected interest cost(2) | **24,772** | (863) | (1,086) | (1,086) | (25,477) | - | (28,512) |
| Derivatives and projected interest cost(2) | **624** | (168) | (218) | (218) | (142) | - | (746) |
| **Total financial liabilities** | **26,068** | **(1,703)** | **(1,304)** | **(1,304)** | **(25,619)** | - | **(29,930)** |

(1) Projected interest is based on the likely outcome of the loan or derivative contract given the interest rates as at 30 June 2016.
(2) Projected interest is based on the likely outcome of the loan or derivative contract given the interest rates as at 30 June 2015.

**Notes to the consolidated financial statements**

## 14. Financial instruments (cont.)

### (a) Financial risk management (cont.)

#### Liquidity risk (cont.)

The following table provides the contractual maturity of APDC Trust's financial liabilities.

| | Carrying amount | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than 1 year | 1 to 2 years | 2 to 3 years | 3 to 5 years | Over 5 years | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **APDC Trust:** | | | | | | | |
| **30 June 2016:** | | | | | | | |
| Trade and other payables | **730** | (730) | - | - | - | - | (730) |
| Interest bearing loans and projected interest cost(1) | **24,838** | (735) | (958) | (25,461) | - | - | (27,154) |
| Derivatives and projected interest cost(1) | **637** | (154) | (201) | (130) | - | - | (485) |
| **Total financial liabilities** | **26,205** | **(1,619)** | **(1,159)** | **(25,591)** | - | - | **(28,369)** |
| **30 June 2015:** | | | | | | | |
| Trade and other payables | **710** | (710) | - | - | - | - | (710) |
| Interest bearing loans and projected interest cost(2) | **24,772** | (863) | (1,086) | (1,086) | (25,477) | - | (28,512) |
| Derivatives and projected interest cost(2) | **624** | (168) | (218) | (218) | (142) | - | (746) |
| **Total financial liabilities** | **26,106** | **(1,741)** | **(1,304)** | **(1,304)** | **(25,619)** | - | **(29,968)** |

(1) Projected interest is based on the likely outcome of the loan or derivative contract given the interest rates as at 30 June 2016.
(2) Projected interest is based on the likely outcome of the loan or derivative contract given the interest rates as at 30 June 2015.

Refer to Note 13 for further details on the interest bearing loans.

#### Capital management

The Group's capital management policy seeks to maximise securityholder value through optimising the level and use of capital resources and the mix of debt and equity funding.

The Group's capital management objectives are to:

- ensure compliance with capital and distribution requirements of the Constitutions and/or trust deeds;
- ensure sufficient capital resources to support the Group's operational requirements;
- continue to support the Group's creditworthiness;
- comply with capital requirements of relevant regulatory authorities; and
- safeguard the Group's ability to continue as a going concern.

The Group monitors the adequacy of its capital requirements, cost of capital and gearing as part of its overall strategic plan.

The Debt Facility requires that APDC Trust must comply with the following financial covenants:

- Loan to valuation ratio (LVR) - maintain an LVR not exceeding 50% at all times. LVR is calculated as the Debt Facility outstanding amount divided by the value of the security property (being the S1 data centre). The LVR at 30 June 2016 is 31%.
- Interest coverage ratio (ICR) – maintain an ICR of 2.0 times in respect of each period (financial year) at the end of which ICR is measured. ICR is calculated as S1 net rental income divided by interest expense. The ICR at 30 June 2016 is 4.5 times.

**Notes to the consolidated financial statements**

## 14. Financial instruments (cont.)

### (a) Financial risk management (cont.)

The Group's capital structure is continuously reviewed to ensure:

- sufficient funds and financing facilities are available, on a cost effective basis, to implement the Group's strategies; and
- distributions to securityholders are made within the stated policy.

The Group is able to alter its capital mix by:

- issuing new stapled securities;
- activating the distribution reinvestment plan;
- adjusting the amount of distributions paid to securityholders;
- selling assets to reduce borrowings; or
- increasing debt facilities.

