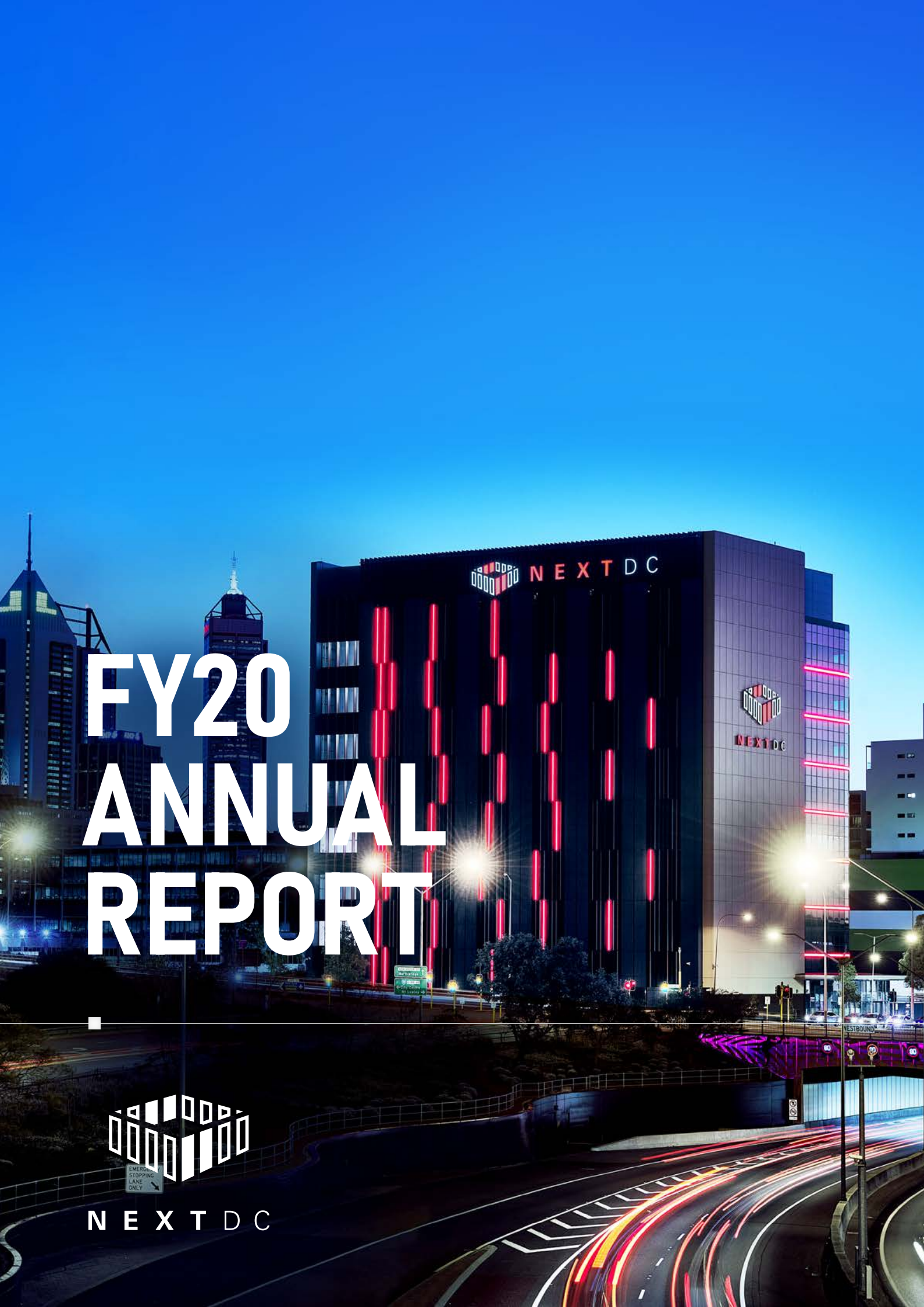


FY20 ANNUAL REPORT



NEXTDC



AWARDS AND CERTIFICATIONS

FROST & SULLIVAN

- 2020 Leader: Australian Data Centre Services Radar Report
- 2019 Winner: Visionary Innovation Leadership Award, Global Data Centre Infrastructure and Operations
- 2017 Winner: Data Centre Services Growth Excellence
- 2016 Winner: Data Centre Services Growth Excellence Leadership Award
- 2014 Winner: Australia Data Centre Service Provider of the Year Award

UPTIME BRILL AWARDS, ASIA-PACIFIC

- 2019 Winner: Best Practices Award - Global Data Centre Infrastructure and Operations Visionary Innovation Leadership Award
- 2015 Winner: Efficient IT in the Product Solutions category

DATACENTER DYNAMICS AWARDS

- 2018 Winner: Data Centre Operations Team of the Year, Asia-Pacific
- 2018 Winner: Data Centre Operations Team of the Year, Global
- 2018 Winner: Data Centre Design Team of the Year, Global
- 2014 Winner: S1 Sydney – Innovation in the Mega-Data Centre

DELOITTE TECH FAST AWARDS

- 2014 #1 Deloitte Technology Fast 50 Australia
- 2014 #6 Deloitte Technology Fast 500 APAC
- 2017 #5 highest revenue of Fast 100 companies
- 2014 #3 fastest-growing Australian company over the past three years

QUEENSLAND AWARDS

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

ARN ICT INDUSTRY AWARDS

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

MASTER BUILDERS ASSOCIATION EXCELLENCE IN CONSTRUCTION AWARDS

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

LORD MAYOR'S BUSINESS AWARDS

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

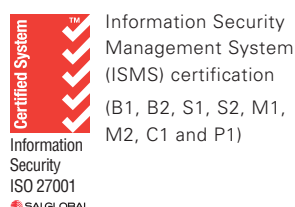
DATACLOUD ASIA

- 2017 Excellence in Data Centre IT Architecture and Design

UPTIME INSTITUTE



ISO 27001:2013



ISO 9001:2015



ISO 14001:2015



NABERS

M1 Melbourne



S1 Sydney

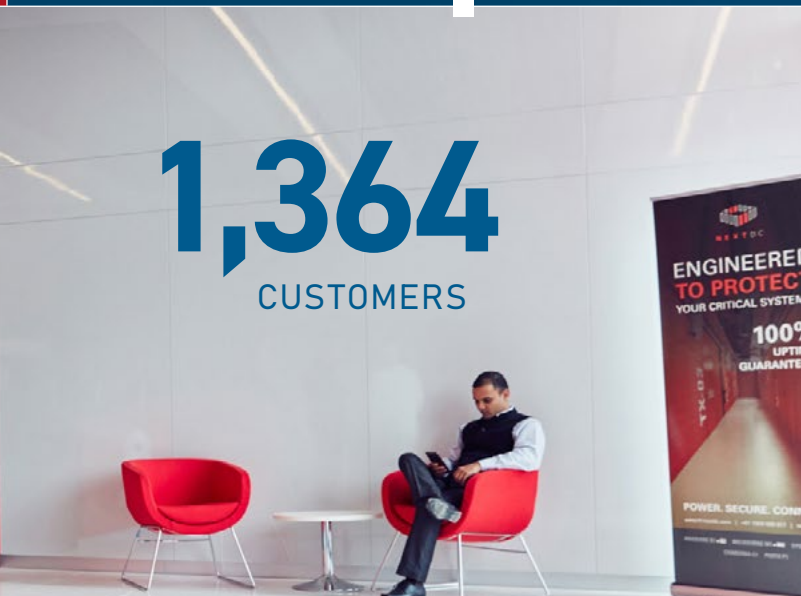
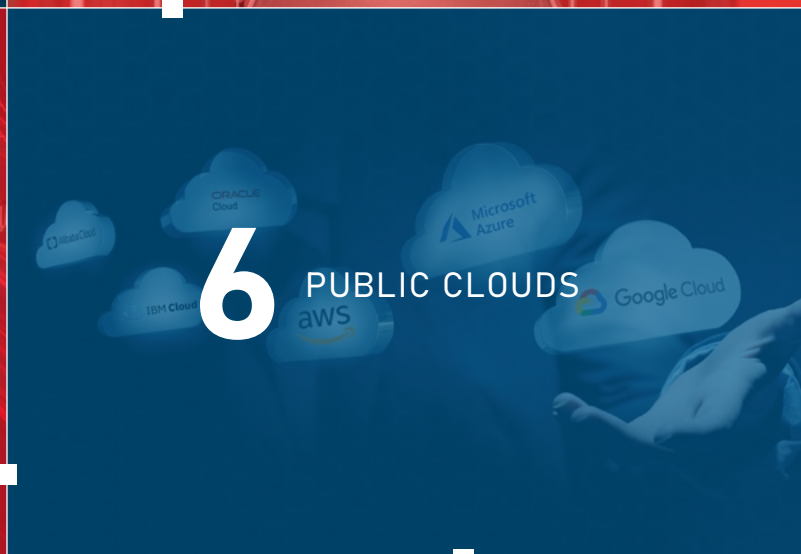
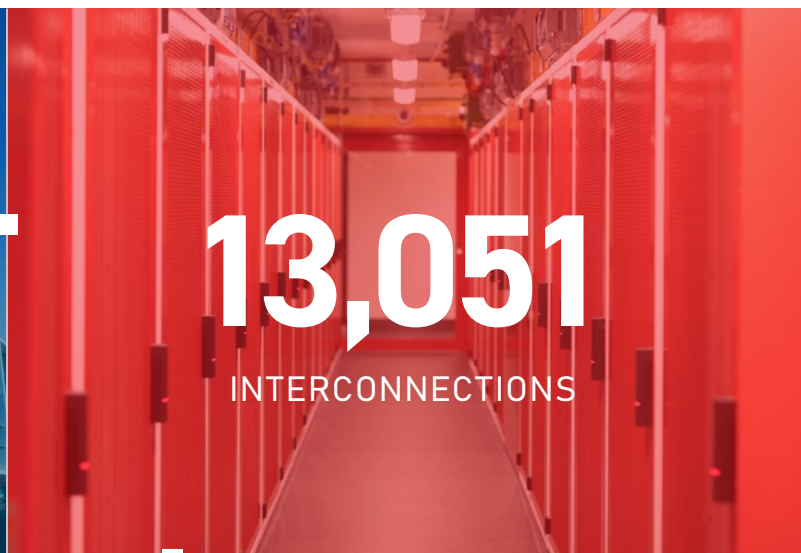




NEXTDC

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HIGHLIGHTS





640+
PARTNERS



100%
CARBON NEUTRAL
CORPORATE OPERATIONS



248
EMPLOYEES

LETTER FROM THE CHAIRMAN AND CEO



Douglas Flynn
Chairman



Craig Scroggie
CEO

On behalf of NEXTDC, we welcome our shareholders to this year's Annual Report, which covers the 12-month financial reporting period ending 30 June 2020. This year's financial report details a year of strong growth, including improved benchmarks for new sales, infrastructure development, revenue and EBITDA performance.

In May 2020, we celebrated our 10th anniversary since foundation, bringing closure to a decade in which NEXTDC has diligently focussed on our vision of building the nation's leading data centre infrastructure platform for the digital age. Shortly after this, our sustained growth saw NEXTDC's market capitalisation elevate the Company into the ASX 100 index. It has been an exciting journey watching the Company grow from a start-up, to becoming one of Australia's 100 largest publicly listed companies by market capitalisation in just ten years.

Both milestones allowed us to reflect on our achievements, setting new industry standards for reliability, efficiency, sustainability, connectivity and security. Additionally, it pinpointed the start of the next decade, which promises further accelerated growth and innovation. Whilst the past ten years has seen us build a scalable and sustainable platform, it is the opportunities in the next ten years that excite us the most.

Acceleration of the 4th industrial revolution – the cyber physical age

Digital transformation continues to change the world in exciting and disruptive ways. Today, any individual with a smart phone has the sum of all human knowledge in the palm of their hands and the potential to collaborate with over 4.5 billion other people. Meanwhile, Government and enterprise organisations continue to invest to engage in an enormous online community and now rely on information technology, in some form or another, to manage many, if not most, operational processes involving communications, transactions, compliance, data, privacy and governance.

Industry analysts, IDC¹ have estimated that the total volume of data in existence is doubling every 18 - 24 months and that rate of growth is accelerating as a range of technology megatrends including cloud computing, blockchain, the internet of things, mobile 5G, augmented reality and artificial intelligence continue to be applied in new and extended ways. This expected increase in demand for digital infrastructure is clearly represented in NEXTDC's FY20 financial statements. Over the last 12 months, we experienced a record level of sales with contracted utilisation increasing by 17.4MW, a number which represents by far the single largest sales performance in the company's ten year history, comprehensively beating the previous record (12.3MW) set in FY19.

Statistics define future growth

IDC² research from late 2019, continues to support our confidence for industry growth in data centre services.

It forecasts³ that global investment in public cloud services and infrastructure will more than double over the period from 2019 to 2023. Public cloud spending is expected to grow from \$229 billion in 2019 to nearly \$500 billion in 2023. This represents a CAGR of 22.3%. The prediction for APAC is even stronger with a CAGR of 33.9%⁴ for the same services with the market almost tripling to reach \$76.1 billion over the stated time period. IDC identified Australia as APAC's second largest market with current spending of \$3.9 billion annually on cloud infrastructure and services.

Power, Secure, Connect

Servicing this digital acceleration with the world's best practices is what NEXTDC excels at and that has been the source of the Company's sustained growth over the last ten years. We provide the critical infrastructure that secures the data, powers the platforms and systems processing it and connects the people, organisations and communities that are dependent on this technology.

Global pandemic driving accelerated technology adoption

While cost efficiencies, productivity improvements and customer experience enhancements have been driving the adoption of these megatrends in recent years, a one-in-100-year health crisis during FY20 has served to steepen the growth curve and accentuate the role of digital infrastructure as an essential service.

The extraordinary events that have unfolded globally as a result of the COVID-19 pandemic introduced new barriers to traditional business models including social distancing, closed borders, grounded flights and supply chain disruptions. In a matter of weeks, the global economy was forced to re-think how people live and work, how organisations interact, collaborate, and sell with businesses immediately turning their focus to their infrastructure platforms to support new ways of working. These macro impacts on all industries have in turn driven exponential increases in data usage and therefore increased the dependence organisations and individuals have on digital infrastructure. IDC forecasted⁵ in June 2020 that COVID-19 has pushed the digital transformation initiatives for many organisations ahead by two to three years as a digital response to the crisis.

New ways of doing business

This global pandemic has generated new standard operating procedures for many organisations and these are often activities that rely on digital platforms and connected ecosystems to function. This pivotal moment in history is now also sparking a new round of innovation that leverages digital solutions to meet present challenges and in readiness for future unexpected change. The flexibility, agility, and resilience that is inherent in cloud platforms, colocation facilities and connected

1 <https://www.emc.com/leadership/digital-universe/2014iview/executive-summary.htm>

2 <https://www.idc.com/getdoc.jsp?containerId=prUS45340719>

3 https://www.idc.com/getdoc.jsp?containerId=IDC_P33214

4 <https://www.idc.com/getdoc.jsp?containerId=prAP45431219>

5 <https://www.idc.com/getdoc.jsp?containerId=US46640120>

ecosystems have been critical to enabling organisations to respond quickly, keep their teams connected, enact business continuity plans and set a course for the less predictable future.

Video collaboration providers are a leading example of user growth and platform adoption instigated by widespread mandated social distancing. In March Microsoft⁶ said it had seen a 110% increase in daily users since November. In April Microsoft reported that daily users had jumped a further 70%, increasing to more than 75 million daily active users. During the same time, we saw massive online demand from retailers as they ramped up online stores to meet increased demand from customers needing to shop from home.

The new transformed workplace

New trends such as working from home, remote teaching and learning, online shopping, virtual events, entertainment on-demand, video meetings, and contactless sales and customer engagement processes are further driving demand for digital infrastructure services. Data centres such as those built and operated by NEXTDC, and the connected ecosystems they house, are critical to enabling these new essential services to maintain some degree of normality in a time of great upheaval.

Similarly, large numbers of individuals have a new requirement to access Government services or stay in contact with loved ones through social media tools and platforms. As a result, we have seen significant growth of new and upgraded connectivity services and revenues in Q3 and Q4 of FY20, as organisations pivoted to online systems and rapidly deployed new virtual capacity. There was also an accelerated deployment of secondary systems as organisations bolstered redundancy, back-up and disaster recovery planning as new realities heightened the need for 100% availability of their critical systems.

Increased demand for remote, technical expertise

New social distancing and stay-at-home mandates during the COVID-19 crisis placed added emphasis on our professional services. Our highly skilled technical services teams are 100% focussed on delivering outstanding service to our customers when onsite assistance is required. As a direct result of the pandemic, during Q3 and Q4 of FY20, we saw a noticeable uptick in demand for our connectivity and remote support services. In a landscape where social distancing and restricted physical access is paramount to the safety, health and wellbeing of everyone and with many customers looking to provision new and upgraded connectivity, our teams stepped in where required, to manage the hands-on tasks that were often previously undertaken directly by customers. The agility of our service delivery teams in this area has been very well received by customers. We expect there will be a flow-on effect when the situation stabilises. This will see this revenue stream continue to grow, based on the efficiency and convenience it introduces to organisations which would otherwise have required frequent visits to our data centre facilities.

Renewed focus on safety and wellbeing

At NEXTDC, safety is everyone's responsibility and developing a safety-first culture is an ongoing key business priority.

NEXTDC's commitment to providing and maintaining a safe and healthy work environment has faced some unique challenges in FY20 and during the COVID-19 pandemic, resulting in our establishment of new processes and protocols across the business to protect our customers, suppliers and teams. We continue to commit the resources necessary to maintain a

safe working environment, and ensure the ongoing operation of the business and health of our team.

In addition to our COVID response, we have implemented strategies to renew and enhance our workplace safety management across both our operational and capital works portfolios. We continuously review and improve our systems and work closely with our stakeholders, including customers and suppliers, to align ourselves with industry best practice, and achieve our ultimate goal of zero injuries.

A central role for data centres in present and future transformation

Even before COVID-19, leading research and advisory firm, Gartner⁷, was predicting that 80% of all organisations will shift their workloads to colocation and cloud-based computing models by 2025, with the global market for Hybrid Cloud⁸ expected to reach a value of \$138.6 billion by 2023. It is now expected that these predictions will be conservative as the present situation continues to evolve and digital innovation accelerates. With a more distributed workforce, organisations are seeking to bring their critical infrastructure within closer proximity to the clouds and other services that are enabling their digital transformations.

New challenges driving Hybrid and Multi-Cloud adoption

Post COVID-19 research from Global Workplace Analytics⁹ showed that as many as 77% of knowledge workers want to continue working from home at least some of the time while 74% of organisations surveyed by Gartner¹⁰ in April 2020 were planning for some workers to be permanently remote. Hybrid computing and extended connectivity solutions are key to supporting working from home initiatives. Increasingly, customers are looking to connect to multiple clouds for disparate workloads based on which platform is the best and most cost effective for the task at hand. Our flexible national AXON platform – which connects to all of them – is making that choice possible, convenient, and affordable. This accelerating Hybrid and Multi-Cloud adoption continues to be the primary driver of demand as enterprises transition from their inefficient, legacy office-based data centres and migrate to the security, scalability and network flexibility offered by colocation data centres such as those operated by NEXTDC.

Where the cloud lives™

NEXTDC is where the cloud lives. Hybrid and Multi-Cloud strategies create a new world of possibilities, helping customers harness the digital age by bringing on-premise data centre infrastructure and public and private cloud platforms together within our ecosystem, and seamlessly connecting them. Combining legacy infrastructure with on-demand, pay-per-use computing facilitates reduces costs and provides flexibility to rapidly scale up and down in response to internal or external change. By accessing fit-for-purpose technology when and how it suits them, organisations can focus on technology strategies that increasingly reflect the dynamic and fluid nature of the ever-changing global landscape we are experiencing today. By supporting the complex security, data sovereignty, and privacy imperatives that all play a role in helping organisations decide where their information will live, they can retain focus on their unique vision and purpose.

Hyperscale data centres connecting a Multi-Cloud universe

Our strategic partnerships with the world's leading technology companies such as AWS (Amazon Web Services), Microsoft,

6 <https://www.theverge.com/2020/4/29/21241972/microsoft-teams-75-million-daily-active-users-stats>

7 <https://www.gartner.com/en/newsroom/press-releases/2018-12-04-gartner-identifies-the-top-10-trends-impacting-infras#:~:text=Winser,Death%20of%20the&text=Gartner%20predicts%20that%20by%202025,down%20their%20traditional%20data%20center>

8 [https://www.globenewswire.com/news-release/2019/11/05/1941389/0/en/The-global-hybrid-cloud-market-was-valued-at-USD-40-62-billion-in-2017-and-is-expected-to-reach-a-value-of-USD-138-63-billion-by-2023-at-a-CAGR-of-22-70-during-the-forecast-period-.html#:~:text=Filings%20Media%20Partners-,The%20global%20hybrid%20cloud%20market%20was%20valued%20at%20USD%2040.62,during%20the%20forecast%20period%20\(2018](https://www.globenewswire.com/news-release/2019/11/05/1941389/0/en/The-global-hybrid-cloud-market-was-valued-at-USD-40-62-billion-in-2017-and-is-expected-to-reach-a-value-of-USD-138-63-billion-by-2023-at-a-CAGR-of-22-70-during-the-forecast-period-.html#:~:text=Filings%20Media%20Partners-,The%20global%20hybrid%20cloud%20market%20was%20valued%20at%20USD%2040.62,during%20the%20forecast%20period%20(2018)

9 [https://www.globenewswire.com/news-release/2019/11/05/1941389/0/en/The-global-hybrid-cloud-market-was-valued-at-USD-40-62-billion-in-2017-and-is-expected-to-reach-a-value-of-USD-138-63-billion-by-2023-at-a-CAGR-of-22-70-during-the-forecast-period-.html#:~:text=Filings%20Media%20Partners-,The%20global%20hybrid%20cloud%20market%20was%20valued%20at%20USD%2040.62,during%20the%20forecast%20period%20\(2018](https://www.globenewswire.com/news-release/2019/11/05/1941389/0/en/The-global-hybrid-cloud-market-was-valued-at-USD-40-62-billion-in-2017-and-is-expected-to-reach-a-value-of-USD-138-63-billion-by-2023-at-a-CAGR-of-22-70-during-the-forecast-period-.html#:~:text=Filings%20Media%20Partners-,The%20global%20hybrid%20cloud%20market%20was%20valued%20at%20USD%2040.62,during%20the%20forecast%20period%20(2018)

10 <https://www.gartner.com/en/newsroom/press-releases/2020-04-03-gartner-cfo-survey-reveals-74-percent-of-orgs-to-shift-some-employees-to-remote-work-permanently>

Google, IBM, Oracle and Alibaba continue to grow. When combined with our extensive Cloud Centre partner ecosystem of over 640 of Australia's ICT services providers, this ubiquitous cloud connectivity allows us to offer our customers the widest range of choice for the delivery of their Multi-Cloud enterprise architectures. Recent analysis from Modor Intelligence¹¹ estimated that the global Data Centre Interconnect market is expected to grow by 14% during the 2020 - 2025 forecast period, while nominating connectivity to cloud and growing demand for content-based delivery as the driver behind this growth.