Investment properties are insured by the tenant (NEXTDC) with APDC Trust noted as beneficiary.

There are specific capital requirements for APDC Limited, as the responsible entity for APDC Trust and the holder of an Australian Financial Services Licence (AFSL). APDC Holdings had provided a subordinated commercial loan of $590,000 to APDC Limited, to ensure APDC Limited retains sufficient net tangible assets for the AFSL requirements. Management monitors APDC Limited's net tangible assets on an ongoing basis to ensure it continues to meet its licence requirements. The loan principal and accrued interest of $664,571 was discharged on 26 August 2015 by the capitalising of this amount and APDC Holdings subscribing for and APDC Limited issuing 664,571 ordinary shares at an issue price of $1.00 per share.

### (b) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps to manage its financial risk as permitted under the Group's risk management policy. Such instruments are used exclusively for hedging purposes and not for trading or speculative purposes.

APDC Trust has an interest rate swap agreement to fix the floating interest rate component for $12.5 million of its Debt Facility (50% of the drawn Core Debt amount) for five years.

The interest rate swap agreement entitles APDC Trust to receive interest at quarterly intervals at a floating rate on a notional principal amount and obliges it to pay interest at a fixed rate. The interest rate swap agreement allows APDC Trust to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

The interest rate swap is designated as a cash flow hedging instrument. Accordingly, the effective portion of changes in the fair value of the interest rate swap is recognised in other comprehensive income and accumulated in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. Refer to Note 3(m).

The fair value of the interest rate swap liability at 30 June 2016 was $637,000 (30 June 2015: $624,000).

### (c) Carrying amounts versus fair values

At 30 June 2016, the carrying amounts of the Group's financial assets and liabilities approximate their fair values.

**Notes to the consolidated financial statements**

## 14. Financial instruments (cont.)

### (d) Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined in Note 12(b).

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Derivative liabilities** | | | | |
| **30 June 2016:** | | | | |
| Interest rate swap used for hedging | - | 637 | - | 637 |
| **Total financial liabilities carried at fair value** | **-** | **637** | **-** | **637** |
| **30 June 2015:** | | | | |
| Interest rate swap used for hedging | - | 624 | - | 624 |
| **Total financial liabilities carried at fair value** | **-** | **624** | **-** | **624** |

The interest rate swap is measured at fair value based on the mark to market value quoted for forward interest rate swaps. These quotes are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the measurement date.

The fixed rate on the interest rate swap is 3.94% per annum.

## 15. Contributed equity

| Details | No. securities[(1)] | APDC Group 2016 $'000 | APDC Group 2015 $'000 |
|---|---|---|---|
| **Equity** | | | |
| Ordinary securities - fully paid | 115,000,100 | 116,260 | 116,260 |
| **Movements in equity** | | | |
| Opening balance | 115,000,100 | 116,260 | 116,260 |
| **Closing balance** | **115,000,100** | **116,260** | **116,260** |
| **Represented by:** | | | |
| APDC Holdings | | 1,150 | 1,150 |
| APDC Trust | | 115,110 | 115,110 |
| | | **116,260** | **116,260** |

[(1)] Includes shares of APDC Holdings and units in APDC Trust, which are stapled. Refer to note 3(b) for details of the accounting for this stapling arrangement.

### Stapled securities

Each stapled security comprises one share in APDC Holdings and one unit in APDC Trust. They cannot be traded or dealt with separately. Stapled securities entitle the holder to participate in distributions and the proceeds on winding up of the Group entities in proportion to the number of securities held. On a show of hands every holder of stapled securities present at a meeting in person or by proxy, is entitled to one vote. On a poll, each ordinary shareholder is entitled to one vote for each fully paid share and each unit holder is entitled to one vote for each fully paid unit.