NEXTDC houses Australia's richest cloud ecosystem and offers a comprehensive portfolio of rapidly deployed, scalable connectivity services across our facilities, metro networks, national fabric and into diverse international digital environments. We are already seeing customer demand for connectivity growing rapidly, a trend that will only continue as organisations proactively address their security, business continuity and customer experience challenges through resilient, flexible intelligent networks.

Enterprise customer growth

Success in attracting hyperscale customers to NEXTDC is a critical component to continued growth in our enterprise customer base. As public cloud providers build their expanded availability zones within our facilities, this has a roll-on effect on attracting enterprise customers who are looking to take advantage of the resilience, connectivity costs and performance advantages of placing their critical physical infrastructure within close proximity to the cloud platforms that are enabling their digital transformation.

This phenomenon shows in the FY20 performance within the NEXTDC sales organisation. Crucial to the growth performance during FY20, we attracted 180 new enterprise customers across the data centre footprint. Especially pleasing is the fact that our new customers are coming from a large diversity of industry verticals including Government, financial services and insurance, resources, health, media and entertainment, professional services and retail. Going forward, as an organisation we will be investing significantly in growing this focus on direct customer relationships by verticals, side-by-side with our focus on hyperscale and technology services partnerships.

Innovation, engineering, and design compliance

In FY20, NEXTDC continued to be recognised for its global leadership in engineering and design that delivers industry leading customer experience, energy efficiency and safety outcomes. NEXTDC's B2 and M2 data centres were the first and remain the only facilities in Australia to receive Uptime Institute (UI) Tier IV certification of Constructed Facility.

Our newest second generation facilities have already achieved UI Tier IV Design certification and are now completing the official UI Tier IV certification process for the built environment. With S2 having achieved final completion in support of unprecedented demand soon after the end of FY20, and P2 opening to the public in July, our second-generation expansion is well underway, and we now look to S3, NEXTDC's first third-generation facility.

Raising the bar through operational excellence

Our focus on supporting our customers through operational excellence continued in FY20, ensuring NEXTDC's facilities retain their position as the safest, most resilient and energy efficient data centres in the Australian market. The Uptime Institute's (UI) Gold Operational Sustainability standard, which S1, P1, B2 and M2 have achieved, recognises the multiple organisational, supply chain and human factors that must be actively managed in order to deliver a 100% uptime guarantee.

Our data centres are the only colocation facilities in the Southern Hemisphere to achieve this level of independently

certified operational excellence, and NEXTDC intends to add its newest facilities to this list in due course. It is well worth keeping in mind that success in the data centre arena goes well beyond designing and building to the industry's highest standard but maintaining and operating them also.

International validation of NEXTDC quality

NEXTDC continues to accumulate international endorsement of its continued pursuit of excellence in the data centre industry. During Q2 FY20, leading global industry analyst Frost & Sullivan¹² announced that NEXTDC was the winner of its 2019 Global Visionary Innovation Leadership award and recognised as their Global Company of the Year. Judged against some of the biggest data centre services providers in the world, this award demonstrated that our business, facilities and operations out-perform the competition when measured against a range of criteria including vision, growth, innovation, culture, sustainability and technical sophistication.

On a local level, the 2020 Frost Radar¹³ report released in May 2020 recognised NEXTDC as the market leader in the Australian data centre industry based on its established growth and innovation metrics, and commitment to delivering customer value. Frost & Sullivan commended NEXTDC on its commitment to innovation and sustainable operations as well as continued research, development investments, and its effective strategic partnerships.

Energy efficiency and sustainability leadership

NEXTDC maintains its commitment to delivering the highest levels of energy efficiency driven by innovative design, engineering, and operational excellence. Offering customers Australia's most environmentally friendly, sustainably managed data centres is a core objective. Our M1 and S1 data centres have become the first in Australia to achieve a National Australian Built Environment Rating System (NABERS) 5-Star rating for energy efficiency. Achieving this unparalleled benchmark demonstrates our global leadership in energy efficiency and sustainability. NEXTDC is proud to own and operate its own solar array on the roof of its M1 data centre and has also been a Principal Partner to the Melbourne Renewable Energy Project (MREP) since its inception in 2014.

Real-time facility tuning for optimal efficiency

Our award-winning facilities management, central operations and engineering teams collaborate closely to continually improve the efficiency of the facilities. Together they have implemented an in-house-developed operational framework that optimises performance through a real-time tuning Regimen that adjusts cooling plant settings such as fan speeds, water pressure and approach temperatures to align computing load with prevailing external weather conditions. This critical body of work has continued to improve our industry leading power efficiency which in turn reduces the power costs and carbon footprint of IT for our customers.

Building the platform for the digital economy

In the past 12 months, NEXTDC once again set new benchmarks with a capital development program that exceeded FY19's record levels. Continuing to build geo-diversity around cloud availability is an important component of our vision and purpose to design, engineer and operate the critical digital infrastructure that will support our customers' needs to digitally transform their operations and thrive in the information economy.

Continually extending the availability and geo-diversity of our world class infrastructure and supporting our customers' growth requirements in existing and new availability zones are key drivers behind the decisions we make on where to invest the Company's capital.

¹¹ <https://www.modorintelligence.com/industry-reports/data-center-interconnect-market>

¹² <https://www.nextdc.com/news/nextdc-earns-acclaim-frost-sullivan-its-technology-and-customer-focus-data-centre-industry>

¹³ <https://www.nextdc.com/news/frost-sullivan-recognises-nextdc-leader-australian-data-centre-market>

Facilitating hyperscale growth in Victoria

Anticipated hyperscale growth in Victoria has materialised during FY20 with large orders necessitating a tripling of capacity at the M2 site and representing the decentralisation of cloud availability from Sydney, some three years ago when we began development of the M2 site in Melbourne's north. The first of six new data halls built with unprecedented flexibility for customised internal design and capacity optimisation, delivered through design and engineering innovation, is scheduled to be handed over to customers during FY21 and into FY22.

Supporting continued demand growth in Sydney

During FY20, growth in demand from customers in NSW saw the Company reach contracted utilisation of 36MW in this region, with additional customer demand forecast in the near term. This growth saw us reach a significant capacity milestone, setting plans in motion for the construction of our first third-generation data centre, S3 Sydney, which will enhance our support of in-region growth and the digitalised infrastructure requirements of organisations locally.

S2 30MW multi-storey hyperscale development

During FY19 we welcomed early access customers into our S2 Sydney data centre. Throughout FY20 we continued to deliver further capacity for multiple customers. S2 is a ground-breaking development in the context of the data centre industry in Australia, delivering 30MW of critical capacity and interconnectivity to the local market. Utilising new design innovations and technical excellence benchmarks in a multi-storey development, demand for space in S2 remains strong. Contracted utilisation is outstripping expectations and increased to more than 20MW at the end of FY20, with a strong pipeline of opportunity in FY21 to support the growing digital infrastructure requirements of customers in the near-term. This represents a significant opportunity for NEXTDC to further extend its lead in the data centre industry as we move into our third-generation developments and beyond.

Delivering digital growth opportunities to WA

Just after FY20 year end, our second-generation facility in Perth, P2 was formally opened and represents a significant new technology platform in the city's CBD which is set to accelerate economic development in the region. Largely built during the reporting period, completing P2 Perth represented one of the two major capital investments NEXTDC made during FY20 along with S2 Sydney. P2 has a planned capacity of 20MW and will provide inventory to service digital growth in this region for years to come.

P2 has been UI Tier IV certified for Design with Construction certification underway. Its connection by subsea cable to Sydney and Singapore ensures that it provides an unprecedented opportunity for local, national, and global enterprises to expand their digital footprint in this region. Directly connected to P1, it opened with immediate access to Western Australia's most connected ecosystem of partners, ICT service providers and cloud platform on-ramps. By providing geographic diversity from P1, the new facility delivers unprecedented opportunity for customers to strengthen their availability and business continuity risk profiles through new opportunities to address redundancy, back-up, and disaster recovery within region. It is also creating increased two-way opportunities for organisations to trade, partner and compete in and out of the global digital economy.

Capital raising to fund future growth

Land for S3 was purchased in FY19 with design completed, building approval received and initial earthworks beginning during FY20. Located at Gore Hill, 10km from the Sydney CBD, S3 will be NEXTDC's largest development to date, targeting a total IT capacity of 80MW, which will deliver significant capacity to hyperscale, enterprise and government customers for years to come.

In order to ensure the Company had adequate funds to continue to deliver sufficient inventory to meet customer demand, NEXTDC undertook an \$862 million capital raising in Q4 of FY20 through an institutional placement as well as a Share Purchase Plan for retail investors. As a result of this capital raising, Phase 1 of S3 is fully funded and is expected to come online during 2H FY22.

Network connectivity development

Driven by organic growth as well as organisations responding to new pandemic-induced business continuity challenges around resilience planning, remote working, and online transactions, NEXTDC's Data Centre Interconnect (DCI) and AXON connectivity services once again experienced strong growth during FY20. Our connectivity services enable customers and partners to connect to and leverage the national NEXTDC ecosystem of cloud and other service providers quickly and easily from anywhere on our national platform.

NEXTDC supports Australia's largest number of direct connection capabilities to the world's leading cloud platforms including the only direct access to both Microsoft and Amazon Web Services from the Perth market. In addition to increased demand for direct cloud connectivity from within our facilities, during 2H FY20, many customers bolstered their redundancy, back-up, and disaster recovery planning as dependence on technology grew. By leveraging our metro-based DCI services to connect primary and secondary points of presence our customers gain further assurance there is no single point of failure in their search for 100% availability of their critical systems.

Planning for the next decade of infrastructure developments

In FY20 we continued to review emerging market opportunities in both Singapore and Japan and the Company continues to assess future possible expansion opportunities. We have established offices in each location and see exciting opportunities to leverage the acknowledged excellence and the success the Company has had in Australia into the fastest growing economic region in the world, Asia. Like all activities we undertake, we view these opportunities as generational in nature and remind ourselves that people frequently overestimate what they can achieve in one year and underestimate what can be built in a decade. Our exciting journey and many valuable lessons learnt over the past ten years is an important reminder of that.

This is only the beginning

Over the next few years, we will witness some of the most significant technology advances in our history. With individuals, businesses and Governments adopting technology built on technology, there will be an exponential rate of change, paving the way to a dynamically advanced future that, in some cases, is challenging to predict. The need for organisations to continue adapting to change through technology innovation has only accelerated in response to the one-in-100-year global health crisis that has emerged in 2020. As the world adapts to new norms of social distance and online engagement, one thing we are confident about is the ongoing role NEXTDC will play as the leading infrastructure platform for the digital economy – powering, securing and connecting the world's most valuable resource – data.

On behalf of NEXTDC, we thank you for your ongoing support as we continue our exciting growth trajectory and look forward to sharing more about the success, recent developments and future strategic direction of the Company at our upcoming Annual General Meeting (AGM).



Douglas Flynn
Chairman



Craig Scroggie
CEO

ABOUT NEXTDC

NEXTDC value proposition and business strategy

NEXTDC is an ASX 100-listed technology company enabling business transformation through customer-focused, innovative data centre outsourcing solutions, connectivity services and infrastructure management software.

As Asia's most advanced Data Centre as-a-Service (DCaaS) provider with a nationwide network of Tier III and Tier IV facilities, we deliver enterprise-class colocation services to local and international organisations. With a focus on safety, resilience, sustainability and carbon neutrality, we are building the infrastructure platform for the digital economy by delivering industry leading performance in the three critical components of data centre excellence: Power, Security and Connectivity.

NEXTDC is Australia's most environmentally advanced and certified data centre provider, leading the industry with award-winning engineering solutions, and best-in-class operations. We are the only data centre provider to receive Climate Active certification (formally National Carbon Offset Standard), the only Australian Government endorsed carbon neutral certification. NEXTDC is the only data centre provider to achieve NABERS 5-Star certification, an independently certified and assessed rating for energy efficiency. This allows us to deliver customers the lowest total cost of operations in Australia.

NEXTDC is extending its leadership in data centre services through our advanced Data Centre Infrastructure Management (DCIM) software platform, ONEDC.

NEXTDC is where the cloud lives. Our Cloud Centre partner marketplace comprises the country's largest independent ecosystem of carriers, cloud service and ICT service providers, enabling our customers to source and connect with the critical services they need to build integrated Hybrid Cloud deployments and accelerate their digital transformations.

NEXTDC's carrier and vendor neutrality is the foundation of the Company's channel-preferred sales model – delivering flexibility and scale to partners and end-customers with best-of-breed data centre services.

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

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

Safety First

At NEXTDC, safety is everybody's responsibility. NEXTDC recognises that the health and safety of its customers, suppliers and staff are of the highest priority. NEXTDC fosters a safety-first culture with hazard identification, incident prevention and the active management of all WHS issues being cultural cornerstones of the organisation and key to its success.

NEXTDC is 100% committed to our goal of achieving zero injuries across the business and we continue to commit the resources necessary in order to achieve this goal. NEXTDC continues to promote a safety-first culture which encourages team members to speak up and report any hazards or incidents, all of which are then actively managed.

NEXTDC continues to implement and refine strategies to improve our workplace safety management processes across both our operational and capital works portfolios. We work closely and share safety learnings with our stakeholders, including customers and suppliers, to align with industry best practice and to seek to eliminate conditions which may pose a risk to anyone who works in or visits a NEXTDC data centre.

VISION AND PURPOSE

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

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



NEXTDC's business features

Carrier and vendor neutrality

NEXTDC maintains true neutrality in the marketplace and adopts a partner-preferred go-to-market strategy. By not offering IT managed services and not competing with the ICT channel unless customers mandate it, more organisations are encouraged to join NEXTDC's nationwide Cloud Centre community and leverage the diverse onsite connectivity options available to develop 'best-of-breed' integrated solutions for their customers. As customer demands grow, building a platform that is available to every potential partner and customer, irrespective of which other partners they choose, is critical to creating a flexible, preferred offering for every cloud computing provider, commercial enterprise and Government agency.

Simplified national data centre service

A key competitive advantage for NEXTDC is the Company's nationwide data centre footprint located across five of Australia's largest capital cities: Sydney, Melbourne, Brisbane, Canberra, and Perth. This allows organisations to engage a single, nationwide data centre partner under one contract, offering consistent pricing, service level agreements and an industry leading 100% uptime guarantee to ensure one consistent and seamless customer experience, regardless of location. In addition to reducing the administrative burden on customers, NEXTDC works closely with each customer to enable them to expand and scale seamlessly to manage their data centre service effectively and efficiently.

World-class facilities and globally recognised expertise

NEXTDC's expert in-house Engineering team adds significant value through meticulous operational cadence and intimate customer engagement on all non-standard design requirements. The same award-winning engineers who design and build our facilities to the industry's highest standards, work collaboratively with NEXTDC customers to help them create customised solutions that meet their specific needs. NEXTDC offers market-leading levels of reliability and availability including a 100% uptime guarantee. This level of assurance and low risk strategy is critical to businesses adopting cloud services, which is teamed with globally recognised best practises around energy efficiency, helping to lower energy costs and our carbon footprint.

Security and compliance for risk management

The Australian Privacy Act and other Government-initiated regulations and recommendations for the protection of sensitive information places comprehensive compliance obligations on Government agencies and enterprise. This often restricts data service users from utilising offshore data storage, leading many organisations to increase control over access to their data by having it hosted in the same legal jurisdiction as their base of operations. As an Australian-owned company, NEXTDC can ensure its role in protecting the data sovereignty of information and infrastructure complies with all Federal Government Security standards.

Every NEXTDC data centre is rigorously secured and protected by strict security systems and multi-layered authentication protocols that protect against unauthorised access. This is achieved without impeding the convenience of those who do have the right of entry. NEXTDC also rigorously adheres to globally recognised best practice standards in the increasingly important area of data security and facilities management. It is critical for us to maintain the efficiency and effectiveness of security and access to our facilities so that we comply with all regulations at the same time as optimising the customer experience. The security excellence we offer is independently verified by ISO 27001:2013 Information Security Management System (ISMS) certification.



CONTINUING TO SUPPORT CHANNEL PARTNERS

Our channel-preferred strategy has resulted in NEXTDC successfully engaging a diverse range of value-adding partners from all over Australia and the world. At the end of FY20, the Company had a total of more than 640 partner organisations including a broad range of local and international cloud platforms, as-a-Service providers, independent software vendors, telecommunications carriers and other connectivity partners.

We continue to up-skill and resource partners to introduce their customers to our facilities, as well as create leads and opportunities generated by our marketing activities. As the business continues to scale, we continue to focus the sales organisation toward the greatest growth opportunities for the business.

NEXTDC's partner ecosystem includes, but is not limited to:

Global public cloud providers:

AWS, Microsoft, Google, IBM, Oracle, and Alibaba

Large IT services providers:

NTT Group, Atos, DXC, NEC, IBM, Thomas Duryea, Logicalis, Data#3, Interactive, Infosys, Wipro

Telecommunications providers:

Optus, Telstra, Vocus, TPG, AT&T, PCCW, Superloop and CenturyLink

Specialist cloud and managed service providers:

Iron Mountain, Netskope, Nexthop, Over the Wire, Blue Connections, ZettaNet, Brennan IT, Cloud Plus and Somerville Group

Hubs for connectivity

NEXTDC's Cloud Centre community is the largest independent network of IT service providers, carriers and cloud providers in Australia. By colocating with a neutral provider like NEXTDC, customers have the flexibility to source and connect to a myriad of expertise and ICT services. Complementing the direct physical connections offered within NEXTDC facilities, our agile AXON virtual interconnectivity platform enables customers to very quickly activate scalable and private connections at incredibly high speeds to any number of clouds and ICT services on-demand, including the Federal Government ICON network. AXON also offers customers direct inter-capital connectivity services between all major capital cities in Australia.

Products and services

NEXTDC is dedicated to providing world-class data centre services and solutions that are scalable, flexible and accessible. NEXTDC's product strategy has been designed to ensure we deliver solutions that optimise power efficiency, offer maximum security and enable direct, high performance cloud connectivity for organisations of all sizes, while delivering unprecedented levels of reliability, cost efficiency and agility.

Data Centre-as-a-Service solutions

NEXTDC's hyperscale colocation services consist of secure, high-density data centre outsourcing solutions. We deliver the highest possible levels of resilience and reliability, and

world-class technical services designed to support our customers on the ground. Customers host their own IT infrastructure within one or many NEXTDC data centres, leveraging our facilities and resources as an extension of their own business. Our DCaaS model has been designed to offer scalability and flexibility throughout the entire infrastructure lifecycle, with data centre solutions ranging from quarter racks to multiple contiguous racks to large custom caged areas for customers to design and custom fit their space to suit their own specific requirements.