**Notes to the consolidated financial statements**

## 16. Reserves

### (a) Movement in reserves

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| **Asset Revaluation Reserve** | | | | |
| Opening balance | - | - | 27,402 | 11,802 |
| Transfer from undistributed income | - | - | 20,700 | 15,600 |
| Closing balance | - | - | 48,102 | 27,402 |
| **Cashflow hedge reserve** | | | | |
| Opening balance | - | - | (624) | (393) |
| Movement in effective cashflow hedges | - | - | (13) | (231) |
| Closing balance | - | - | (637) | (624) |
| **Total reserves** | - | - | **47,465** | **26,778** |

### (b) Nature and purposes of reserves

Asset revaluation reserve

Investment properties are carried at fair value at each reporting date with any gain or loss arising from a change in fair value recognised in profit or loss in the year. At the end of each reporting period, any unrealised gain or loss arising from a change in the fair value of investment properties is transferred from undistributed income to the asset revaluation reserve. The asset revaluation reserve comprises the unrealised gains or losses arising from changes in the fair value of investment properties (excluding rent on unimproved land for properties under construction).

Cash flow hedge reserve

The cash flow hedge reserve is used to record the effective portion of changes in the fair value derivatives that are designated as cash flow hedges. Refer to Note 3(m).

## 17. Net tangible assets

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Total assets | 192,864 | 171,858 | 191,730 | 170,733 |
| Total liabilities | (28,983) | (28,726) | (28,999) | (28,751) |
| **Net tangible assets** | **163,881** | **143,132** | **162,731** | **141,982** |
| Total number of securities on issue | 115,000,100 | 115,000,100 | 115,000,100 | 115,000,100 |
| **Net tangible asset backing per security** | **$1.43** | **$1.24** | **$1.42** | **$1.23** |

**Notes to the consolidated financial statements**

## 18. Cash flows from operating activities

### Reconciliation of profit for the year to net cash flows from operating activities

| | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Profit for the year | 31,664 | 26,159 | 31,664 | 26,159 |
| Non-cash items: | | | | |
| Net gain from fair value adjustment on investment properties | (20,700) | (15,600) | (20,700) | (15,600) |
| Classified as financing activities: | | | | |
| Interest expense and finance costs | 1,235 | 1,434 | 1,235 | 1,434 |
| Changes in assets and liabilities: | | | | |
| (Increase)/decrease in assets | 1 | 56 | - | 56 |
| Increase/(decrease) in liabilities | 52 | (44) | 43 | 13 |
| **Net cash flows from operating activities** | **12,252** | **12,005** | **12,242** | **12,062** |

## 19. Related party disclosures

### (a) Parent entity

The immediate and ultimate parent entity of the Group is APDC Holdings Limited. Refer to Note 21.

### (b) Controlled entities

These financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy disclosures as described in Note 3:

| | Ownership interest |
|---|---|
| APDC Limited | 100% |
| APDC Trust | - |

### (c) Key management personnel compensation

The key management personnel compensation for the year comprises:

| | APDC Group 2016 $ | APDC Group 2015 $ | APDC Trust 2016 $ | APDC Trust 2015 $ |
|---|---|---|---|---|
| Short-term employee benefits | 464,612 | 447,785 | - | - |
| Post-employment benefits | 44,138 | 39,730 | - | - |
| Termination benefits | - | - | - | - |
| Other long term benefits | - | - | - | - |
| Equity-based payments | - | - | - | - |
| | **508,750** | **487,515** | - | - |

**Notes to the consolidated financial statements**

## 19. Related party disclosures (cont.)

### (d) Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group or APDC Trust during the year ended 30 June 2016 and there were no material contracts involving directors' interests at 30 June 2016.

## 20. Significant party disclosures

### Transactions with NEXTDC Limited

#### Lease agreements

APDC Trust has three data centre investment properties M1, S1 and P1. All of the data centres are leased to NEXTDC for initial terms of 15 years expiring in 2027 and 2028 with options for up to another 25 years. The leases provide for upwards only annual CPI rental increases and market reviews in every fifth year, not exceeding 110% of the preceding year's rent. The rental income for M1, S1 and P1 totalled $13,209,000 for the year (2015: $12,966,000).

The terms of the lease for M1 provide for a market rent review on 21 December 2016. The independent valuation report for M1 as at 30 June 2016 contains a rental assessment which concluded that the rent is at market. If a market rent review is not undertaken, then a CPI review will apply. The terms of the leases for S1 and P1 provide for a market rent review on 21 December 2017.