Universal connectivity solutions

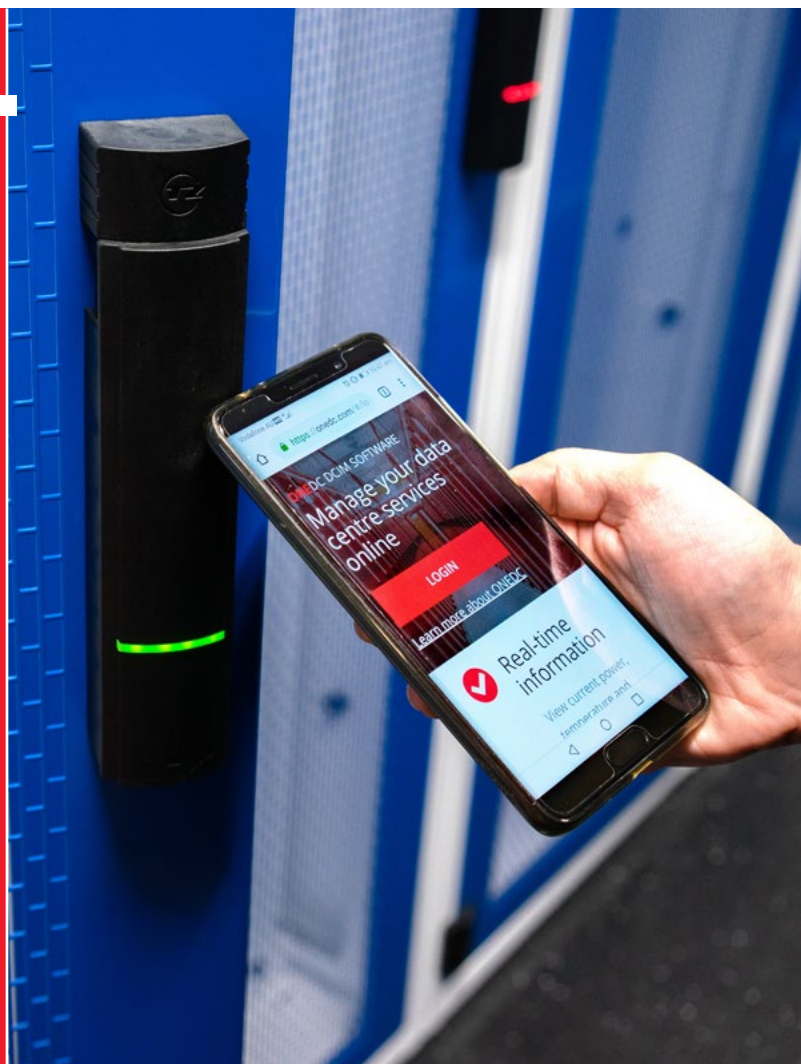
Customers and partners residing anywhere within NEXTDC's national data centre ecosystem have access to Australia's largest network of physical and virtual connectivity options with the highest levels of flexibility, security, and resilience. Our highly connected data centres are home to 12 direct on-ramps to the world's largest cloud platforms, as well as all the major carriers and the biggest cloud solutions providers in this country. Connectivity is the glue that binds the digital economy. No digital transformation strategy is complete without paying close attention to how you are going to connect to your teams, suppliers, partners, and customers. Being able to provide easy access to carriers, Multi-Clouds, and value-adding service providers from within a data centre ecosystem offering a 100% uptime guarantee is a proven roadmap to improved risk management, cost efficiency, network performance and productivity for customers.

CENTRALISED DATA CENTRE ASSET MANAGEMENT

Our ONEDC customer portal is a cloud-based DCIM-as-a-Service platform that provides our partners and customers with a comprehensive, centralised view of all their NEXTDC data centre footprint. Developed in-house, ONEDC aggregates all the tools our customers require to efficiently manage their infrastructure and the services needed at any NEXTDC facility. Service requests, such as booking a car park, a tour, securing meeting room access or technical support, as well as authorising access, unlocking and locking racks and comprehensive reporting capability – including real-time temperature and humidity monitoring – are all consolidated and viewed through a single pane of glass.

This innovative platform is continually being improved based on customer feedback around extended functionality they need to better manage their critical infrastructure. Not only does it enhance customer experience, but it also dramatically improves administrative efficiency through self-service features and the automation of manual processes.

During FY20, our in-house ONEDC development team extended reporting capabilities and introduced an improved self-service ticketing capability for customers as well as optimising and integrating multiple back-end systems that power the platform.





Cloud Centre ecosystem

Our Cloud Centre ecosystem comprises more than 640 partners that fuel the growth of Australia's digital economy. These partners leverage NEXTDC data centres to house their IT infrastructure and host their own services, thereby enabling their customers to connect directly to them from within the facility. Every partner and customer has the ability to make connections within a data centre through our physical Cross Connect services and virtual connections to clouds, carriers, and suppliers in any data centre on the AXON network.

Furthermore, the new Indigo and Vocus ASC submarine cables connect the East Coast of Australia to Perth and then onto Singapore from our P2 data centre where the cables make landfall via our AXON interconnectivity platform. This ensures that the entire NEXTDC data centre footprint and ecosystem of clouds, carriers and service providers are directly connected to Asia and the world, further delivering on our vision to be the infrastructure platform that enables Australia's digital economy to thrive.

Seamless data centre infrastructure management

FY20 has also been a year where we paid enormous attention to the continuous improvement of our systems and processes to generate significant operational efficiencies in our management of plant and equipment, customer interactions and our administrative functions. The results of this investment have collectively reduced costs, enhanced internal productivity, and created a better customer experience.

Intelligent Service Management

Under an enterprise-wide IT improvement project known as Intelligent Service Management (ISM), customers can now simply login to ONEDC for a real-time view of resources available, or to request a NEXTDC service. This major operational transformation program not only improves the efficiency of the process and cut down ticket provisioning and action times for customers, it allows our Customer Experience Team to be more focussed on offering proactive, high quality, targeted customer support.

There has also been significant attention paid to integrating ONEDC with our CRM and service desk platforms, to help us create a 360-degree view of our customers and all of their interactions with NEXTDC. This level of customer detail empowers our entire team to be data driven and support our customers in a more meaningful way, encouraging an enhanced customer experience across the organisation.

Professional services

Our Remote Hands services consists of first-class technical assistance on-the-ground at any NEXTDC data centre. Remote Hands enables a flexible approach for customers in managing their critical infrastructure. Leveraging our technical capabilities allows them to get back to focusing on their core business. Our Remote Hands technicians are highly skilled and extensively certified individuals. They are responsible for the ongoing management of our world-class facilities and have been recognised globally by Uptime Institute and DataCenter Dynamics.

Remote Hands services support customers throughout their infrastructure lifecycle, starting with technical advisory, planning, project management and migration stages, right the way through to post migration day-to-day support such as managing deliveries and operational infrastructure support. Our data centre experts are part of the unique customer experience offered by NEXTDC and their abilities to support any challenges around taking full advantage of our premium data centre services adds significant value to the convenience of doing business with us. During the current pandemic, they have been a critical asset to our customers under mandated social distancing rules, providing the eyes and hands that are an important component of maintaining availability of critical digital infrastructure.

Energy efficiency and sustainability leadership

NEXTDC maintains its firm commitment to delivering the highest levels of energy efficiency and building a data centre footprint that is both operationally and sustainably superior to those of competitors. Our facilities have been designed and engineered to deliver extremely high levels of energy efficiency, in turn helping to lower the carbon footprint and total cost of operations



for our customers. In FY19, NEXTDC's M1 data centre became the first data centre facility in Australia to achieve a National Australian Built Environment Rating System (NABERS) 5-Star rating for energy efficiency. During FY20, our S1 facility became the second colocation data centre in Australia and the first in New South Wales to achieve a NABERS 5-Star rating.

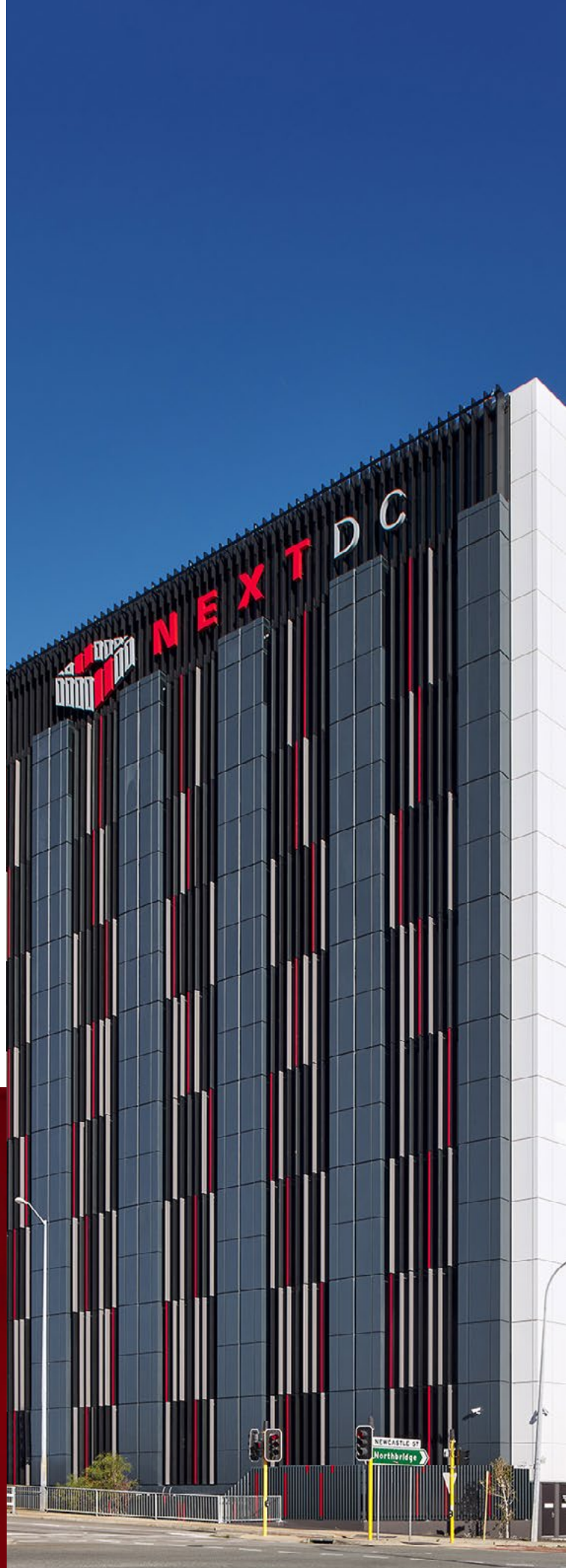
Achieving this unparalleled benchmark further demonstrates our commitment to global leadership in energy efficiency and sustainability and setting a new industry benchmark for sustainable performance. We also fulfilled all ongoing compliance requirements for ISO 14001 certification for Environmental Management at B2, M1, S1, C1 and P1 with our second-generation facilities continuing to undergo the complex assessment processes required to also achieve ISO 14001 certification. Although certification processes are not as yet finalised, our B1 and M2 facilities are operated and maintained under the same environmental management processes and procedures to comply with the ISO 14001 requirements.

Renewable energy

NEXTDC is proud to own and operate its own solar array on the roof of its M1 data centre and has also been a Principal Partner to the Melbourne Renewable Energy Project (MREP) since its inception in 2014. Financial close on this project was achieved during FY18, and the 80MW Crowlands Wind Farm in Victoria, which went live in January 2019. This was another first for a data centre operator in the Asia Pacific region.

A net zero emissions future

We take every measure to ensure we minimise the use of carbon wherever possible. But where we can't avoid it, we lean on our strategic relationship with Qantas, who we have partnered with for the procurement of carbon credits through the Qantas Future Planet (QFP) program. As a result of this strategic partnership we have been able to continue our focus on leadership through industry innovation and achieve yet another industry first by having the carbon emissions of our corporate operations audited and accredited under the Australian Climate Active program as being 100% carbon neutral. Our aim in the near future is to offer our customers the opportunity to similarly offset their emissions in our data centres, something that has also never been achieved in the Asia Pacific region.



OUR PEOPLE AND CULTURE STRATEGIES

Living our corporate values

Our company values define the behaviour and skills that we expect from all employees. Every one of our team members 'live' the values every single day, striving to ensure all of our actions align with the behaviours which our values embody. If in doubt, we refer to our values to make the right decision. Our values mean each and every one of our team know what is expected of them and knows what NEXTDC stands for and is striving to achieve.

It means that we will recognise, reward, hire and promote based on their adherence to the six values, each of which is as important as the other.





Giving back to our local communities

In 2018 we launched our 'Live to Give' Corporate Social Responsibility (CSR) program and throughout FY20 we participated in a number of initiatives to help make a positive impact within the communities in which we live and work. The key areas of focus through our program see us channel our major efforts toward four core charities and giving programs, which were selected collectively amongst the wider NEXDTC team. 'Live to Give' encourages and empowers our teams and the Company to be socially conscious. It is our firm belief that companies can do more than just make money, they can give back to the community and use their success to improve our society. It's a great honour to be able to commit to supporting our charity partners and to make a meaningful and positive impact on humanity.

NEXDTC's 'Live to Give' program

- Corporate partnership with The Smith Family, donating \$50,000, and \$168,000 since starting of the program in FY19 as well as promoting staff volunteering and mentoring programs
- Partnership with Pledge 1%, enabling staff to devote 1% of their time to give back
- Continued success of NEXDTC's workplace giving program with \$1:\$1 donation matching for Cancer Council, Beyond Blue, The Smith Family and UN Women; and
- Providing all staff with additional paid volunteer days, allowing teams and individuals to spend additional time with their preferred charity or in giving back to their local community.

Diversity and Inclusion

NEXDTC is committed to creating a diverse workplace. Approximately 33% of staff are female while our ethnic diversity is closely representative of the multicultural profile of Australia. This diversity continues to deliver fresh thinking to everything we do and when added to the other workplace benefits we offer in areas such as maternity leave, paternity leave, primary carer leave, our 'Live to Give' program and volunteer days, helps to build our status as a preferred Australian employer. We pride ourselves on having built a culture where people join the Company and build long-term successful careers that challenge them and empower them to grow and be the best version of themselves every day.

OUR CORPORATE VALUES



CUSTOMER FIRST

WE ARE OBSESSED WITH DELIVERING THE WORLD'S BEST CUSTOMER EXPERIENCE.



ONE TEAM

WE ARE AN ELITE TEAM WORKING TOGETHER WITH SUPER STARS PLAYING IN EVERY POSITION.



BRIGHT IDEAS

THE BEST WAY TO PREDICT THE FUTURE IS TO CREATE IT.



PURSUIT OF EXCELLENCE

WE ARE RELENTLESS IN OUR PURSUIT OF EXCELLENCE, NOT PERFECTION.



STRAIGHT TALK

WE DON'T TALK BULL, WE HAVE CRUCIAL CONVERSATIONS, WE DISAGREE AND THEN WE COMMIT.



FRUGAL NOT CHEAP

WE SPEND OUR MONEY WHERE IT MATTERS THE MOST.

Impact of market growth demonstrated by NEXTDC

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
ECONOMIC INDICATORS					
Customers ¹	1,364	1,184	972	772	647
Cross Connects ²	13,051	10,972	8,671	6,342	4,575
CAPACITY AND UTILISATION					
Operating facilities ³	9	9	7	5	5
Installed capacity ⁴	78.8MW	58.4MW	46.4MW	36.0MW	34.7MW
Contracted customer utilisation ⁵	70.0MW	52.5MW	40.2MW	31.5MW	26.1MW
% of installed capacity	89%	90%	87%	88%	75%
Billing customer utilisation ⁶	52.8MW	37.7MW	34.3MW	29.5MW	23.2MW
% of installed capacity	67%	65%	74%	82%	67%

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

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as 'NEXTDC', the 'Company' or the 'Group') consisting of NEXTDC Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were Directors of the Company during the year, and up to the date of this report:

- Douglas Flynn
- Craig Scroggie
- Stuart Davis
- Dr Gregory J Clark AC
- Sharon Warburton (resigned 31 March 2020)
- Stephen Smith (appointed 1 July 2019)
- Jennifer Lambert (appointed 1 October 2019)
- Dr Eileen Doyle (appointed 26 August 2020)

Principal activities

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

COVID-19 response

NEXTDC's focus during the pandemic has been on ensuring the continuity of its business and health of its team and customers.

COVID-19 has delivered significant societal and business impacts, which has also impacted NEXTDC at an operational level. Besides implementing appropriate processes throughout all our facilities, including increased sanitisation, our interactions with customers, vendors and suppliers to NEXTDC have been standardised to ensure a consistent and appropriate approach on health practices when dealing with persons attending any NEXTDC facility. All staff, other than those involved in the day-to-day running and ongoing construction and development of NEXTDC's data centres have been directed to work from home until further notice and provided with all necessary support to do so.

To date COVID-19 has not presented any significant financial impacts for NEXTDC – customer demand remains strong with material customer contract wins in the past six months, and the expectation that demand will continue as organisations accelerate their digital transformations in response to the crisis.

As the uncertainty surrounding COVID-19 continues, NEXTDC's comprehensive COVID-19 plan will continue to evolve to remain cognisant of the ongoing health threat.

Operating and financial review

During the year, the Company has:

- Continued to expand the capacity of its second Sydney site, S2, increasing built capacity from 6MW at the end of FY19 to 22MW at the end of FY20
- Progressed the construction of its second Perth site, P2, to the point of opening shortly following FY20 year end
- Continued expansion works at its second Melbourne site, M2, with 15MW of new capacity being added
- Commenced ground works for the new planned Uptime Institute Tier IV data centre at S3 Sydney
- Acquired a site for M3 Melbourne, with works relating to design and planning approvals already commenced
- Successfully raised \$862 million via an institutional placement and Share Purchase Plan
- Contracted 17.4MW of new capacity

Key financial highlights include:

- Revenue of \$205.2 million vs guidance range of \$200 - 206 million (FY19: \$179.3 million)
- Underlying EBITDA^{1,2} of \$104.6 million vs guidance range of \$100 - 105 million (FY19: \$85.1 million)
- Capital expenditure of \$418 million vs underlying guidance range of \$340 - 380 million (FY19: \$378 million)
- Statutory net profit/(loss) after tax of \$(45.2) million (FY19: \$(9.8) million)
- Operating cash flow of \$53.9 million (FY19: \$39.4 million)
- Cash and cash equivalents of \$893 million at 30 June 2020

Financial performance

NEXTDC achieved a number of significant milestones and enjoyed a period of strong growth in the 12 months to 30 June 2020.

The Group continued to experience significant growth in number of customers, customer orders and data centre revenue. Data centre services revenue for the year increased from \$169.7 million to \$200.8 million. The increase was largely driven by increased utilisation of data centre services across the business. As at 30 June 2020, NEXTDC was billing for 52.8MW (2019: 37.7MW) of capacity.

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

² Underlying EBITDA excludes \$1.2 million of costs related to review works into potential data centre investments in Singapore and Japan and a gain on re-assessment of a lease under AASB 16 of \$0.2m

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

	Segment revenues		Segment EBITDA	
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
Vic	72,497	68,686	53,505	50,552
NSW	84,416	63,050	59,923	44,190
Qld	21,763	18,987	15,106	12,855
WA	17,870	14,872	12,725	10,661
ACT	1,968	2,146	(306)	(36)
Other	2,264	1,955	(247)	9
Total segment revenue/EBITDA	200,778	169,696	140,706	118,231

Net profit/(loss) after tax was \$(45.2) million (2019: \$(9.8) million). The loss after tax included income tax expense of \$26.4 million that arose due to the Group's decision to derecognise carried-forward tax losses and temporary differences, that it believed no longer met the requirement to be recognised, stemming from the impact of recent growth and expansion activity on taxable profits. Despite the derecognition, these carried-forward tax losses and offsets can be carried forward indefinitely and have no expiry date.

Non-statutory underlying earnings before interest, tax, depreciation and amortisation (EBITDA) improved from \$85.1 million in FY19 to \$104.6 million in FY20. Reconciliation of statutory profit to EBITDA and underlying EBITDA is as follows:

	30 June 2020 \$'000	30 June 2019 \$'000	Change %
Net profit/(loss) after tax	(45,174)	(9,819)	
Add: finance costs	57,705	54,897	
Less: interest income	(4,447)	(8,220)	
Add/(less): income tax expense/(benefit)	26,434	(6,254)	
Add: depreciation and amortisation	69,078	48,442	
EBITDA	103,596	79,046	31%
Less: gain on re-assessment of lease under AASB 16	(199)	-	
Less: gain on extinguishment of B1 lease	-	(1,068)	
Less: gain on extinguishment of APDC leases	-	(1,291)	
Less: distribution income	-	(1,344)	
Add: APDC transaction costs	-	5,459	
Add: landholder duty on acquisition of APDC properties	-	3,498	
Add: Singapore and Japan costs	1,192	823	
Underlying EBITDA	104,589	85,123	23%

Funding and financial position

In FY20, NEXTDC completed a capital raising of \$862 million, consisting of a \$672 million institutional placement completed in April 2020 and a Share Purchase Plan of \$190 million completed in May 2020, with shares issued at \$7.80 per share.

Cash and cash equivalents at 30 June 2020 totalled \$893 million (2019: \$399 million), which combined with the undrawn senior syndicated debt facility of \$300 million, gave the Group access to \$1,193 million in available liquidity at 30 June 2020.

Net assets increased by \$808 million (92%) compared to FY19, largely attributable to the capital raising of \$862 million and the Group's capital works program.

Sales performance

We have continued to focus our sales strategy on partnering with providers of infrastructure, platform and packaged services. Flexibility offered by being carrier and vendor neutral allows customers a choice of carriers and systems integrators, leading to an increase in the number of unique customers to 1,364 at 30 June 2020 (up from 1,184 at 30 June 2019).

During the year NEXTDC increased its contracted utilisation by 33% from 52.5MW at the end of FY19 to 70.0MW at the end of FY20.

Our contracted utilisation in Victoria increased by 12.4MW to 27.3MW during the period from 1 July 2019 to 30 June 2020, with contracted utilisation accounting for 109% of built capacity (25.0MW).

NSW's contracted utilisation increased by 4.5MW during FY20 to 36.4MW as at 30 June 2020, with contracted utilisation accounting for 96% of built capacity (38MW).

In Queensland contracted utilisation grew 0.3MW during FY20 to 2.9MW as at 30 June 2020, with contracted utilisation accounting for 46% of built capacity (6.25MW).

WA's contracted utilisation increased by 0.3MW to 3.0MW during the period from 1 July 2019 to 30 June 2020, with contracted utilisation accounting for 40% of built capacity (7.5MW).

ACT's contracted utilisation was maintained at 18% (0.4MW) of built capacity (2.0MW).

We are earning revenue from numerous products including white space, rack ready services, project fees and add-on services. During FY20 interconnection generated 8.1% of total recurring revenue.

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

Continuous innovation

As an organisation in Australia's rapidly growing IT infrastructure sector, it is essential that NEXTDC seek the continuous development and innovation of its systems, products and services.

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

The Group has continued to develop its internal systems and processes in FY20 with the ongoing implementation of online platforms to automate and integrate the management of the customer lifecycle as part of the services we provide.

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

The continuous process of testing and tuning NEXTDC's data centres to optimise energy efficiency and stability has seen a marked improvement in the facilities' Power Usage Effectiveness (PUE). The average PUE throughout the year across all NEXTDC data centres is now 1.30, well below our target of 1.40 and the industry average of approximately 1.70.

The Group continues its strong focus on energy efficiency and sustainability. Our data centre facilities have been engineered to deliver extremely high energy efficiency, lowering the carbon footprint for our customers. Our M1 Melbourne and S1 Sydney data centres have become the first data centres in Australia to achieve a National Australian Built Environment Rating System (NABERS) 5-Star rating for energy efficiency.

NEXTDC owns and operates its own solar array on the roof of its M1 data centre and has also been a Principal Partner to the Melbourne Renewable Energy Project (MREP) since its inception in 2014.

Business strategies and prospects for future financial years

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

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

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

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

Business risks

NEXTDC acknowledges that risk is inherent in all aspects of its business operations and being able to effectively recognise and manage these and the corresponding opportunities is critical for the success and growth of the Company. NEXTDC's risk management framework is an integral component of its corporate governance and central to achieving its strategic and operational objectives.

The rapid growth of the Company over the last few years has meant that the management of its risk profile has required corresponding refinement and development. To ensure that the Company manages evolving enterprise and emerging risks, an independent review exercise was carried out in early 2020 to articulate NEXTDC's risk settings and appetite in the context of the current operating environment. The outcomes included a revised Risk Appetite Statement endorsed by the Board as well as the identification of key enterprise risks against which they were assessed. Further details on NEXTDC's Risk Management Framework can be found in the Company's most recent Corporate Governance Statement which can be located at the Company's website www.nextdc.com).

NEXTDC has identified the following key business risks divided into seven risk pillars, which could adversely affect its financial performance:

Business Management and Governance

- **Fraud, Bribery and Corruption:** Fraud, bribery or any other unethical behaviour could significantly impact the trust and confidence of its customers, shareholders and other stakeholders in NEXTDC. NEXTDC's Statement of Delegated Authority has been approved by NEXTDC's Board and embedded within its processes and procedures. All NEXTDC staff and Directors undergo Code of Conduct training and pursuant to the Company's Whistleblower Policy, employees are encouraged to come forward and report if they see any unethical behaviour.
- **Training and Development:** Operating and maintaining data centres requires highly trained employees and lack of sufficient training and development could result in safety and environmental incidents, poor efficiencies and low morale. Along with the broader company-wide training and development program, all data centre operations staff receive on the job training and refreshers as required.
- **Technology Advances:** NEXTDC operates in a competitive sector. Any failure to keep up with the latest technology or not having the business systems that supports the scale and pace of business expansion could result in reputational damage and a downturn in customer demand. To mitigate this risk, the Company promotes mutual research and development projects and strategic alliances with its suppliers, regularly attends industry conferences and is a member of the Uptime Institute, an independent thought leader and certification body in IT and data centres. NEXTDC's Business Transformation Program has been established to support initiatives that ensures the business evolves to meet the ongoing needs of its customers.

Environment, Work Health, and Safety

- **Work, Health and Safety:** NEXTDC recognises health and safety as its highest priority. Our values, the priorities set by our executives and our policies prioritise this issue and reflect that, at NEXTDC, safety is a key element of every engagement with suppliers, customers and in the development and operation of our data centres. Incident prevention is of utmost importance and vital to the safety of our customers, our suppliers, our team and ultimately, the success of the organisation.

NEXTDC's commitment to providing and maintaining a safe and healthy work environment has faced some unique challenges in FY20, with a focus on applying our safety-first approach to the challenges of the COVID-19 pandemic. In order to deal with this evolving threat, we have established new processes and protocols across the business. We continue to commit the resources necessary to maintain a safe working environment and ensure the ongoing operation of the business and health of our team. In addition to our COVID response, we have implemented strategies to enhance our workplace safety awareness. Safety is everyone's responsibility in a safety-first culture. Active management of WHS issues both in the operation of data centres and in their development are mandated and central to creating a culture where it is safe to speak up and report any hazards or incidents. NEXTDC has also sought a process of continual review and improvement through its safety assurance programs with the team's performance and safety initiatives reported to the Board.

To further strengthen our safety leadership across the industries we participate in, NEXTDC has also implemented a Construction Safety Management System, which benchmarks our safety performance and activities during the construction of our new data facilities. This system has been rolled out across NEXTDC and is designed to monitor and verify its implementation and results. We continue to work closely and share safety learnings with our stakeholders, including customers and suppliers and to align ourselves with industry best practice. Our ultimate goal is zero injuries.

- **Energy Usage and Emissions:** NEXTDC is dedicated to monitoring and devising the best methods of managing data centres, to ensure energy efficiency and minimise their impact on the environment and our natural resources. Due to the nature of our business, and as our customer loads within our data centres increase year on year, so will our energy usage and emissions. NEXTDC has invested significantly in improving energy efficiencies by focussing on its environmental objectives, operational efficiencies and best in class data centre designs. NEXTDC is committed to the process of achieving NABERS certified rating for our data centres, with each data centre having a target Power Usage Effectiveness (PUE) rating to be as energy efficient as possible.
- **Climate Change:** NEXTDC is committed to contributing to the global effort on climate change and supports the shift towards a low carbon economy in line with the Paris Agreement. This is evident in our initiatives on carbon neutrality and embedding climate change risk management across our business processes. All NEXTDC's facilities are designed and constructed with sufficient redundancy to ensure our customers' Service Level Agreements (SLA) for power, temperature and humidity are met, even if there is an energy outage or heatwave. Fuel levels at each data centre are continually monitored and replenished to ensure

the generators can continue to operate for up to 48 hours without utility grid power. Emergency fuel supply contracts are in place with major suppliers to cover the unlikely event of any interruptions extending beyond that capacity. NEXTDC's Uptime Institute (UI) certification journey for our facilities is another reflection of the exceptional fault tolerance of our data centres and their resilience to the impacts of climate change factors such as heatwaves, bushfires and floods.

Maintain 100% Uptime Guarantee

- **Unable to Provide Service:** A catastrophic failure or equipment malfunction at a NEXTDC data centre could result in the Company not being able to provide power and cooling to support our customers' equipment, thus breaching our service level agreements and incurring contractual liabilities. To address this risk, all of NEXTDC's data centres are designed and built with sufficient redundancy in place (including redundant paths for power and cooling) to enable components to go off-line and be repaired or maintained without affecting our customers' IT equipment. A sound assurance and maintenance program, periodic recovery testings, in-house design expertise and third-party peer review and certification are among the many controls in place to manage the risks of not being able to meet our 100% uptime guarantee.

Building New Sites/Data Centres

- **Development:** NEXTDC is involved in the development of data centres, including the new site for S3 as well as the ongoing expansion at M2 and S2. Generally, development projects have a number of risks including (i) the risk that suitable sites or required planning consents and regulatory approvals, including approvals from the local water authority and the local power distribution grid operator, are not obtained or, if obtained, are received later than expected, or are adverse to NEXTDC's interests, or are not properly adhered to; (ii) the escalation of development costs (including the costs of construction and fit out and any associated delays) beyond those originally expected; (iii) unforeseen project delays beyond the control of NEXTDC including for example the impact of the COVID-19 pandemic; and (iv) non-performance/breach of contract by a contractor or sub-contractor. Increases in supply or falls in demand could influence the acquisition of sites, the timing and value of sales and carrying value of projects. To fundamentally manage these risks, NEXTDC has implemented governance and management processes designed to drive consistency in the planning, design, engineering, procurement and project and commercial management for each site.
- **Customer Demand:** Development of new and existing data centres is capital intensive and sometimes undertaken without pre-sales commitment from customers. There is a risk that there will not be enough customer demand to achieve a sufficient return on investment. NEXTDC's business model to become the largest independent, carrier neutral channel ecosystem in the Asia-Pacific region aims to manage this risk by developing sites mindful of market demand and customer needs with the aim of offering a service and connectivity compelling to our customers. NEXTDC's next-generation of data centres will be particularly focussed on more scalable fit-outs. This will allow us to stay in step with

demand whilst lowering our initial capital outlay. We are also aiming to increase sales by providing complementary products and services.

Ensuring Financial Health of the Company

- **Funding:** NEXTDC's business is capital intensive in nature and our continued growth relies on the acquisition and development of new and existing data centres, along with investment in new technologies. Failure to obtain sufficient capital on favourable terms may hinder NEXTDC's ability to expand and pursue growth opportunities, which may reduce competitiveness and have an adverse effect on financial performance. To address this risk, NEXTDC has sought to obtain funding from various sources in order to not become over-reliant on any one form of funding.

Security of Data and Information

- **Physical Security Breach:** NEXTDC customers rely on our physical security to prevent unauthorised access to the space where their equipment resides. A physical security breach to a customer's space could result in irreversible reputational damage, impact on future opportunities and the ability to retain existing customers. The Company's facilities are protected by multi-layered security systems and protocols designed to limit access to areas within the data centres only to those with the appropriate authorisation.
- **Privacy & Data Security:** NEXTDC collects a minimal amount of Personally Identifiable Information (PII), limited to activities such as account and contract management, marketing and to permit entry into its facilities. NEXTDC does not store, interact with or manage any data stored on its customers' equipment. Customers are responsible for managing their own IT equipment and data security. All PII is securely managed in accordance with our Privacy Policy, a document based on the Australian Privacy Act 1998, the GDPR where it is applicable and information security practices based on ISO 27001 controls.
- **Cyber Risk:** According to various recent global and national industry cyber risk reports, cyber incidents and their financial impacts are increasing significantly year on year and cyber criminals are targeting small and large businesses alike. To mitigate these risks, NEXTDC has implemented an information security management system based on ISO 27001 as well as undertaken ongoing penetration and vulnerability testing.

Revenue Generation and Customer Growth

- **Customer Management:** NEXTDC is committed to building a culture that values our customers and provides the best experience for them, from the first to the last point of contact. To manage the risk of ensuring this is central to all phases of the customer lifecycle we have deployed various training and awareness programs across the Company. Besides measuring ourselves against key customer metrics, we continue to evolve our customer resourcing models to ensure we deliver great service and monitor the outcomes and feedback.
- **Meeting Customer Requirements:** Some of our customers and channel partners are large, well established businesses. Not delivering the appropriate solution within the required timeframe to meet their requirements could significantly impact our brand reputation as well as the ability to win further opportunities. To minimise this risk, NEXTDC engages its in-house engineering and project management teams to ensure the customer is provided with the optimal solution, delivered on time and in budget.

- **Innovating to stay competitive:** NEXTDC's on-going strategic initiatives include a focus on research and development designed to foster innovation and excellence in data centre development and operations. A large part of that is our interactions with customers which are essential in understanding which solutions and innovations can drive value for customers, demand in the relevant industry sectors and to ensure that NEXTDC continues to retain its competitive advantage.

The Environmental, Social and Governance Report (located at www.nextdc.com) provides further details on how NEXTDC addresses matters of environmental and social sustainability.

Significant changes in the state of affairs

Other than what has already been mentioned in this report, there have been no further significant changes in the state of affairs of the Group during FY20.

Matters subsequent to the end of the financial period

No matters or circumstances have arisen since 30 June 2020 that have significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

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

Dividends

In considering dividend policy the Board considers the demand for capital to invest in growth, its level of retained earnings and the availability of franked earnings.

Although the Company is expanding operating cashflow, NEXTDC is some way from paying tax and consequently from generating franking credits. The Company continues to experience strong demand for its services and consequently is continuing to make substantial capital investment into the business. It is unlikely that NEXTDC will pay any dividend in the next two years.

Dividends were neither paid nor declared during the year.

Environmental regulation

NEXTDC is constantly monitoring and revising the best way to manage our data centres to minimise the impact to the environment. The Group is subject to significant environmental regulation in respect of its data centre operating activities as set out below.

Greenhouse gas and energy data reporting requirements

NEXTDC monitors its carbon emissions for reporting and is registered under the National Greenhouse and Energy Reporting Act ("NGER"). Additionally, corporate operations are certified 100% carbon neutral under the Australian Federal Government's Climate Active program (previously known as the National Carbon Offset Standard, or NCOS). We have continued to achieve carbon neutrality by offsetting emissions associated with our corporate operations and are currently developing a product to offer our customers the opportunity to similarly offset their emissions in our facilities – yet another first for a data centre operator in the Asia Pacific region.

NEXTDC's S1, M1, C1, P1 and B2 data centres are also certified to ISO 14001, Environmental Management System certification. All other data centres are operated and maintained under the same ISO 14001 policies and procedures with the intention of achieving certification in the near future.

Insurance of officers

During the period, NEXTDC Limited paid a premium of \$1,581,000 (FY19: \$809,500) to insure the Directors and officers of the Group.

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

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the Corporations Act 2001.

Rounding of amounts

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

Information on Directors

DOUGLAS FLYNN

Chairman

Non-Executive Director (since September 2013)

EXPERIENCE AND EXPERTISE

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

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

Doug is the current Chairman of IMEXHS Limited, a medical imaging technology provider.

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

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

From 2005 to 2008, Doug served as the Chief Executive of facilities management provider Rentokil Initial Plc.

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

OTHER CURRENT DIRECTORSHIPS

- IMEXHS Limited (March 2020 – present)

FORMER DIRECTORSHIPS

- Seven West Media Limited
- iSentia Group Limited
- APN Outdoor Group Limited
- Konekt Limited

SPECIAL RESPONSIBILITIES

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

INTERESTS IN SHARES AND OPTIONS

Doug holds 160,223 fully paid ordinary shares in NEXTDC Limited.

CRAIG SCROGGIE

Chief Executive Officer (since June 2012)

Managing Director (since November 2010)

EXPERIENCE AND EXPERTISE

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

Under Craig's leadership, NEXTDC has grown from a start-up operating only a single data centre (B1 Brisbane) to now being recognised as Australia's leading Data Centre-as-a-Service company, boasting a national footprint of nine operational data centres across Australia, with an additional two facilities currently in design. The company's annual data centre services revenues have grown from \$1.2 million (FY12) to more than \$200 million (FY20). In that time, the Company has earned numerous awards in the technology, business and engineering industries.

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

OTHER CURRENT DIRECTORSHIPS

Craig holds the position of Adjunct Professor in the College of Arts, Social Sciences and Commerce at La Trobe University and currently serves as the Chairman of the La Trobe University Business School.

SPECIAL RESPONSIBILITIES

- Member of the Investment Committee

INTERESTS IN SHARES AND OPTIONS

Craig holds 1,989,191 fully paid ordinary shares and 842,907 performance rights.

STUART DAVIS

Non-Executive Director (since September 2013)

EXPERIENCE AND EXPERTISE

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

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

OTHER CURRENT DIRECTORSHIPS

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

FORMER DIRECTORSHIPS

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

SPECIAL RESPONSIBILITIES

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

INTERESTS IN SHARES AND OPTIONS

Stuart holds 38,160 fully paid ordinary shares in NEXTDC Limited.

DR GREGORY J CLARK AC

Non-Executive Director (since April 2014)

EXPERIENCE AND EXPERTISE

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

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

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

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

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

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

OTHER CURRENT DIRECTORSHIPS

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

FORMER DIRECTORSHIPS

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

SPECIAL RESPONSIBILITIES

- Member of the Remuneration and Nomination Committee
- Member of the Investment Committee

INTERESTS IN SHARES AND OPTIONS

Gregory holds 66,048 fully paid ordinary shares in NEXTDC Limited.

STEPHEN SMITH**Non-Executive Director (since 1 July 2019)****EXPERIENCE AND EXPERTISE**

Steve Smith is widely respected amongst the global ICT community. Steve has a deep background and expertise in managing market leading technology businesses, particularly in the data centre industry.

Steve served as CEO and President of Equinix Inc for over a decade (2007-2018), transforming it into the largest enterprise data centre platform in the world. Under Steve's leadership Equinix grew from 17 data centres operating in 10 markets and a US\$2 billion market cap, to approximately 200 data centres with a US\$38 billion market cap and operations in 24 countries on five continents.

Based in the San Francisco Bay Area, Steve is currently a Managing Director of GI Partners, a US based investment fund focussed on data centre, data transport, wireless and tech-enabled infrastructure investments in North America. Prior to his time at GI Partners and Equinix, Steve held senior leadership positions at Hewlett Packard (2005-2006) which included serving as its Senior Vice President - Worldwide HP Services; Lucent Technologies Inc. (2004-2005), where he was appointed as Vice President, Global Professional and Managed Services and Electronic Data Systems Corporation (EDS) (1987-2004), where he served in a number of capacities including Chief Sales Officer and President, Asia-Pacific.

Steve also had a successful eight-year career in the U.S. Army where, among other roles, he was aide de-camp to the office of the Commander in Chief of the U.S. Armed Forces in the Pacific.

Steve holds a Bachelor of Science in Engineering from the U.S. Military Academy at West Point.

OTHER CURRENT DIRECTORSHIPS

- Flexential Inc. (April 2018 – present)

FORMER DIRECTORSHIPS

Steve has served on several boards including Volterra Semiconductor Corporation, 3Par Inc, Actian Corporation, NetApp Inc and F5 Networks Inc.

SPECIAL RESPONSIBILITIES

- Chairman of the Investment Committee

INTERESTS IN SHARES AND OPTIONS

Nil

JENNIFER LAMBERT**Non-Executive Director (since 1 October 2019)****EXPERIENCE AND EXPERTISE**

Jennifer has extensive business and leadership experience at senior executive and board level with more than 25 years of financial management and accounting experience.

Currently a Non-Executive Director of BlueScope Steel Limited where she is Chair of the Audit Committee, Ms Lambert is also a non-executive director of Mission Australia and a number of other not for profit entities.

Ms Lambert was Group Chief Financial Officer of 151 Property (formerly Valad Property Group) for 13 years where her responsibilities included operational and strategic finance, tax, treasury, legal and compliance. Prior to this, Ms Lambert was a director at PricewaterhouseCoopers specialising in capital raisings, structuring and due diligence for acquisitions and disposals across various industries.

Jennifer holds a Bachelor of Business (Accounting and Finance) from University of Technology Sydney and Master of Economics from Macquarie University. Her professional associations include being a member of The Chartered Accountants Australia New Zealand and a Fellow of the Australian Institute of Company Directors.

OTHER CURRENT DIRECTORSHIPS

- BlueScope Steel Limited (September 2017 – present)

SPECIAL RESPONSIBILITIES

- Chair of the Audit and Risk Management Committee

INTERESTS IN SHARES AND OPTIONS

Jennifer holds 11,846 fully paid ordinary shares in NEXTDC Limited.

DR EILEEN DOYLE**Non-Executive Director (since August 2020)****EXPERIENCE AND EXPERTISE**

Dr Doyle has had an internationally recognised career with close to four decades of diverse business experience at both executive and board level.

Her experience covers a wide range of industries including logistics, port operations, research, property, financial services, manufacturing, building and construction.

Dr Doyle has previously served as the Chairman of the world's largest export coal loader, PWCS (1998-2009) and Deputy Chairman of CSIRO to 2016, after 10 years of service.

Dr Doyle currently serves on the Board of Boral (2010) and Oil Search Limited (2016) with previous appointments having included directorships at GPT Group (2010-2019), State Super Financial Services (2002-2009), Ross Human Directions Limited (2005-2010), The Australian Mathematical Sciences Institute (2008-2018), Knights Rugby League Ltd (2014-2017) and Bradken Limited (2011-2015). In many of her roles she has also acted as a member on the Audit, Governance and Sustainability Committees.

Dr Doyle's experience also includes appointments at major government bodies Austrade (1999-2005), CSIRO, Newcastle Port Corporation (2001-2002), the National Steering Committee on eHealth and the NSW Innovation and Productivity Council.

Dr Doyle holds a Ph.D. in Applied Statistics from the University of Newcastle, was a Fulbright Scholar (Business Management: Columbia University), is a fellow of the Academy of Technological Sciences and Engineering (FTSE inducted 2016) and a Fellow of the Australian Institute of Company Directors (FAICD).

Dr Doyle is also a Foundation Fellow of The Australian Association of Angel Investors (FAAAI) and the author of "Call a Business Angel".

OTHER CURRENT DIRECTORSHIPS

- Boral Limited (2010 – present)
- Oil Search Limited (2016 – present)

FORMER DIRECTORSHIPS

- GPT Group (2010 – 2019)

SPECIAL RESPONSIBILITIES

- Member of the Audit and Risk Management Committee

INTERESTS IN SHARES AND OPTIONS

Nil

SHARON WARBURTON**Non-Executive Director (from April 2017 to March 2020)****EXPERIENCE AND EXPERTISE**

Sharon was an Independent Non-Executive Director until her resignation in March 2020.

Sharon is currently a Non-Executive Director of Wesfarmers, Gold Road Resources and Worley. Sharon has also been a part-time member of the Federal Government's Takeovers Panel since 2015 and is an Adjunct Professor at Curtin University's Faculty of Business and Law.

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

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

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

INTERESTS IN SHARES AND OPTIONS

Sharon held 39,202 fully paid ordinary shares in NEXTDC Limited at the time of her departure.

MICHAEL HELMER

Company Secretary (since February 2015)

Michael is also the Chief Legal Officer of NEXTDC Limited.

Michael has over 25 years' experience in the legal sector and, until joining the Company, served as Director of Legal Services (Asia Pacific) for global software maker Symantec, where he and his team were responsible for advising on compliance, licensing, litigation, privacy and cybersecurity issues throughout the region as well as supporting the regional leadership, sales and engineering teams. Previously Michael was based in London at specialist technology and IP firm Field Fisher Waterhouse. Michael has held senior legal roles in Barclays, Coles Myer and was General Counsel at European on-line shopping site shopsmart.com as well as at Australian anti-malware maker PC Tools. Michael has practised extensively in the areas of technology, data security, privacy, corporate commercial, licensing and FMCG.