In the event that the Group wishes to sell M1, S1 and P1, NEXTDC has the first right to acquire these properties.

#### Alliance with NEXTDC

The Group had an alliance with NEXTDC which expired on 21 December 2015. During the alliance period, NEXTDC granted to the Group, for no consideration, the first right to develop or own a data centre on market terms if NEXTDC wished to sell those rights. The Group granted to NEXTDC: first right of refusal to lease (lease rights) and/or, operate, develop, finance or manage (operation rights) on market terms any data centres that the Group acquired, developed or established; the right to consent to the acquisition by the Group of any data centre where the lease rights or operations rights cannot be offered to NEXTDC; the right to consent to the sale of assets to a NEXTDC competitor and the right to consent to the acquisition or development of any land or data centre. The rights under the alliance period applied to any data centre or land in Australia or Asia Pacific region.

During the term of the alliance period, no suitable opportunities were identified and the rights were not exercised by either party.

#### NEXTDC transactions and balances recognised in the consolidated financial statements

| Consolidated Statement of Profit or Loss and Other Comprehensive Income | APDC Group 2016 $'000 | APDC Group 2015 $'000 | APDC Trust 2016 $'000 | APDC Trust 2015 $'000 |
|---|---|---|---|---|
| Rental income | 13,209 | 12,966 | 13,209 | 12,966 |

**Notes to the consolidated financial statements**

### 21. Parent entity financial information

As at, and throughout the financial year ended 30 June 2016, the parent entity of the Group was APDC Holdings Limited.

| (a) Summary financial information | APDC Holdings 2016 $'000 | APDC Holdings 2015 $'000 |
|---|---|---|
| **Results of parent entity** | | |
| Profit for the year | - | - |
| Other comprehensive income | - | - |
| **Total comprehensive income for the year** | **-** | **-** |

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Financial position of the parent entity at year end** | | |
| Current assets | 278 | 339 |
| Total assets | 1,340 | 1,327 |
| Current liabilities | 190 | 177 |
| Total liabilities | 190 | 177 |
| Contributed equity | 1,150 | 1,150 |
| Reserves | - | - |
| Retained earnings | - | - |

#### (b) Guarantees

No guarantees have been entered into by the parent entity.

#### (c) Contingencies

The parent entity did not have any contingent liabilities at 30 June 2016 (30 June 2015: $nil).

#### (d) Capital commitments

The parent entity did not have any capital commitments at 30 June 2016 (30 June 2015: $nil).

### 22. Capital expenditure commitments

Capital expenditure contracted for at 30 June 2016 but not recognised as liabilities was $nil (30 June 2015: $nil).

### 23. Contingent liabilities

There are no contingent liabilities for Group or APDC Trust at 30 June 2016.

### 24. Subsequent events

Since the end of the year, the Directors of APDC Holdings and APDC Limited are not aware of any matter or circumstance not otherwise dealt with in the financial reports or the Directors' Report that has significantly affected or may significantly affect the operations of the Group or APDC Trust, the results of those operations or the state of affairs of the Group or APDC Trust in financial years subsequent to the year ended 30 June 2016.

## Directors' Declaration

The directors of Asia Pacific Data Centre Holdings Limited and Asia Pacific Data Centre Limited as responsible entity for Asia Pacific Data Centre Trust (collectively, 'the Directors') declare that:

(a) the Financial Statements and notes as set out on pages 15 to 43 and the Remuneration Report in the Directors' Report as set out on pages 9 to 11 for Asia Pacific Data Centre Holdings Limited and its controlled entities (Group) and Asia Pacific Data Centre Trust (APDC Trust), are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the Group's and APDC Trust's financial positions at 30 June 2016 and of their performance for the year ended on that date; and

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;

(b) there are reasonable grounds to believe that the Group and APDC Trust will be able to pay their debts as and when they become due and payable; and

(c) note 2(a) 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 declaration by the Chief Executive Officer required by section 295A of the Corporations Act 2001 for the year ended 30 June 2016.