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

Meetings of Directors

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

	Meetings of Committees							
	Full meetings of Directors		Audit and Risk Management Committee		Remuneration and Nomination Committee		Investment Committee	
	A	B	A	B	A	B	A	B
Douglas Flynn	14	14	2	2	3	3	2	2
Craig Scroggie	14	14	N/A	N/A	N/A	N/A	2	2
Stuart Davis	14	14	3	3	3	3	N/A	N/A
Dr Gregory J Clark AC	14	14	1	1	3	3	2	2
Sharon Warburton	8	8	2	2	1	1	N/A	N/A
Stephen Smith	14	14	N/A	N/A	N/A	N/A	2	2
Jennifer Lambert	12	12	2	2	N/A	N/A	N/A	N/A

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the period

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

Remuneration Report – Audited

This report sets out the remuneration arrangements for NEXTDC's Directors and other Key Management Personnel (KMP) for the year ended 30 June 2020 (FY20). It is prepared in accordance with section 300A of the Corporations Act 2001 (Corporations Act) and has been audited as required by section 308(3C) of the Corporations Act.







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

This Remuneration Report details how executive remuneration outcomes are linked to both NEXTDC and individual performance for the 2020 financial year. It details our remuneration policy for FY20 and how it was designed and structured to create alignment between executive remuneration and shareholder outcomes for the reporting period.

In FY20, NEXTDC achieved a number of key performance milestones:

Data centre services revenue  \$200.8M ▲ \$31.1M (18%)	Underlying EBITDA  \$104.6M ▲ \$19.5M (23%)	Operating cashflow  \$53.9M ▲ \$14.6M (37%)
Contracted utilisation  70.0MW ▲ 17.4MW (33%)	Equity raised  \$862M	Capital expenditure  \$418M

At NEXTDC we are focussed on creating a corporate culture aligned with our core values. The remuneration policies which the Remuneration and Nomination Committee implement aim to reinforce these by recognising and seeking to retain high-calibre talent both in its leadership group and more broadly. A strong corporate culture within these leadership teams and an appropriate Senior Executive remuneration program has driven retention, cohesion, focus and ultimately, success for NEXTDC and its shareholders.

In setting the remuneration program, NEXTDC's Remuneration and Nomination Committee considers a variety of factors with reference to its overall business objectives and priorities, individual performance, cash position, competitive talent markets and feedback from its shareholders. The Committee seeks to incentivise its executives and ensure the Company retains key contributors in order to leverage their expertise and contributions and maximise NEXTDC's opportunities in the data centre industry. The Committee seeks to balance these factors in remuneration packages that take into account broader considerations such as long-term value to NEXTDC and market competition for talent from private and foreign-owned corporations. To that end the Committee recognises that significant components of executive remuneration need to be conditional on the Company's success and its positive effects upon shareholders. Factors such as site performance, development objectives, strategic leadership and the value we deliver to our customers are also factors considered in the overall remuneration structure.

This year, NEXTDC and the broader community have been impacted by the COVID-19 pandemic, with far-reaching health, social and economic consequences experienced. NEXTDC's response to this included, but was not limited to, implementing new processes and protocols across the business to protect our customers, suppliers and teams. Some of these measures included implementing work from home arrangements where possible, while ensuring teams remained connected, restricting access to our data centres to essential employees and customers, and supporting our impacted customers. Despite the impact of COVID-19, NEXTDC's sound business approach, risk management and success in setting and achieving strategic objectives have culminated to result in value accretion for both the Company and shareholders. The Board has considered all factors regarding the impact of the pandemic on not only the Company itself but the broader market and community in assessing remuneration outcomes for the year. In light of the strong performance of NEXTDC and the significant outcomes achieved throughout the year by management, the Board has determined that no discretion be applied to the outcome of awards for the 2020 financial year.

To ensure retention, the Committee is also very mindful of broader trends in the executive space, both with reference to comparator groups in Australian and international markets.

As the new Chairman of the Committee, the whole Committee and I are looking forward to further engaging with you, our shareholders and will be listening closely to your thoughts concerning remuneration policies and practices.



Stuart Davis
Chairman – Remuneration and Nomination Committee

2. THE PERSONS COVERED BY THIS REPORT

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

TABLE 1: KEY MANAGEMENT PERSONNEL

NON-EXECUTIVE DIRECTORS

Name	Position
Douglas Flynn	Non-Executive Chairman since 30 April 2014 Member of the Audit and Risk Management Committee Member of the Remuneration and Nomination Committee Member of the Investment Committee
Stuart Davis	Non-Executive Director Chair of the Remuneration and Nomination Committee* Member of the Audit and Risk Management Committee
Dr Gregory J Clark AC	Non-Executive Director Member of the Remuneration and Nomination Committee Member of the Investment Committee
Stephen Smith (appointed 1 July 2019)	Non-Executive Director Chair of the Investment Committee*
Jennifer Lambert (appointed 1 October 2019)	Non-Executive Director Chair of the Audit and Risk Management Committee*
Sharon Warburton (resigned with effect 31 March 2020)	Former Non-Executive Director Former Member of the Audit and Risk Management Committee Former Member of the Remuneration and Nomination Committee

*Chair appointment made on 1 January 2020

SENIOR EXECUTIVES

Name	Position
Craig Scroggie	Chief Executive Officer, Managing Director
Simon Cooper	Chief Operating Officer
Oskar Tomaszewski	Chief Financial Officer
David Dzienciol	Chief Customer and Commercial Officer
Adam Scully*	Chief Sales Officer

*Ceased as KMP on 24 March 2020

3. OVERVIEW OF REMUNERATION GOVERNANCE FRAMEWORK

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

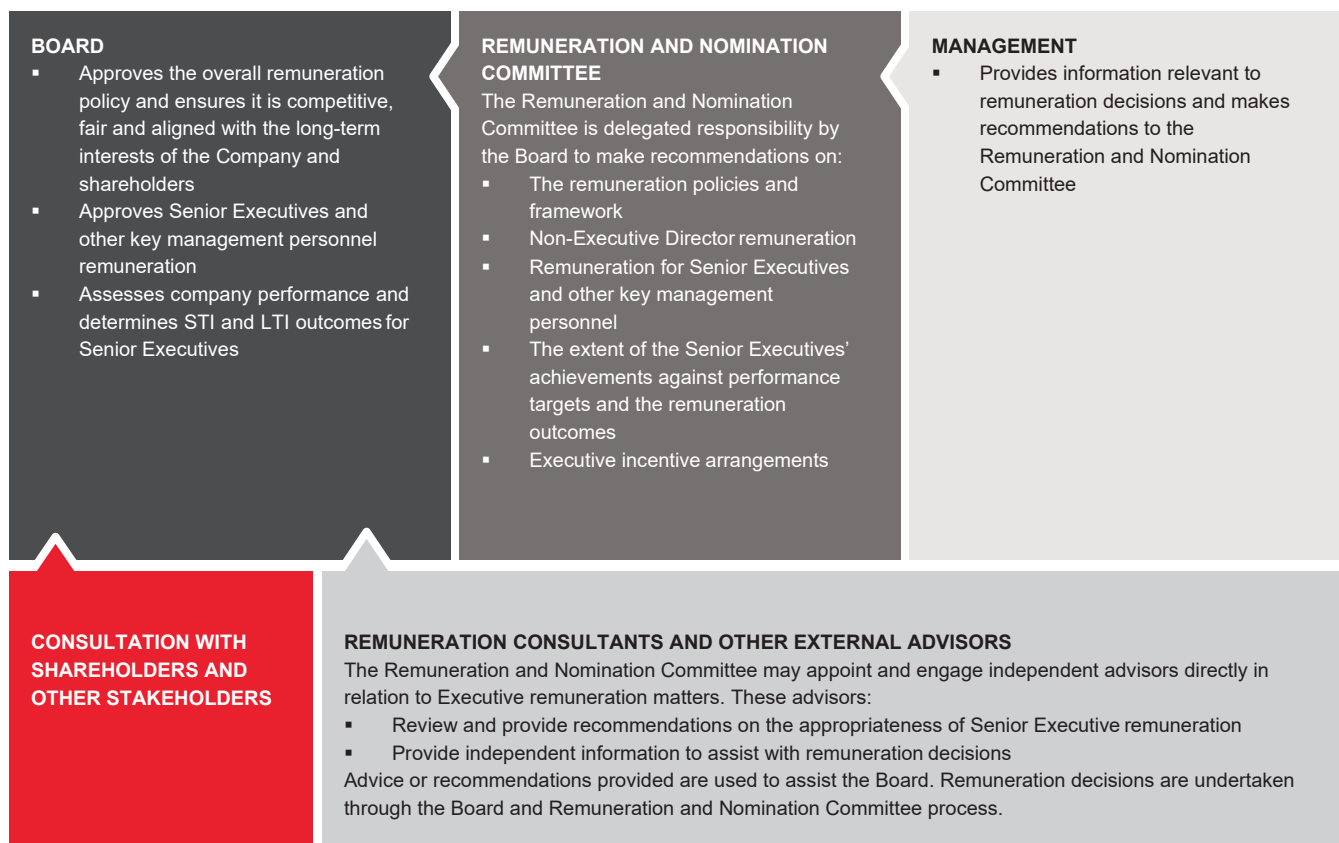
The remuneration framework applicable to the 2020 financial year is outlined and summarised below.

3.1 Senior Executive Remuneration (SER) Policy

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

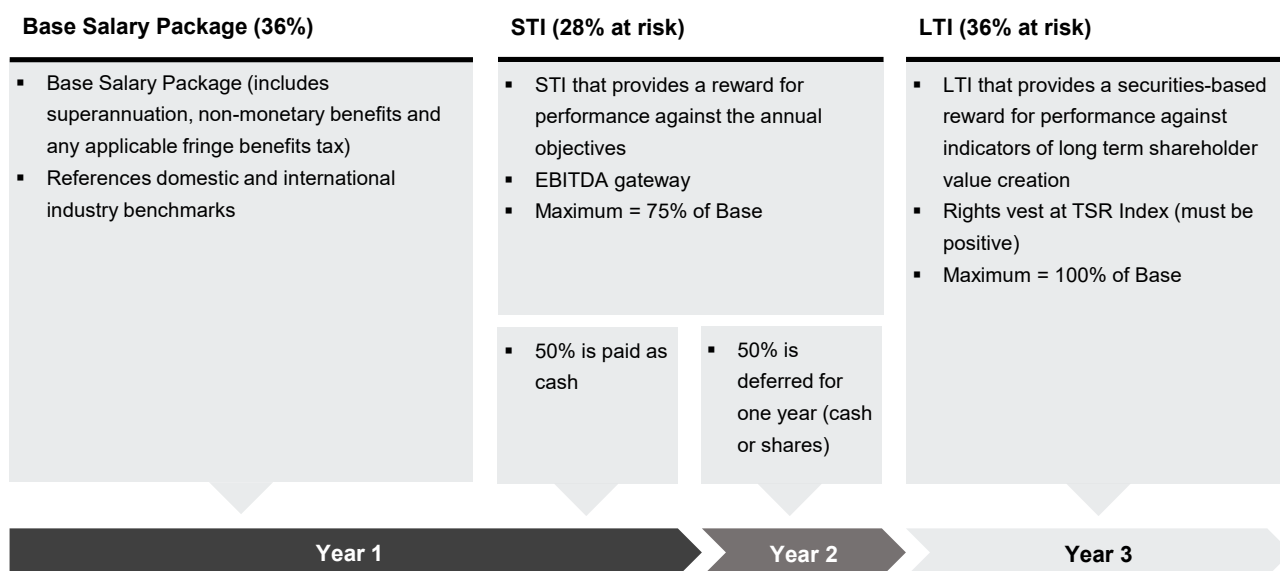
- The Chief Executive Officer – accountable to the Board for the Company’s performance and long-term planning;
- Heads of business units, or those with key functional roles, or essential expertise, that report directly to the Chief Executive Officer;
- Other executive roles classified as KMP under the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

FIGURE 1: REMUNERATION GOVERNANCE FRAMEWORK



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

FIGURE 2: TOTAL FY20 REMUNERATION (IF MAXIMUM INCENTIVE PAYMENTS ARE RECEIVED)



3.2 Senior Executive Remuneration Benchmarks

In setting executive remuneration, the Committee references domestic and international industry benchmarks relevant to its market sector, growth and value as well as the individual's role and performance. Specific care is taken to ensure factors specific to the niche data centre industry are taken into account and to seek to ensure NEXTDC is able to attract, motivate and retain the right talent in the leadership team and more broadly. NEXTDC recognises that competitive pressures for top talent arises both from competitors and major customers at a local and international level. Accordingly, NEXTDC considers the following as fundamental factors in setting executive remuneration packages:

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

The Base Salary Package and TRP levels are set taking into account the above factors, as well as the surrounding market conditions and sentiment, the trajectory of the company's growth, strategic objectives, competency and skillset of individuals, scarcity of talent, changes in role complexities and the geographical spread of the Company.

The Committee is of the view that first-class industry relationships are of critical importance in achieving exceptional financial performance and long-term shareholder value. Accordingly, it will evaluate the TRP against both domestic and international remuneration benchmarks when making its overall assessment.

3.3 Senior Executive Remuneration Mix

The Senior Executive remuneration mix refers to the proportion of remuneration that executives can receive as fixed versus any variable "at risk" remuneration. Assuming performance is at a level at which incentives pay out in full, 64% of the TRP remuneration received is performance related.

The graph below sets out the remuneration mix if maximum incentive payments are received for the CEO and other Senior Executive KMP for FY20.

FIGURE 3: FY20 POTENTIAL REMUNERATION MIX

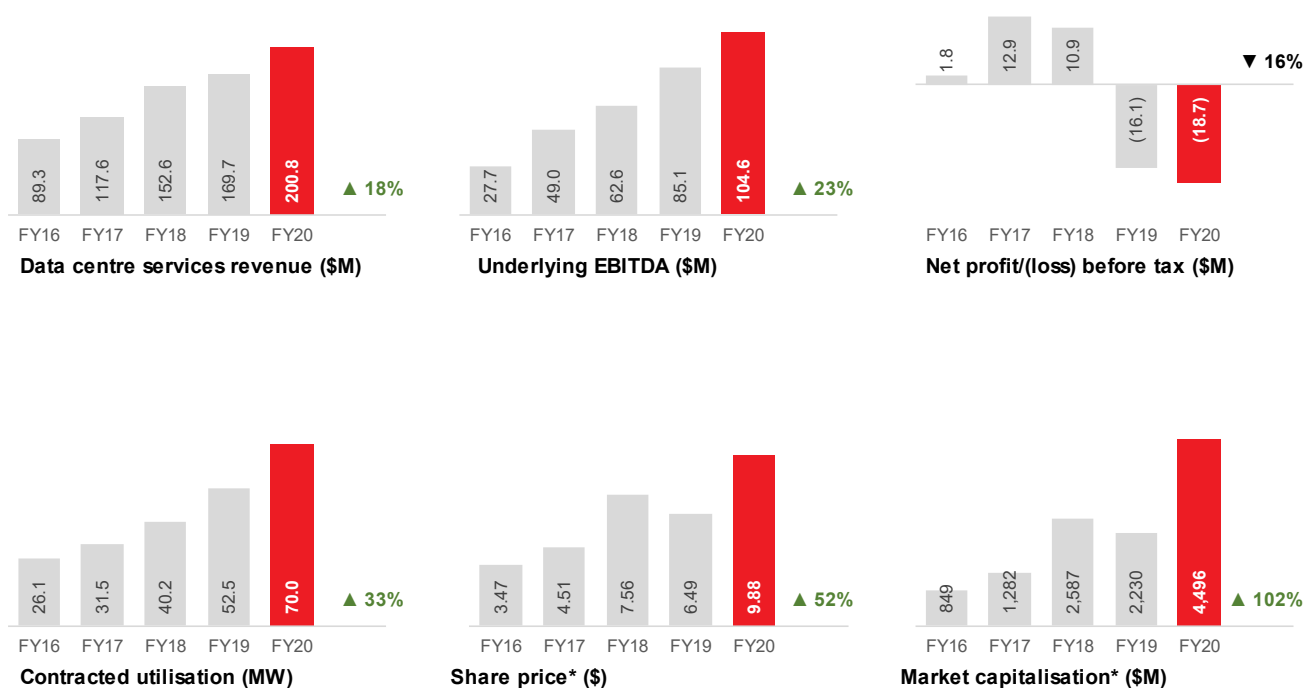


3.4 Senior Executive Remuneration and Performance

Although organic growth opportunities continue to be compelling, the Company has strong competition from private and foreign owned corporations. As a result, the Board has determined that significant remuneration opportunities should be contingent on realising the Company's ongoing growth trajectory. The ability to consistently increase shareholder value is closely tied to NEXTDC maintaining its competitive advantage by being amongst the first to secure valuable sites, build data centre infrastructure and offer a compelling regional footprint for national and international customers. If successful, these components of Company performance are the drivers of tomorrow's sustainable shareholder value creation.

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

TABLE 2: HISTORICAL COMPANY PERFORMANCE



*Closing share price as at 30 June 2020

FY20 underlying EBITDA excludes non-recurring items such as costs related to review work in the Asia Pacific region (APAC). EBITDA is a non-statutory metric representing earnings before interest, tax, depreciation and amortisation.

3.5 Variable remuneration – Short Term Incentive (STI) Plan

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

FINANCIAL YEAR 2020 STI PLAN

The purpose of the STI Plan is to provide an incentive for Senior Executives to achieve against the Company's strategic objectives by delivering or exceeding annual business plan requirements for sustainable superior returns for shareholders. Key terms of the FY20 STI Plan are detailed below.

Feature	Description		
Opportunity	Threshold award of 25% of Base Salary Package and a stretch (maximum) award of 75% of Base Salary Package.		
Measurement period	The Company's financial year i.e. from 1 July 2019 to 30 June 2020.		
Performance metrics	The below Company Key Performance Indicators (KPIs) were selected as being the most relevant drivers for improving financial performance and growth in shareholder value and are also common measures amongst NEXTDC's global competitors.		
	Metric	Weighting	Reason for selection
	Group EBITDA	1/3	Indicates the Company's underlying profitability best suited to its stage of development
	New retail NMRR* committed	1/3	New NMRR committed is connected to the level of incremental new business signed with NEXTDC's two key customer segments – retail and wholesale
	New wholesale NMRR committed	1/3	
	No STI can be paid if the EBITDA gateway is not achieved. The FY20 EBITDA gateway was set at 95% of budget. In addition, no STI will be awarded to any individual in breach of the Company's code of conduct.		
Delivery of STI	<p>Payments will be in cash unless otherwise determined by the Board and will normally be paid in September following the Measurement Period subject to the deferral of 50% of the final STI payment, which may be delivered in cash or by grant of rights to acquire fully paid ordinary shares.</p> <p>Deferring 50% of the awarded STI for a period of 12 months is intended to promote sustainability of annual performance over the medium term, acts as a retention mechanism and facilitates the exercise of clawback provisions should the Board determine to exercise its discretion.</p>		
Board discretion	If the Company's overall performance during the Measurement Period is substantially lower than expectations and has resulted in a significant loss to shareholders' value, the Board may abandon the STI Plan for the Measurement Period or adjust STI payouts.		

*NMRR = Net Monthly Recurring Revenue

3.6 Variable remuneration – Long Term Incentive (LTI) Plan

FINANCIAL YEAR 2020 LTI PLAN

The aim of the LTI Plan is to provide an incentive for Senior Executives to help achieve the Company's strategic objectives by delivering performance that will lead to sustainable and superior returns for shareholders. Another purpose of the LTI Plan is to act as a retention mechanism in order to maintain a stable team of performance-focussed Senior Executives. The current LTI Plan is the NEXTDC Limited Equity Incentive Plan (EIP).

Feature	Description										
Opportunity/Allocation	<p>Maximum LTI value was set at 100% of Base Salary Packages.</p> <p>The LTI grant of Performance Rights is calculated by applying the following formula:</p> <p>Number of Performance Rights = Base Package x Maximum LTI% ÷ Right Value</p> <p>NB: The Right Value is the volume weighted average share price of Shares over the 10 trading days following the release of the Company's FY19 results. The "Maximum LTI %" recognises that the stretch level of Rights will be granted when stretch performance is achieved.</p>										
Measurement period	<p>The Performance Rights measurement period for FY20 is a three (3) year period beginning from the end of trade on the day of release of the FY19 Results and ending upon the end of the day of release of the annual results for FY22.</p> <p>The measurement period for assessing Total Shareholder Return (TSR) performance is aligned with the release of results to ensure that the share price upon which TSR is determined at the start and end of the performance period reflects an informed market.</p>										
Performance hurdle	<p>The performance condition is market adjusted TSR which compares the TSR of the Company to the TSR of the ASX 200 Accumulation Index (Index) with the vesting percentages to be determined by the following scale:</p> <table> <tr> <th>NEXTDC's TSR over the Measurement Period</th><th>Percentage of Rights that vest</th></tr> <tr> <td>Less than TSR of Index</td><td>Nil</td></tr> <tr> <td>At TSR of Index</td><td>25%</td></tr> <tr> <td>Between TSR of Index and TSR of Index + 5%</td><td>Pro rata vesting from 25% to 100% on a straight-line basis</td></tr> <tr> <td>TSR of Index + 5% or greater</td><td>100%</td></tr> </table> <p>A positive TSR gateway applies to all offers such that no vesting will occur if shareholder value has not increased over the Measurement Period (i.e. TSR must be positive).</p> <p>The Remuneration and Nomination Committee has again reviewed whether the introduction of a second LTI performance measure is appropriate. It remains the Board's view that an additional measure is not appropriate at NEXTDC's current stage of development. The Remuneration and Nomination Committee regards the continued application of a relative TSR performance measure to be the most effective method for aligning long-term executive performance with shareholder wealth outcomes and will review the appropriateness of the single measure LTI program on an annual basis.</p>	NEXTDC's TSR over the Measurement Period	Percentage of Rights that vest	Less than TSR of Index	Nil	At TSR of Index	25%	Between TSR of Index and TSR of Index + 5%	Pro rata vesting from 25% to 100% on a straight-line basis	TSR of Index + 5% or greater	100%
NEXTDC's TSR over the Measurement Period	Percentage of Rights that vest										
Less than TSR of Index	Nil										
At TSR of Index	25%										
Between TSR of Index and TSR of Index + 5%	Pro rata vesting from 25% to 100% on a straight-line basis										
TSR of Index + 5% or greater	100%										
Reason for selection	<p>TSR was selected as it recognises the total returns (share price movement and dividends assuming they are reinvested into Company shares) that accrue to shareholders over the Measurement Period. This measure creates the most direct alignment between shareholder return and rewards realised by Senior Executives. The measurement period for assessing TSR performance is aligned with the release of results to ensure that the share price upon which TSR is determined at the start and end of the performance period reflects an informed market.</p> <p>Market adjusted TSR was selected to ensure that participants do not receive windfall gains from broad market movements unrelated to the performance of the Senior Executives.</p> <p>The positive TSR gate ensures that Senior Executives cannot benefit from the LTI Plan when shareholders have lost value over the Measurement Period. Vesting commences upon NEXTDC's TSR matching the Index TSR, with full vesting occurring once NEXTDC's TSR exceeds the Index TSR by 5% compound annual growth over the performance period. This hurdle has been determined with regard for the historic performance of the ASX 200 Accumulation Index whereby 5% compound annual growth or greater represents upper quartile performance.</p> <p>This would, in the Board's view, represent an outstanding outcome for the Company.</p>										

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

3.7 Risk Management and Clawback Provisions

Creating a sound risk management culture is important to NEXTDC. The Company's STI and LTI Plans have been designed to protect the Company from the risk of unintended or unjustified pay outcomes by allowing risk factors to be taken into account over long periods and by way of a variety of measures that are considered key to the Company's success. For example:

- Basing the STI on a number of performance measures, including an initial gateway hurdle before any STI is able to be paid (subject also to malus/clawback provisions)
- Deferring a component (50%) of STI to ensure alignment with shareholder value and compliance with NEXTDC's codes of conduct and corporate governance
- Having the weighting of the remuneration mix towards LTI's to encourage prudent risk taking in line with the long-term objectives of the Company

While formal shareholding requirements are not imposed for Senior Executives, the CEO has a material holding in NEXTDC shares, which was valued at approximately 15 times base salary at 30 June 2020.

Board discretion is applied to the vesting of all STI's and LTI's to ensure any proposed awards are aligned with shareholder returns. As noted in section 3.6, the Board also retains the ability to reduce or clawback awards in the event of serious misconduct or a material misstatement in the Company's financial statements.

3.8 Non-Executive Director Remuneration Policy

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

- Remuneration comprises:
 - Board fees
 - Committee fees
 - Superannuation
 - Other benefits
 - Securities (if appropriate at the time).
- Remuneration will be managed within the aggregate fee limit (AFL) or fee pool approved by shareholders of the Company.
- The Non-Executive Director Remuneration Policy contains guidelines on when the Board should seek adjustment to the AFL such as in the case of the appointment of additional Non-Executive Directors.
- Remuneration should be reviewed annually.
- Non-Executive Directors are not entitled to termination benefits.
- A policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees) will be set with reference to the median of comparable ASX listed companies.
- Committee fees may be used to recognise additional contributions to the work of the Board by members of committees, but in a manner that, when combined with Board Fees, will not exceed the 75th percentile of comparable ASX listed companies.

The Company does not currently provide securities as part of Non-Executive Director remuneration.

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

4. EMPLOYMENT TERMS FOR DIRECTORS AND SENIOR EXECUTIVES

NON-EXECUTIVE DIRECTORS

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

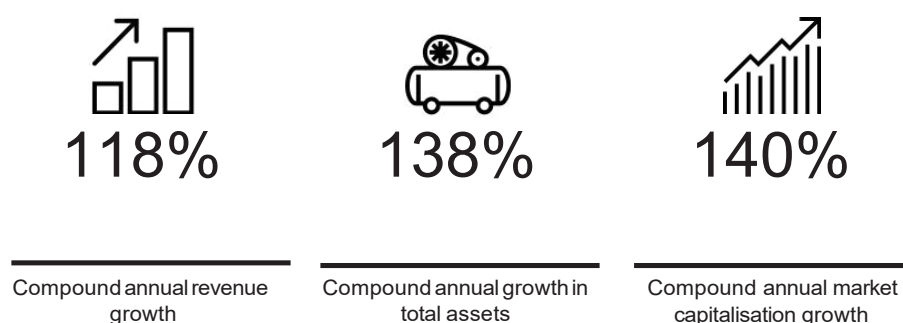
All of the current Non-Executive Directors carry an initial contract duration of three years (subject to re-election by shareholders). The employment contracts for the Non-Executive Directors do not carry notice period provisions, nor do they provide for any termination benefits.

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

SENIOR EXECUTIVES

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

The CEO's base salary package remained consistent at \$1.32 million for FY19 and FY20. Since his appointment to the role in 2012, the CEO has overseen the company's expansion, and has delivered:



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

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

TABLE 3: SERVICE AGREEMENTS

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

*Ceased as KMP on 24 March 2020

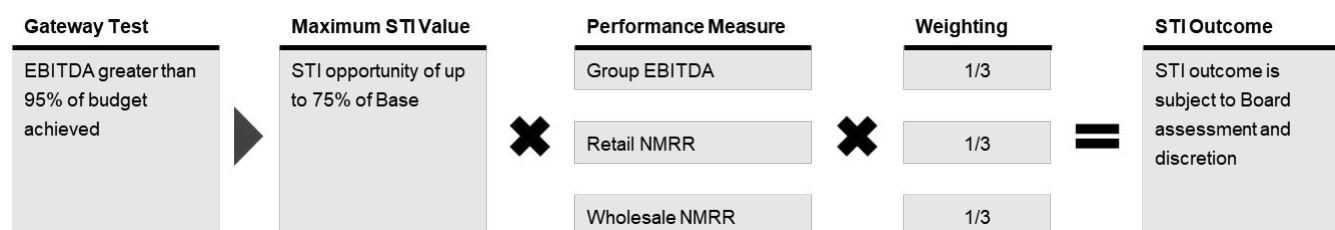
5. STI AND LTI PERFORMANCE OUTCOMES FOR FY20

5.1 STI Vesting Outcomes

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

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

FIGURE 4: CALCULATION OF STI OUTCOMES



The joint assessment of these three performance objectives in the context of the Company's overall performance resulted in overall performance falling in between target and stretch for the FY20 performance period. The actual EBITDA and NMRR targets are not quantified as they are considered to be commercially sensitive and are therefore not disclosed in the interests of shareholders.

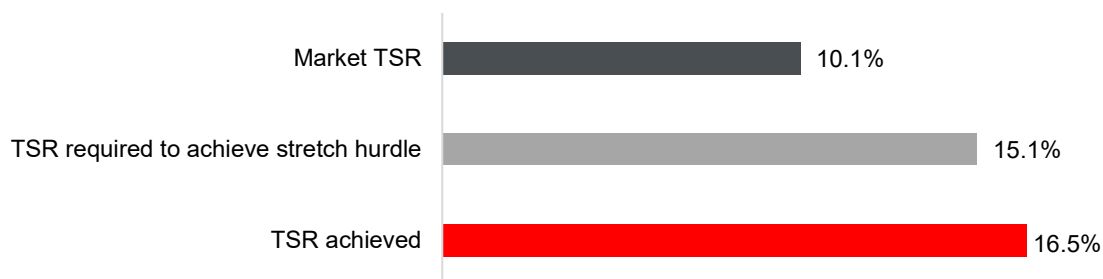
Based on performance against these three objectives, as well as the Company's broader performance during FY20, including overall response to the COVID-19 pandemic, maintaining 100% uptime SLA and keeping construction performance on plan, completion of capital raising in challenging market conditions, strong share price performance and transition into the ASX 100 index, the Board has determined to award 100% of the FY20 STI opportunity.

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

5.2 LTI Vesting Outcomes

The measurement period for the FY17 LTI was between 23 August 2016 and 29 August 2019. The vesting condition attached to the FY17 LTI was based on NEXTDC's TSR over the measurement period, against the relative performance of the All Ordinaries Accumulation Index (XAOAI).

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



Based on the above assessment, the stretch target was achieved, and the Board, having determined that the participants had been instrumental in the Company's performance over the vesting period, determined that 100% of the LTI granted in FY17 vested, with rights converting to shares following the release of the FY19 Annual Report.

The measurement period for the FY18 LTI is for approximately a three-year period, beginning from the end of trade on the day of release of the FY17 results, and ending upon the end of the day of release of the annual results for FY20. The vesting condition attached to the FY18 LTI is based on NEXTDC's TSR over the measurement period, against the relative performance of the ASX 200 Accumulation Index (Index).

Given vesting is not able to be determined until the end of day of release of the FY20 annual results, the Board will determine vesting following the release of the FY20 Annual Report.

6. STATUTORY REMUNERATION

6.1 Senior Executive Remuneration

The following table outlines the remuneration received or due to be received by Senior Executives of the Company during the 2020 and 2019 financial years and has been prepared in accordance with the Corporations Act and the relevant accounting standards. The figures provided under the LTI are based on accounting values and do not necessarily reflect actual payments received during the year.

6. STATUTORY REMUNERATION (CONTINUED)

TABLE 4: STATUTORY REMUNERATION

Name	Year	Basic Package				Subtotal	STI		LTI		Total remuneration package
		Salary	Super-contributions	Non-monetary benefits	Leave benefits ⁽¹⁾		STI ⁽²⁾	% of TRP	LTI		
Craig Scroggie	2020	1,298,997	21,003	1,792	120,737	1,442,529	990,000	32%	666,861	3,099,390	
Simon Cooper	2020	468,998	21,003	1,792	(4,790)	487,003	367,500	32%	284,059	1,138,562	
Oskar Tomaszewski	2020	448,998	21,003	-	23,081	493,082	352,500	32%	272,169	1,117,751	
Adam Scully*	2020	277,116	15,357	-	10,642	303,115	219,672	33%	133,849	656,636	
David Dzienciol	2020	448,998	21,003	-	23,049	493,050	352,500	32%	266,762	1,112,312	
Total	2020	2,943,107	99,369	3,584	172,719	3,218,779	2,282,172	32%	1,623,700	7,124,651	
*Ceased as KMP on 24 March 2020											

*Ceased as KMP on 24 March 2020

Name	Year	Basic package				STI		LTI		Total remuneration package
		Salary	Super-contributions	Non-monetary benefits	Leave benefits ⁽¹⁾	Subtotal	STI	% of TRP	LTI	
Craig Scroggie	2019	1,290,000	30,000	1,966	51,262	1,373,228	226,765	11%	548,249	2,148,242
Simon Cooper	2019	469,469	20,531	1,966	7,755	499,721	84,178	11%	205,332	789,230
Oskar Tomaszewski	2019	449,469	20,531	-	36,739	506,739	80,742	10%	196,492	783,973
Adam Scully	2019	379,469	20,531	-	13,407	413,407	68,717	11%	169,764	651,888
David Dzienciol	2019	449,739	20,531	-	3,911	474,181	80,742	11%	188,075	742,999
Total	2019	3,038,145	112,126	3,931	113,074	3,267,276	541,144	11%	1,307,912	5,116,332

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

(2) 50% of the 2019 and 2020 STI will be deferred for 12 months, with employees being able to elect whether this is delivered in cash or equity.

6.2 Non-Executive Director Remuneration

Non-Executive Director fees are managed within the current aggregate fee limit of \$1,250,000 which was approved by shareholders at the FY18 AGM in November 2018.

The rates of fees including superannuation contributions in respect of the 2020 financial year are as follows:

TABLE 5: NON-EXECUTIVE DIRECTOR FEE SCHEDULE

	From 1 January 2020	From 1 July 2019
Board Chair	\$275,000 per annum	\$275,000 per annum
Non-Executive Director	\$135,000 per annum	\$135,000 per annum
Audit and Risk Management Committee Chair	\$30,000 per annum	\$30,000 per annum
Remuneration and Nomination Committee Chair	\$30,000 per annum	\$25,000 per annum
Investment Committee Chair	\$30,000 per annum	-
Committee Member	\$13,000 per annum	\$13,000 per annum

The changes in fee structure shown above resulted from a restructure of the Board's Committees effective 1 January 2020.

A new Investment Committee was established to assist management in reviewing and evaluating proposals in relation to the Group's investment strategy and opportunities. Steve Smith was appointed as Chair of this Committee, joined by Doug Flynn, Greg Clark and Craig Scroggie as Committee members.

At the same time a number of changes were also made to the composition of the Audit and Risk Management and Remuneration and Nomination Committees.

Jennifer Lambert succeeded Stuart Davis as Chair of the Audit and Risk Management Committee, with Stuart Davis and Sharon Warburton continuing as Committee members. Doug Flynn re-joined the Committee following Sharon's departure in March 2020.

Stuart Davis succeeded Greg Clark as Chair of the Remuneration and Nomination Committee, with Greg Clark and Doug Flynn continuing as Committee members.

These fees are consistent with the Company's policy of benchmarking fees at the market median. Remuneration received by Non-Executive Directors in FY20 and FY19 is disclosed below.

TABLE 6: NON-EXECUTIVE DIRECTOR REMUNERATION

Name	Financial year	Board fees	Superannuation	Total
Douglas Flynn	2020	283,247	21,003	304,250
Dr Gregory J Clark AC	2020	152,512	14,489	167,001
Stuart Davis	2020	162,557	15,443	178,000
Stephen Smith	2020	134,189	2,060	136,249
Jennifer Lambert	2020	106,164	10,086	116,250
Sharon Warburton	2020	107,306	10,194	117,500
Total	2020	945,975	73,275	1,019,250
Douglas Flynn	2019	274,886	26,114	301,000
Dr Gregory J Clark AC	2019	157,991	15,009	173,000
Stuart Davis	2019	162,557	15,443	178,000
Sharon Warburton	2019	146,462	13,968	160,430
Total	2019	741,896	70,534	812,430

Recommended Non-Executive Director Shareholding

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

6.3 Changes in Securities Held Due to Remuneration

TABLE 7: CHANGES IN SECURITIES HELD DUE TO REMUNERATION

Name	Instrument	Balance at start of the year	Granted	Exercised	Lapsed	Balance at end of the year
Craig Scroggie	Performance Rights	626,514	216,393	-	-	842,907
Simon Cooper	Performance Rights	234,155	80,328	-	-	314,483
Simon Cooper	Deferred Rights	18,347	6,899	-	-	25,246
Oskar Tomaszewski	Performance Rights	224,028	77,049	-	-	301,077
Adam Scully*	Performance Rights	193,814	-	-	-	N/A
David Dzienciol	Performance Rights	213,570	77,049	-	-	290,619
David Dzienciol	Deferred Rights	-	6,618	-	-	6,618

*Ceased as KMP on 24 March 2020

Performance Rights

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

TABLE 8: PERFORMANCE RIGHTS PROVIDED TO KEY MANAGEMENT PERSONNEL

Name	Financial Year Granted	Number of Performance Rights	Vested during the year	Forfeited during the year	Vested and exercisable at the end of the year	Unvested at the end of the year
Craig Scroggie	2017	223,325	(223,325)	-	223,325	-
	2018	194,987	-	-	-	194,987
	2019	208,202	-	-	-	208,202
	2020	216,393	-	-	-	216,393
		842,907	(223,325)	-	223,325	619,582
Simon Cooper	2017	83,747	(83,747)	-	83,747	-
	2018	73,121	-	-	-	73,121
	2019	77,287	-	-	-	77,287
	2020	80,328	-	-	-	80,328
		314,483	(83,747)	-	83,747	230,736
Oskar Tomaszewski	2017	80,025	(80,025)	-	80,025	-
	2018	69,871	-	-	-	69,871
	2019	74,132	-	-	-	74,132
	2020	77,049	-	-	-	77,049
		301,077	(80,025)	-	80,025	221,052
Adam Scully*	2017	69,789	(69,789)	-	N/A	N/A
	2018	60,934	-	-	N/A	N/A
	2019	63,091	-	-	N/A	N/A
		193,814	(69,789)	-	N/A	N/A
David Dzienciol	2017	74,442	(74,442)	-	74,442	-
	2018	64,996	-	-	-	64,996
	2019	74,132	-	-	-	74,132
	2020	77,049	-	-	-	77,049
		290,619	(74,442)	-	74,442	216,177

*Ceased as KMP on 24 March 2020

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

Financial year granted	Fair value at grant date
2017	\$1.63
2018	\$3.32
2019	\$3.07
2020	\$4.61 [#]

[#] Except for Craig Scroggie whose rights were granted at a fair value of \$3.30

Deferred Rights

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

TABLE 9: DEFERRED RIGHTS PROVIDED TO KEY MANAGEMENT PERSONNEL

Name	Financial Year Granted	Number of Deferred Share Rights	Vested during the year	Forfeited during the year	Vested and exercisable at the end of the year	Unvested at the end of the year
Simon Cooper	2019	18,347	18,347	-	18,347	-
Simon Cooper	2020	6,899	-	-	-	6,899
David Dzienciol	2020	6,618	-	-	-	6,618
Total		31,864	18,347	-	18,347	13,517

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

Financial year granted	Fair value at grant date
2019	\$6.34
2020	\$6.10

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

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

6.4 Director and Senior Executive Shareholdings

During FY20, KMP and their related parties held shares in NEXTDC directly, indirectly or beneficially as follows:

TABLE 10: DIRECTOR AND SENIOR EXECUTIVE SHAREHOLDINGS

Holder	Opening balance	Received during the year as compensation	Received during the year on the exercise of an option or right	Other changes	Closing balance	Shares held nominally at 30 June 2020
DIRECTORS						
Douglas Flynn	152,531	-	-	7,692	160,223	160,223
Dr Gregory J Clark AC	62,202	-	-	3,846	66,048	66,048
Stuart Davis	34,314	-	-	3,846	38,160	38,160
Stephen Smith	-	-	-	-	-	-
Jennifer Lambert	-	-	-	11,846	11,846	11,846
Sharon Warburton	39,202	-	-	(39,202)	-	-
SENIOR EXECUTIVES						
Craig Scroggie	1,981,499	-	-	7,692	1,989,191	383,447
Simon Cooper	211,495	-	-	3,846	215,341	14,846
Oskar Tomaszewski	150,610	-	-	-	150,610	-
Adam Scully*	118,480	-	-	(118,480)	-	-
David Dzienciol	208,772	-	-	3,846	212,618	-

*Ceased as KMP on 24 March 2020

The Non-Executive Directors of the Company did not receive any shares in NEXTDC on behalf of the Company in respect of the 2019 and 2020 financial reporting periods.

Loans to Directors and Executives

There were no loans to Directors or other key management personnel at any time during the year.

6.5 Remuneration Received(Non-statutory)

Remuneration received in FY20

The amounts disclosed below as Senior Executive remuneration for FY20 reflect the actual benefits received by each Senior Executive during the reporting period. The remuneration values disclosed have been determined as follows:

Fixed remuneration

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

Short-term incentives

Cash STI represents bonuses that were awarded to each Senior Executive in relation to FY20 performance, which will be paid in FY21. Starting from FY18, 50% of the STI bonuses awarded are deferred for 12 months, with employees being able to elect whether the award will be delivered incash or equity.

Long term incentives

The value of vested rights was determined based on the intrinsic value of the rights at the date of vesting, being the difference between the share price on that date, and the exercise price payable by the Senior Executive. The performance rights that vested in FY20 were granted in 2017.

TABLE 11: REMUNERATION RECEIVED IN FY20

Name	Fixed Remuneration	Awarded STI (cash)	Vested LTI	Total Value
Craig Scroggie	1,321,792	495,000	1,377,915	3,194,707
Simon Cooper	491,792	183,750	516,719	1,192,261
Oskar Tomaszewski	470,000	176,250	493,754	1,140,004
Adam Scully*	292,473	109,836	430,598	832,907
David Dzienciol	470,000	176,250	459,307	1,105,557
Total	3,046,057	1,141,086	3,278,293	7,465,436

*Ceased as KMP on 24 March 2020

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

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

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

Audit and non-audit services

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers Australia) for audit and non-audit services during the year are disclosed in Note 23 Remuneration of auditors.

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

The board of directors, in accordance with advice provided by the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 50.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001. This report is made in accordance with a resolution of the Directors.



Craig Scroggie
Managing Director and Chief Executive Officer

27 August 2020



Auditor's Independence Declaration

As lead auditor for the audit of NEXTDC Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Michael Shewan', with a long horizontal flourish extending to the right.

Michael Shewan
Partner
PricewaterhouseCoopers

Brisbane
27 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

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CORPORATE GOVERNANCE STATEMENT

NEXTDC has established a strong governance framework and continues to be committed to a high level of integrity and ethical standards in all its business practices. Effective and transparent corporate governance is of critical importance to NEXTDC and its Board of Directors ("the Board"). The Board fully supports the intent of the Australian Securities Exchange ("ASX") Corporate Governance Council's new 4th edition of Corporate Governance Principles and Recommendations ("4th Edition Governance Principles"). NEXTDC meets all the requirements of 4th Edition Governance Principles.