This declaration is made in accordance with resolutions of the Directors of Asia Pacific Data Centre Holdings Limited and Asia Pacific Data Centre Limited as responsible entity for Asia Pacific Data Centre Trust.

Ian Fraser
Chairman

Brisbane
23 August 2016

# Independent Auditor's Report to the stapled security holders of Asia Pacific Data Centre Holdings Limited and Asia Pacific Data Centre Trust

## Report on the Financial Report

### Opinion

In our opinion, the accompanying ***Financial Report*** of Asia Pacific Data Centre Holdings Limited and Asia Pacific Data Centre Trust is in accordance with the *Corporations Act 2001*, including:

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

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

The Financial Report also complies with International Financial Reporting Standards as disclosed in note 2(a).

We have audited the accompanying Financial Report of the ***Group and Trust***.

The ***Group*** consists of Asia Pacific Data Centre Holdings Limited (the Company) and the entities it controlled at the year's end and from time to time during the financial year.

The ***Trust*** is Asia Pacific Data Centre Trust.

The ***Financial Report*** comprises:

- Statements of financial position as at 30 June 2016.
- Statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended.
- Notes 1 to 24 including a summary of significant accounting policies and other explanatory information.
- the Directors' Declaration.

### *Basis for opinion*

We conducted our Audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Financial Report is free from material misstatement.

Our responsibilities under those Standards are further described in the *Auditor's Responsibility* section of our report.

We are independent of the Group and Trust in accordance with the *Corporations Act 2001* and the relevant 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 reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### *Key Audit Matter*

The ***Key Audit Matter*** we identified is:

Valuation of investment property ($187m)

***Key Audit Matters*** are those matters that, in our professional judgement, were of most significance in our Audit of the Financial Report of the current period.

These matters were addressed in the context of our Audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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### *Valuation of investment property ($187m)*

Refer to Note 12 to the Financial Report.

*The key audit matter*

Valuation of investment properties is considered to be a key audit matter due to:

- the significance of the three data centres to the financial statements of the Group and the Trust;
- the specialised nature of data centres which requires judgement by us to assess the appropriateness of the valuation methodologies and inputs. The Group has appointed external valuers to assist in this process; and
- the low volume of comparable market transactions for data centres available to corroborate valuation inputs and assumptions such as rents, yields, capitalisation rates and discount rates.

*How the matter was addressed in our Audit*

Our audit procedures included:

- assessing the scope, expertise and independence of the external valuers used by the Group;
- evaluating the Group's process for reviewing and adopting the valuations by comparing to the Group's internal framework for assessing valuations;
- evaluating the appropriateness of the valuation methodologies selected by each valuer to determine the fair value of the data centres to accepted market practices and our industry experience; and
- independently assessing the key inputs adopted by each valuer to available market transactions for data centres, other specialised property assets and other comparable property classes such as industrial property.

### Directors' Responsibility for the Financial Report

The Directors of Asia Pacific Data Centre Holdings Limited and the Directors of Asia Pacific Data Centre Limited, the Responsible Entity of Asia Pacific Data Trust (collectively referred to as "the Directors") are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 2a, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the Financial Report complies with International Financial Reporting Standards.

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the Financial Report based on our audit. 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They 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.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error. This is because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors, as well as evaluating the overall presentation of the Financial Report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Group's and Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group and Trust to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Reports represent the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Trust to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group Audit. We remain solely responsible for our Audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the Audit and significant audit findings, including any significant deficiencies in internal control identified during our Audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

### *Report on the Remuneration Report*

## Opinion

In our opinion, the Remuneration Report of Asia Pacific Date Centre Holdings Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

**Directors' responsibilities**

The Directors of Asia Pacific Data Centre Holdings Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*.

**Our responsibilities**

We have audited the Remuneration Report included in section 6 of the Director's Report for the year ended 30 June 2016.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with Australian Auditing Standards.

KPMG

Jillian Richards

**KPMG**

**Jillian Richards**
**Brisbane**
**23 August 2016**