At NEXTDC, corporate governance refers to the overarching monitoring and reporting environment that supports everything the Company does in the operations of its business. It is the combination of processes, metrics and structures implemented and monitored by the Board and CXO team to inform, direct, manage and scrutinise the Company's activities to meet its strategic objectives. This provides evidence to investors and Australian Securities & Investments Commission (ASIC) that the Company:

- Complies with legislation such as the Corporations Act
- Meets expectations as a company listed on the ASX; and
- Manages the company, funded by investors, in accordance with best practices.

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

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

NEXTDC's Corporate Governance Framework continues to evolve as it seeks continual improvement in the way it conducts its business. Further details on how NEXTDC's Corporate Governance aligns with the 4th Edition Governance Principles can be found in the Company's FY20 Corporate Governance Statement and Appendix 4G available at www.nextdc.com/our-company/corporate-governance



NEXTDC Limited
ABN 35 143 582 521
Financial report
for the year ended 30 June 2020

Financial Report

These financial statements are the consolidated financial statements of the consolidated entity consisting of NEXTDC Limited (ABN 35 143 582 521) and its subsidiaries. A list of major subsidiaries is included in note 24. NEXTDC Limited is a company limited by shares, incorporated and domiciled in Australia. The financial statements are presented in the Australian currency.

NEXTDC's registered office is:
20 Wharf St Brisbane QLD 4000

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

The financial statements were authorised for issue by the Directors on 27 August 2020.

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

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Consolidated Statement of Comprehensive Income
For the year ended 30 June 2020

		30 June 2020 \$'000	30 June 2019 \$'000
	Note		
REVENUE FROM CONTINUING OPERATIONS			
Data centre services revenue	3	200,778	169,696
Other revenue	3	4,447	9,564
Total revenue		205,225	179,260
OTHER INCOME			
Other income	3	556	3,034
EXPENSES			
Direct costs		(38,052)	(33,197)
Employee benefits expense		(34,015)	(30,503)
Data centre facility costs		(11,423)	(9,422)
Depreciation and amortisation expense		(69,078)	(48,442)
Professional fees	4	(2,221)	(7,003)
Marketing costs		(568)	(465)
Office and administrative expenses	4	(11,459)	(14,438)
Finance costs	4	(57,705)	(54,897)
Profit/(loss) before income tax		(18,740)	(16,073)
Income tax benefit/(expense)	20	(26,434)	6,254
Profit/(loss) after income tax		(45,174)	(9,819)
PROFIT/(LOSS) IS ATTRIBUTABLE TO:			
Owners of NEXTDC Limited		(45,174)	(9,819)
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income		-	4,654
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(63)	127
Total comprehensive income		(45,237)	(5,038)
Attributable to:			
Owners of NEXTDC Limited		(45,237)	(5,038)
		Cents	Cents
EARNINGS/(LOSS) PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE GROUP:			
Basic earnings/(loss) per share	2	(12.61)	(2.86)
Diluted earnings/(loss) per share	2	(12.61)	(2.86)

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

Consolidated Balance Sheet
As at 30 June 2020

		30 June 2020 \$'000	30 June 2019 \$'000
	Note		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		892,939	398,999
Trade and other receivables	5	45,065	33,856
Other assets	6	18,110	14,432
Total current assets		956,114	447,287
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,670,815	1,328,473
Other assets	6	3,344	4,898
Intangible assets	9	29,284	23,678
Deferred tax assets	21	-	21,552
Total non-current assets		1,703,443	1,378,601
TOTAL ASSETS		2,659,557	1,825,888
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	64,885	56,646
Other liabilities		2	1
Lease liabilities	10	5,057	4,949
Revenue received in advance		7,088	5,819
Unsecured notes	14	301,811	-
Total current liabilities		378,843	67,415
NON-CURRENT LIABILITIES			
Provisions		1,292	964
Revenue received in advance		27,758	19,978
Borrowings	14	496,426	793,849
Lease liabilities	10	71,777	68,379
Total non-current liabilities		597,253	883,170
TOTAL LIABILITIES		976,096	950,585
NET ASSETS		1,683,461	875,303
EQUITY			
Contributed equity	12	1,757,262	905,117
Reserves		7,612	6,412
Accumulated losses		(81,413)	(36,226)
TOTAL EQUITY		1,683,461	875,303

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018		904,247	6,005	(16,275)	893,977
Adoption of AASB 15 and 16		-	-	(14,786)	(14,786)
Restated total equity at the beginning of the financial year		904,247	6,005	(31,061)	879,191
Profit/(loss) for the year		-	-	(9,819)	(9,819)
Transfer to accumulated losses		-	(4,654)	4,654	-
Other comprehensive income		-	4,781	-	4,781
Total comprehensive income		-	127	(5,165)	(5,038)

**TRANSACTIONS WITH OWNERS IN THEIR
CAPACITY AS OWNERS:**

Contributions of equity, net of transaction costs and tax	12(b)	(996)	-	-	(996)
Acquisition of treasury shares		(38)	-	-	(38)
Share based payments - conversion of rights to shares		1,904	(1,904)	-	-
Share based payments - value of employee services	19(c)	-	2,068	-	2,068
Share based payments - deferred STI		-	116	-	116
Balance at 30 June 2019		905,117	6,412	(36,226)	875,303

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019		905,117	6,412	(36,226)	875,303
Profit/(loss) for the year		-	-	(45,174)	(45,174)
Other comprehensive income		-	(50)	(13)	(63)
Total comprehensive income		-	(50)	(45,187)	(45,237)

**TRANSACTIONS WITH OWNERS IN THEIR
CAPACITY AS OWNERS:**

Contributions of equity, net of transaction costs and tax	12(b)	850,634	-	-	850,634
Share based payments - conversion of rights to shares	12(b)	1,395	(1,395)	-	-
Share based payments - value of employee services	19(c)	-	2,761	-	2,761
Share based payments - deferred STI		116	(116)	-	-
Balance at 30 June 2020		1,757,262	7,612	(81,413)	1,683,461

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2020

	30 June 2020 \$'000	30 June 2019 \$'000
Note		
OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	217,317	196,442
Payments to suppliers and employees (inclusive of GST)	(115,430)	(101,753)
	101,887	94,689
Transaction costs relating to acquisition of subsidiary	-	(8,957)
Interest paid	(51,091)	(51,238)
Distributions received	-	1,344
(Payments for)/proceeds from bank guarantees	(996)	(4,671)
Interest received	4,144	8,194
Net cash inflow from operating activities	22(a) 53,944	39,361
INVESTING ACTIVITIES		
Payments for acquisition of subsidiary, net of cash acquired	-	(153,852)
Payments for property, plant and equipment	(397,833)	(347,146)
Payments for financial assets at fair value through other comprehensive income	-	(1,008)
Payments for intangible assets	(7,097)	(12,161)
Net cash (outflow) from investing activities	(404,930)	(514,167)
FINANCING ACTIVITIES		
Proceeds from issue of Notes	-	500,750
Repayment of borrowings	-	(29,000)
Transaction costs in relation to loans and borrowings	(439)	(9,186)
Proceeds from issues of shares and other equity securities	12(b) 862,024	-
Payments for acquisition of non-controlling interest	-	(5,380)
Transaction costs paid in relation to issue of shares	12(b) (16,272)	(241)
Principal elements of lease payments	(387)	(1,082)
Acquisition of treasury shares	-	(38)
Net cash inflow from financing activities	844,926	455,823
Net increase/(decrease) in cash and cash equivalents	493,940	(18,983)
Cash and cash equivalents at the beginning of the year	398,999	417,982
Cash and cash equivalents at the end of the year	892,939	398,999

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

Contents of the notes to the consolidated financial report

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(a) Basis of preparation

The 2020 financial statements notes have been grouped into the following sections:

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

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

NEXTDC Limited (the Company) is domiciled in Australia. The registered office is 20 Wharf St, Brisbane QLD 4000.

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

The consolidated general purpose financial statements of the Group for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 27 August 2020.

The financial statements:

- Have been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards as issued by the International Accounting Standards Board
- Have been prepared on a historical cost basis
- Are presented in Australian dollars and, unless otherwise stated, all values have been rounded to the nearest thousand dollars (\$'000) under the option available under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191
- Present reclassified comparative information where required for consistency with the current year's presentation
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2019
- Do not early adopt any other Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

Business performance

1 Segment performance

(a) Description of segments

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

(b) Segment information provided to management

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

30 June 2020	Vic	NSW	Qld	WA	ACT	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	72,497	84,416	21,763	17,870	1,968	2,264	200,778
Direct and facility costs	(16,742)	(22,192)	(4,947)	(3,748)	(1,299)	(547)	(49,475)
Employee benefits expense	(2,073)	(2,159)	(1,604)	(1,289)	(846)	(870)	(8,841)
Other expenses	(177)	(142)	(106)	(108)	(129)	(1,094)	(1,756)
Segment EBITDA	53,505	59,923	15,106	12,725	(306)	(247)	140,706
Depreciation and amortisation	(19,124)	(25,824)	(7,269)	(6,269)	(5,118)	(620)	(64,224)
Finance charge	-	(1,325)	-	-	(3,913)	(6)	(5,244)
Segment profit/(loss) before tax	34,381	32,774	7,837	6,456	(9,337)	(873)	71,238
Segment assets	386,231	776,128	128,990	240,832	89,945	9,633	1,631,759
Unallocated assets	-	-	-	-	-	1,027,798	1,027,798
Total segment assets	386,231	776,128	128,990	240,832	89,945	1,037,431	2,659,557
30 June 2019	Vic	NSW	Qld	WA	ACT	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	68,686	63,050	18,987	14,872	2,146	1,955	169,696
Direct and facility costs	(16,053)	(17,134)	(4,471)	(3,173)	(1,253)	(535)	(42,619)
Employee benefits expense	(1,907)	(1,604)	(1,539)	(950)	(808)	(659)	(7,467)
Other expenses	(174)	(122)	(122)	(88)	(121)	(752)	(1,379)
Segment EBITDA	50,552	44,190	12,855	10,661	(36)	9	118,231
Depreciation and amortisation	(15,586)	(12,743)	(6,742)	(5,027)	(4,886)	(1,379)	(46,363)
Finance charge	(1,380)	(2,908)	(384)	(729)	(3,878)	(6)	(9,285)
Segment profit/(loss) before tax	33,586	28,539	5,729	4,905	(8,800)	(1,376)	62,583
Segment assets	344,837	587,684	133,476	153,919	91,677	10,137	1,321,730
Unallocated assets	-	-	-	-	-	504,158	504,158
Total segment assets	344,837	587,684	133,476	153,919	91,677	514,295	1,825,888

There was no impairment charge or other significant non-cash item recognised in 2020 (2019: nil).

1 Segment performance (continued)

(c) Other segment information

(i) Profit/(loss) before tax

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

A reconciliation of profit/(loss) before income tax is provided as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Total segment profit before tax	71,238	62,583
Employee benefits expense (non-facility staff)	(25,174)	(23,036)
Interest revenue	4,447	8,220
Distributions from investments	-	1,344
Other income	556	3,034
Finance costs	(52,461)	(45,612)
Head office depreciation	(4,854)	(2,079)
Overheads and other expenses	(12,492)	(20,527)
Profit/(loss) before tax	(18,740)	(16,073)

A reconciliation of depreciation and amortisation is provided as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Segment depreciation and amortisation expense	64,224	46,363
Head office depreciation and amortisation expense	4,854	2,079
Total depreciation and amortisation expense	69,078	48,442

(ii) Segment liabilities

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

(d) Segment reporting

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

2 Earnings/(loss) per share

(a) Earnings/(loss) per share

	30 June 2020 Cents	30 June 2019 Cents
Total basic EPS attributable to the ordinary equity holders of the Group	<u>(12.61)</u>	<u>(2.86)</u>

(b) Diluted earnings/(loss) per share

Total diluted EPS attributable to the ordinary equity holders of the Group	<u>(12.61)</u>	<u>(2.86)</u>
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(c) Reconciliation of earnings/(loss) used in calculating earnings per share

	30 June 2020 \$'000	30 June 2019 \$'000
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BASIC EARNINGS/(LOSS) PER SHARE

Profit/(loss) attributable to equity holders of the Group used in calculating basic EPS:

Profit/(loss) used in calculating basic earnings/(loss) per share	<u>(45,174)</u>	<u>(9,819)</u>
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DILUTED EARNINGS/(LOSS) PER SHARE

Profit/(loss) from continuing operations attributable to the equity holders of the Group:

Used in calculating diluted earnings/(loss) per share	<u>(45,174)</u>	<u>(9,819)</u>
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Profit/(loss) attributable to the equity holders of the Group used in calculating diluted EPS	<u>(45,174)</u>	<u>(9,819)</u>
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(d) Weighted average number of shares used as the denominator

	2020 Number of shares	2019 Number of shares
Weighted average number of ordinary shares used as the denominator in calculation basic earnings/(loss) per share	358,311,401	342,913,254
Plus potential ordinary shares	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings/(loss) per share	<u>358,311,401</u>	<u>342,913,254</u>

(e) Information concerning the classification of securities

(i) Performance rights and deferred rights

The number of performance rights and deferred rights included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the vesting period. However, they are not included in the calculation where the inclusion would result in a decreased loss per share or increased earnings per share.

2 Earnings/(loss) per share (continued)

(f) Earnings/(loss) per share

(i) Basic earnings/(loss) per share

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

(ii) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Revenue and other income

	30 June 2020 \$'000	30 June 2019 \$'000
FROM CONTINUING OPERATIONS		
Data centre services revenue	200,778	169,696
Interest income	4,447	8,220
Distributions from investments	-	1,344
Subtotal - other revenue	4,447	9,564
Total revenue	205,225	179,260
Gain on re-assessment of lease under AASB 16	199	-
Gain on extinguishment of B1 lease	-	1,068
Gain on extinguishment of APDC leases	-	1,291
Other items included in gains	357	675
Total other income	556	3,034

(a) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward revenue received in advance.

	30 June 2020 \$'000	30 June 2019 \$'000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Data centre services revenue	5,008	4,293

3 Revenue and other income (continued)

(b) Revenue recognition

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

Revenue is recognised for the major business activities as follows:

(i) *Data centre services*

Data centre services revenue primarily consist of recurring monthly service fees and upfront project fees.

Revenue from the provision of recurring monthly service fees is recognised in the accounting period in which the services are rendered. Project fees primarily comprise installation services relating to a customer's initial deployment. As this is not considered to be a distinct service, revenue is deferred and recognised over the term of the contract with the customer, taking into account renewal options that are held by the customer.

The Group applies the practical expedient in the revenue standard and does not disclose information about the transaction price allocated to remaining performance obligations on contracts that are unsatisfied, as the Group has the right to consideration from its customers in an amount that corresponds directly with the value to the customer of the Group's services to date. This is applied to all its data centre services revenue, on the basis that the upfront project fees are not a significant portion of each contract.

The Group enters into contracts with customers that guarantee certain performance measures such as uptime and on time delivery of services. If these guarantees of service performance are not achieved, the Group reduces revenue for any credits or cash payments that may be due to customers under contract. Key areas of estimation include the amount of the service credits, the likelihood that the service credits will be claimed, and the time period over which they impact revenue.

Customer incentives provided by way of upfront discounts are contract assets that are amortised via a reduction in revenue over the expected contract life - refer to Note 6(b).

(ii) *Interest income*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(iii) *Distributions from investments*

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

4 Expenses

The Group has identified a number of significant expense items below that impacted financial performance for the year:

	Note	30 June 2020 \$'000	30 June 2019 \$'000
EXPENSE			
Finance costs	4(a)	(57,705)	(54,897)
APDC transaction costs (included in Professional fees)		-	(5,459)
Landholder duty on acquisition of APDC properties (included in Office and administrative expenses)		-	(3,498)

(a) Finance costs

Included in finance costs are costs related to unsecured notes on issue and interest expense on lease liabilities.

Refer to note 14 for details on unsecured notes on issue and note 10 for details on interest expense on lease liabilities for the year.

Operating assets and liabilities

5 Trade and other receivables

		30 June 2020 \$'000	30 June 2019 \$'000
	Note		
Trade receivables	5(a)	37,901	28,320
Loss allowance	13(b)	(1,349)	(741)
		36,552	27,579
Interest receivable	5(b)	356	54
GST receivable		4,963	6,222
Other receivables		3,194	1
Total		45,065	33,856

(a) Trade receivables

(i) Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 - 60 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

(ii) Fair values of trade and other receivables

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

(iii) Impairment and risk exposure

Information about the Group's impairment policies, calculation of loss allowance and exposure to credit risk, foreign currency risk and interest rate risk can be found in note 13.

(b) Interest receivable

Interest receivable relates to interest accrued on term deposits. Credit risk of this is assessed in the same manner as cash and cash equivalents which is detailed in note 13.

6 Other assets

		30 June 2020 \$'000	30 June 2019 \$'000
CURRENT			
Prepayments		4,312	2,631
Capitalised transaction costs		1,492	1,496
Security deposits	6(a)	10,724	8,822
Customer incentives	6(b)	601	625
Other current assets		478	412
Contract costs	6(c)	503	446
Total other assets - current		18,110	14,432

6 Other assets (continued)

		30 June 2020 \$'000	30 June 2019 \$'000
NON-CURRENT			
Customer incentives	6(b)	921	1,091
Capitalised transaction costs		1,868	3,359
Contract costs	6(c)	555	448
Total other assets - non-current		3,344	4,898

(a) Security deposits

Included in the security deposits was \$9.8 million (2019: \$8.8 million) relating to deposits held as security for bank guarantees.

(b) Customer incentives

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

(c) Contract costs

Eligible costs that are expected to be recovered are capitalised as a contract cost and amortised over the expected customer life.

7 Trade and other payables

	30 June 2020 \$'000	30 June 2019 \$'000
Trade payables	32,665	44,840
Accrued capital expenditure	25,205	5,841
Accrued expenses	3,218	2,848
Other creditors	3,797	3,117
Total trade and other payables	64,885	56,646

(i) Recognition and measurement

Trade and other payables, including accruals, are recorded when the Group is required to make future payments as a result of purchases of assets or services provided to the Group prior to the end of financial period. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Fair values of trade and other payables

Due to the short-term nature of trade and other payables, their carrying amount is considered to be the same as their fair value.

(iii) Risk Exposure

As the majority of payables are in Australian dollars, management does not believe there are any significant risks in relation to these financial liabilities. Refer to note 13 for details of the Group's financial risk management policies.

8 Property, plant and equipment

Movements	Assets in the course of construction \$'000	Land and buildings \$'000	Plant and machinery \$'000	Computer equipment \$'000	Office furniture and equipment \$'000	Right of use assets \$'000	Total \$'000
30 June 2020							
Opening net book amount	363,445	506,439	370,977	7,908	1,180	78,524	1,328,473
Additions	384,167	21,501	711	98	5	4,094	410,576
Depreciation charge	-	(12,126)	(47,594)	(3,538)	(389)	(3,733)	(67,380)
Disposal	(81)	-	(3)	(34)	(25)	(711)	(854)
Transfers	(524,156)	237,577	281,593	4,427	559	-	-
Closing net book amount	223,375	753,391	605,684	8,861	1,330	78,174	1,670,815
Cost	223,375	773,053	769,118	20,166	2,630	85,415	1,873,757
Accumulated depreciation	-	(19,662)	(163,434)	(11,305)	(1,300)	(7,241)	(202,942)
Net book amount	223,375	753,391	605,684	8,861	1,330	78,174	1,670,815
	Assets in the course of construction \$'000	Land and buildings \$'000	Plant and machinery \$'000	Computer equipment \$'000	Office furniture and equipment \$'000	Right of use assets \$'000	Total \$'000
30 June 2019							
Opening net book amount	93,055	202,981	375,629	7,072	1,213	-	679,950
Opening Balance							
AASB 16 Adjustment	-	-	-	-	-	271,230	271,230
Acquisition of subsidiary	-	257,525	3,475	7	-	-	261,007
Additions	365,103	-	701	136	56	257	366,253
Depreciation charge	-	(5,571)	(32,830)	(3,029)	(338)	(5,558)	(47,326)
Disposal	-	-	(4)	(64)	-	(202,573)	(202,641)
Transfers	(94,713)	56,573	34,078	3,786	249	27	-
Transfers between classes	-	(5,069)	(10,072)	-	-	15,141	-
Closing net book amount	363,445	506,439	370,977	7,908	1,180	78,524	1,328,473
Cost	363,445	513,973	488,080	16,753	2,303	82,647	1,467,201
Accumulated depreciation	-	(7,534)	(117,103)	(8,845)	(1,123)	(4,123)	(138,728)
Net book amount	363,445	506,439	370,977	7,908	1,180	78,524	1,328,473

(a) Property, plant and equipment

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

8 Property, plant and equipment (continued)

(a) Property, plant and equipment (continued)

Property, plant and equipment is stated at historical cost less depreciation. Costs capitalised include external direct costs of materials and services and employee costs.

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

Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Category	Useful life
Buildings	40 years
Plant and machinery	2-25 years
Computer equipment	1-15 years
Office furniture and equipment	5-10 years
Right-of-use assets	2-42 years

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

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

9 Intangible assets

	30 June 2020 \$'000	30 June 2019 \$'000
Rights and licences	13	13
Internally generated software	16,156	7,381
Software under development	13,115	16,284
Total intangible assets	29,284	23,678

Movements	Rights and licenses \$'000	Internally generated software \$'000	Software under development \$'000	Total \$'000
30 June 2020				
Opening net book amount at 1 July 2019	13	7,381	16,284	23,678
Additions – internally developed	-	-	7,304	7,304
Amortisation	-	(1,698)	-	(1,698)
Transfers	-	10,473	(10,473)	-
Closing net book amount	13	16,156	13,115	29,284
At 30 June 2020				
Cost	13	23,434	13,115	36,562
Accumulated amortisation	-	(7,278)	-	(7,278)
Net book amount	13	16,156	13,115	29,284

9 Intangible assets (continued)

	Rights and licences \$'000	Internally generated software \$'000	Software under development \$'000	Total \$'000
30 June 2019				
Opening net book amount at 1 July 2018	13	6,385	6,509	12,907
Additions – internally developed	-	-	11,896	11,896
Amortisation	-	(1,116)	-	(1,116)
Transfer between classes	-	2,121	(2,121)	-
Disposals	-	(9)	-	(9)
Closing net book amount	13	7,381	16,284	23,678
At 30 June 2019				
Cost	13	12,961	16,284	29,258
Accumulated amortisation	-	(5,580)	-	(5,580)
Net book amount	13	7,381	16,284	23,678

(a) Intangible assets

RIGHTS AND LICENCES

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

Other licences that NEXTDC acquires are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life which is generally 25 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

INTERNALLY GENERATED SOFTWARE

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

SOFTWARE UNDER DEVELOPMENT

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

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

10 Leases

(a) Leases

(i) Amounts recognised in the Consolidated Balance Sheet

The Consolidated Balance Sheet includes the following amounts relating to leases:

	30 June 2020 \$'000	30 June 2019 \$'000
Right-of-use assets *		
Properties	68,736	68,569
Motor Vehicles	176	259
Connectivity Links	9,262	9,696
	78,174	78,524

* included in the line item 'Property, plant and equipment' in the Consolidated Balance Sheet.

Lease liabilities

Current	5,057	4,949
Non-current	71,777	68,379
	76,834	73,328

Additions to the right-of-use assets during the 2020 financial year were \$4.1 million (2019 : \$0.3 million).

(ii) Amounts recognised in the Consolidated Statement of Comprehensive Income

The Consolidated Statement of Comprehensive Income shows the following amounts relating to leases:

	30 June 2020 \$'000	30 June 2019 \$'000
Depreciation charge on Properties	3,226	5,067
Depreciation charge on Motor Vehicles	84	68
Depreciation charge on Connectivity Links	423	423
Interest expense (included in Finance costs)	5,309	9,373
	9,042	14,931

The total cash outflow for leases in 2020 was \$5.0 million (2019 : \$8.6 million).

(iii) The Group's leasing activities and how these are accounted for

The Group has a number of leases over property, motor vehicles, and connectivity links that have varying terms, escalation clauses and renewal rights.

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate

10 Leases (continued)

(a) Leases (continued)

(iii) The Group's leasing activities and how these are accounted for (continued)

- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- makes adjustments specific to the lease, eg. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Capital and financial risk management

11 Capital risk management

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

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

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

	30 June 2020 \$'000	30 June 2019 \$'000
Total borrowings and lease liabilities	875,071	867,177
Less: cash and cash equivalents	(892,939)	(398,999)
Net debt (surplus cash)	(17,868)	468,178
Total equity	1,683,461	875,303
Total capital	1,665,593	1,343,481
Gearing ratio	-%	35.0%

The change in the gearing ratio was primarily driven by equity fundraising activities during the period. Refer to note 12 for movements in ordinary share capital.

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

12 Contributed equity

(a) Share capital

	30 June 2020 Number of Shares	30 June 2020 \$	30 June 2019 Number of Shares	30 June 2019 \$
Fully paid ordinary shares	12(c) 455,046,464	1,757,261,639	343,655,108	905,117,323
Treasury shares - LFSP	12(e) 861,813	1,851,502	861,813	1,851,502
Treasury shares - EST	12(g) 27,702	203,000	27,702	203,000
Total share capital	455,935,979	1,759,316,141	344,544,623	907,171,825

12 Contributed equity (continued)

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	\$'000
14 September 2018	Opening balance		343,113,933	906,264
	Conversion of rights to shares	(d)	1,402,988	1,904
	Transaction costs		-	(122)
30 June 2019	Deferred tax credit/(debit) recognised directly in equity		-	(874)
	Sub-total		344,516,921	907,172
	Less shares held by NEXTDC Share Plan Pty Ltd	(e)	(861,813)	(1,852)
	Less shares held by NEXTDC Employee Share Plan Trust	(g)	(27,702)	(203)
30 June 2019	Balance		343,627,406	905,117

Date	Details	Note	Number of shares	\$'000
3 October 2019	Opening balance		344,516,921	907,172
	Conversion of rights to shares	(d)	876,373	1,511
7 April 2020	Issue of capital - institutional investors	(c)	86,114,523	671,693
7 May 2020	Issue of capital - share purchase plan	(c)	24,400,460	190,331
	Transaction costs		-	(16,272)
30 June 2020	Deferred tax credit/(debit) recognised directly in equity		-	4,882
	Sub-total		455,908,277	1,759,317
	Less shares held by NEXTDC Share Plan Pty Ltd	(e)	(861,813)	(1,852)
	Less shares held by NEXTDC Employee Share Plan Trust	(g)	(27,702)	(203)
	Balance		455,018,762	1,757,261

(c) Ordinary shares

In April 2020, the Group issued 86,114,523 ordinary shares to institutional investors at a price of \$7.80 per share. In May 2020, the Group issued an additional 24,400,460 ordinary shares under a Share Purchase Plan priced at \$7.80 per share.

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

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

(d) Performance rights and deferred share rights

Performance rights and deferred share rights, which subject to satisfaction of a performance hurdle, give rise to an entitlement to the value of an ordinary share in NEXTDC Limited. The Board has discretion to determine if the value will be provided in shares, cash or a combination of shares and cash. The Board determined that 100% of the FY17 LTI and those FY18 deferred STIs that elected to take shares rather than cash, would vest in shares, with 876,373 shares issued to employees on 2 October 2019.

12 Contributed equity (continued)

(e) Loan funded share plan

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

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

	30 June 2020	30 June 2019
Shares held by the Trust but not allocated	<u>861,813</u>	861,813

(f) Dividend reinvestment plan

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

(g) Other equity

	Note	2020 Shares	2019 Shares	30 June 2020 \$'000	30 June 2019 \$'000
Treasury shares	(g)(i)	(27,702)	(27,702)	(203)	(203)
Total other equity				<u>(203)</u>	<u>(203)</u>

(i) Treasury shares

Treasury shares are shares in NEXTDC Limited that are held by the NEXTDC Employee Share Plan Trust (EST) for the purpose of issuing shares under the NEXTDC Limited Employee share scheme. Shares issued to employees are recognised on a first-in-first-out basis.

Details	Number of shares	\$'000
Balance 30 June 2019	(27,702)	(203)
Balance 30 June 2020	<u>(27,702)</u>	<u>(203)</u>

13 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

At 30 June 2020, NEXTDC had an undrawn A\$300 million Syndicated Senior Secured Debt Facility.

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

The Group holds the following financial instruments:

	30 June 2020 \$'000	30 June 2019 \$'000
FINANCIAL ASSETS		
Cash and cash equivalents	892,939	398,999
Trade and other receivables	45,065	33,856
Security deposits	10,724	8,822
Total financial assets	948,728	441,677
FINANCIAL LIABILITIES		
Trade and other payables	64,885	56,646
Unsecured notes	798,237	793,849
Lease liabilities	76,834	73,328
Total financial liabilities	939,956	923,823

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Group is comprised of foreign exchange risk and interest rate risk.

(i) Foreign exchange risk

The Group does not have any significant operations outside Australia and its transactions are predominantly conducted in Australian dollars. Consequently, management has determined that the Group has little exposure to foreign exchange risk. On this basis, the Group does not have any active risk mitigation strategies in relation to foreign exchange risk.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from its various fixed-rate term deposits, the floating rate tranche of Notes IV and its senior debt facility (refer to Note 14(b)) which remained undrawn at 30 June 2020.

The floating rate tranche of Notes IV and Notes IV-2 represents 46% of total borrowings, and exposes the Group's borrowings to changes in interest rates.

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

SENSITIVITY

At 30 June 2020, if interest rates had increased by 100 basis points or decreased by 100 basis points from the year end rates with all other variables held constant, post-tax profit for the period would have been \$0.2 million higher / \$0.2 million lower (2019: \$1.5 million higher / \$1.5 million lower), mainly as a result of higher/lower interest income from cash and cash equivalents and term deposits, offset by the 3 month BBSW variable component on the Notes IV facility.

13 Financial risk management (continued)

(b) Credit risk

Credit risk arises from counterparties holding cash and cash equivalents, security deposits, and trade and other receivables.

(i) Cash and cash equivalents and security deposits

Deposits are placed with Australian banks or independently rated parties with a minimum rating of 'A' class in both short term and long term. To reduce exposure deposits are placed with a variety of financial institutions.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	30 June 2020 \$'000	30 June 2019 \$'000
CASH AT BANK		
A rated	100,000	-
AA rated	792,939	398,999
TOTAL	892,939	398,999
SECURITY DEPOSITS		
AA Rated	9,797	8,822
Unrated	927	-
TOTAL	10,724	8,822

In determining the credit quality of these financial assets, NEXTDC has used the long-term rating from Standard & Poor's as of July 2020.

(ii) Trade and other receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit evaluations are performed on all customers. Outstanding customer receivables are monitored regularly.

The Group aims to minimise concentration of credit risk by undertaking transactions with a large number of customers. Revenues from data centre services of \$76.8m were derived from two customers, contributing \$50.2m (25%) and \$26.6m (13%) respectively (2019: \$42.1m (26%) and \$19.1m (12%) respectively). In addition, receivable balances are monitored on an ongoing basis with the intention that the Group's exposure to bad debts is minimised.

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

13 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Trade and other receivables (continued)

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables.

To measure the expected credit loss, receivables have been grouped based on days overdue. The methodology applied in estimating expected credit losses below is consistent with that applied for the year ended 30 June 2019. The impact of COVID-19 on the global economy and how governments, businesses and consumers will respond is uncertain. This uncertainty is reflected in the Group's assessment of expected credit losses, which is subject to a number of management estimates and judgements.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the current circumstances, such as the duration of the pandemic, the impacts and actions of governments, the responses of businesses and consumers across different industries, and the associated impact on the global economy. Accordingly, the Group's expected credit loss estimates are inherently uncertain, and as a result, actual results may differ from these estimates.

The loss allowance provision as at 30 June 2020 is determined as follows:

30 June 2020	Current	0 to 30	31 to 60	More than 60	Total
	\$'000	days past due \$'000	days past due \$'000	days past due \$'000	\$'000
Expected loss rate	2%	10%	25%	56%	-
Gross carrying amount	35,310	1,632	224	735	37,901
Loss allowance provision	719	164	56	410	1,349
Net receivables	34,591	1,468	168	325	36,552

13 Financial risk management (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due.

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

(i) Maturities of financial liabilities

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

The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual Maturities of Financial Liabilities	Within 12 months \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
2020					
Trade payables	32,665	-	-	32,665	32,665
Unsecured notes	346,182	523,858	-	870,040	798,237
Lease liabilities	4,996	25,589	167,214	197,799	76,834
Total non-derivatives	383,843	549,447	167,214	1,100,504	907,736
2019					
Trade payables	44,840	-	-	44,840	44,840
Unsecured notes	46,634	900,046	-	946,680	793,849
Lease liabilities	5,008	26,709	167,214	198,931	73,328
Total non-derivatives	96,482	926,755	167,214	1,190,451	912,017

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

(d) Fair value measurements

(i) Trade and other payables

The fair value of trade and other payables is disclosed in Note 7.

(ii) Borrowings

The fair value of borrowings is disclosed in Note 14(d) and Note 14(e).

14 Borrowings

		30 June 2020 \$'000	30 June 2019 \$'000
CURRENT			
Unsecured Notes	14(a)	301,811	-
		30 June 2020 \$'000	30 June 2019 \$'000
NON-CURRENT			
Unsecured notes	14(a)	496,426	793,849

(a) Unsecured notes

At 30 June 2020, the Group had the following Notes on issue:

- \$300 million in Notes III, carrying an annual coupon rate of 6.25% paid semi-annually. Although these Notes are due 9 June 2021, the Group also has the option to repay on 9 December 2020. Regardless of when Notes III is redeemed, an additional 1.5% interest will also be payable on redemption.
- \$300 million in Notes IV issued on 17 July 2018, comprising a floating rate tranche of \$200 million priced at 3.75% over 3-month BBSW and a fixed rate tranche of \$100 million at 6%. Notes IV is complementary to the \$300 million Notes III, albeit a different maturity date of June 2022, compared to June 2021 for Notes III. If Notes IV is redeemed prior to the second optional redemption date of 9 December 2020, an additional 1.25% interest will be payable. In addition, the Group may at any time prior to 9 December 2020, redeem all or part of the Notes, upon not less than 7 days and no more than 60 days prior notice.
- \$200 million in Notes IV-2 issued on 11 June 2019, comprising a \$170 million floating rate tranche priced at 3.75% over 90-day BBSW and a \$30 million fixed rate tranche priced at 102.466% of par on a coupon of 6%, implying a yield to first call of 4.92%. If Notes IV-2 is redeemed prior to the second optional redemption date of 9 December 2020, an additional 1.25% interest will be payable. In addition, the Group may at any time prior to 9 December 2020, redeem all or part of the Notes, upon not less than 7 days and no more than 60 days prior notice.

(b) Bank Loan

At 30 June 2020, NEXTDC had an undrawn A\$300 million Syndicated Senior Secured Debt Facility. This facility has a maturity date of 30 September 2022.

(c) Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during the 2020 financial year (2019: complied).

(d) Fair value – bank borrowings

Whilst NEXTDC has an existing \$300 million bank facility, the facility remained undrawn as at 30 June 2020.

(e) Fair value – unsecured notes

Material differences are identified for the following borrowings:

14 Borrowings (continued)

(e) Fair value – unsecured notes (continued)

	2020		2019	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Unsecured notes	798,237	781,546	793,849	812,000

(f) Borrowings

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

Items not recognised

15 Commitments

(a) Capital commitments

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

	30 June 2020 \$'000	30 June 2019 \$'000
Property, plant and equipment	82,101	161,698
Total capital commitments	82,101	161,698

16 Contingencies

(a) Contingent assets

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

(b) Contingent liabilities

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

GUARANTEES

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

17 Events occurring after the reporting period

No matters or circumstances have arisen since 30 June 2020 that have significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Employee remuneration

18 Key management personnel

(a) Key management personnel compensation

	30 June 2020 \$	30 June 2019 \$
Short-term employee benefits	6,174,838	4,325,116
Post-employment benefits	172,644	182,660
Long-term benefits	172,719	113,074
Share-based payments	1,623,700	1,307,912
Total key management personnel compensation	8,143,901	5,928,762
Comprising		
Senior Executives	7,124,651	5,116,332
Non-Executive Directors	1,019,250	812,430
Total	8,143,901	5,928,762

Detailed remuneration disclosures are provided in the Remuneration Report.

(b) Loans to key management personnel

There were no loans made to key management personnel during the year (2019: nil).

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year (2019: nil).

19 Share-based payments

(a) Performance rights

The performance rights plan was established by the Board of Directors to provide long-term incentives to the Group's Senior Executives based on total shareholder returns (TSR) taking into account the Group's financial and operational performance. Under the Plan, eligible participants may be granted performance rights on terms and conditions determined by the Board from time to time. Performance rights were granted during the course of FY18, FY19 and FY20. The vesting conditions for grants relate to TSR exceeding the ASX 200 Accumulation Index over the measurement period. Vesting of the rights will be tested on or around the day following the release of each of the annual results for the years ended 30 June 2020, 2021 and 2022 respectively.

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

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

19 Share-based payments (continued)

(a) Performance rights (continued)

	30 June 2020 Number of Rights	30 June 2020 Average Fair Value	30 June 2019 Number of Rights	30 June 2019 Average fair value
Opening balance	2,469,360	\$2.64	2,948,960	\$1.87
Granted during the year	754,809	\$4.23	828,285	\$3.07
Vested during the year	(858,026)	\$1.63	(1,307,885)	\$1.19
Forfeited during the year	(39,971)	\$2.45	-	\$0.00
Closing balance	2,326,172	\$3.53	2,469,360	\$2.64

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

Under the Group's short-term incentive (STI) scheme for FY19, executives received 50% of the annual STI achieved in cash, with 50% deferred for 12 months. Executives were able to elect whether the deferred component would be delivered in cash or equity. The FY19 tranche of deferred rights were granted in September 2019 and will vest on or around September 2020, being 12 months after the date on which they were granted. They automatically convert into one ordinary share each on vesting at an exercise price of nil. The executives do not receive any dividends and are not entitled to vote in relation to the deferred shares during the vesting period. If an executive ceases to be employed by the Group within this period, they will have 6 months from cessation of employment or the vesting date (whichever is later) to exercise the deferred share right. Any rights not exercised within this period will automatically lapse.

The number of rights to be granted was determined based on the currency value of the achieved STI divided by the volume weighted-average price at which the Company's shares were traded on the Australian Securities Exchange over the 10 days following the release of the Group's FY19 results, being \$6.10.

	2020	2019
Number of rights to deferred shares granted	13,517	18,347

(c) Expenses arising from share-based payment transactions

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

	30 June 2020 \$'000	30 June 2019 \$'000
Performance rights	2,679	2,068
Deferred shares issued under the short-term incentive scheme	82	38
Total expenses arising from share-based payment transactions	2,761	2,106

Other

20 Income tax

(a) Income tax expense

	30 June 2020 \$'000	30 June 2019 \$'000
<i>Current tax</i>		
Adjustments for current tax of prior periods	-	760
Sub-total	-	760
<i>Deferred income tax</i>		
Decrease / (increase) in deferred tax assets less deferred tax credited to equity	25,818	(27,138)
Increase / (decrease) in deferred tax liabilities	616	20,124
Sub-total	26,434	(7,014)
Income tax (benefit)/expense is attributable to:		
Profit/(loss) from continuing operations	26,434	(6,254)
Profit/(loss) from continuing operations	26,434	(6,254)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	30 June 2020 \$'000	30 June 2019 \$'000
Profit/(loss) from continuing operations before income tax expense	(18,740)	(16,073)
Tax at the Australian tax rate of 30%	(5,622)	(4,822)
<i>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</i>		
Adjustments for deferred tax of prior periods	(902)	-
Non-deductible expenses	21	39
Share-based payments	(848)	(1,911)
Derecognition of temporary differences	22,827	-
Derecognition of tax losses	10,675	-
Adjustments for current tax of prior periods	-	760
Sundry items	283	(320)
Income tax (benefit)/expense	26,434	(6,254)

(c) Amounts recognised directly in equity

	30 June 2020 \$'000	30 June 2019 \$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Current tax debited directly to equity	(4,882)	(874)
Deferred tax expense/(benefit) on change in accounting policy	-	6,337
	(4,882)	5,463

20 Income tax (continued)

(d) Tax losses

	30 June 2020 \$'000	30 June 2019 \$'000
Unused tax losses for which no deferred tax asset has been recognised	35,583	-
Potential tax benefit @ 30.0%	10,675	-

Income tax

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

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

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

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

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

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

21 Deferred tax

(a) Deferred tax assets

	30 June 2020 \$'000	30 June 2019 \$'000
The balance comprises temporary differences attributable to:		
Tax losses	10,675	8,329
Black-hole expenditure deductible in future years	4,831	1,730
Property, plant and equipment	2,104	-
Lease liabilities	23,025	21,998
Employee benefits	2,402	2,007
Loss allowances	405	222
Expenses deductible in future years	401	1,752
Revenue received in advance	10,455	7,740
R&D offsets	2,046	-
Total deferred tax assets	56,344	43,778
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 21(b))	(22,842)	(22,226)
Deferred tax assets not recognised	(33,502)	-
Net deferred tax assets	-	21,552

Deferred tax assets may be a combination of unused tax losses, offsets and timing differences based on management's foreseeable forecasts, to the extent that it is probable that taxable profit will be available against which the losses, offsets and timing differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

During the year, the Group derecognised deferred tax assets in relation to carry-forward tax losses and temporary differences as it believed they no longer met the requirement to be recognised, stemming from the impact that the recent growth and expansion activity has had on taxable profits. Despite the derecognition, these carry-forward tax losses and offsets can be carried forward indefinitely and have no expiry date.

(b) Deferred tax liabilities

	30 June 2020 \$'000	30 June 2019 \$'000
The balance comprises temporary differences attributable to:		
Accrued interest	107	16
Lease assets	21,577	20,553
Customer incentives	-	515
Property, plant and equipment	1,158	874
Contract costs	-	268
Total deferred tax liabilities	22,842	22,226
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 21(a))	(22,842)	(22,226)
Net deferred tax liabilities	-	-

22 Cash flow information

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

	30 June 2020 \$'000	30 June 2019 \$'000
Profit/(loss) for the year after income tax	(45,174)	(9,819)
Depreciation and amortisation	69,078	48,442
Non-cash employee benefits expense share-based payments	2,761	2,183
Net (gain) loss on disposal of non-current assets	(199)	(618)
CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) / decrease in trade debtors	(11,351)	6,875
(Increase) / decrease in prepayments and other current assets	(2,213)	4,017
(Increase) / decrease in interest receivable	(302)	(27)
(Increase) / decrease in cash used in bank guarantee	(996)	(4,671)
(Increase) / decrease in GST	(669)	(4,205)
(Increase) / decrease in other assets	(568)	(199)
(Increase) / decrease in deferred tax assets	26,434	(6,251)
Decrease / (increase) in customer incentives	195	193
Decrease / (increase) in trade payables	1,712	(6,030)
Decrease / (increase) in other operating liabilities	(1,627)	6,394
Decrease / (increase) in employee entitlements	1,431	1,155
(Decrease) / increase in other provisions	898	-
Decrease / (increase) in interest payable	6,382	2,123
Decrease / (increase) in revenue in advance	8,152	(201)
Net cash inflow from operating activities	53,944	39,361

(b) Net cash / (debt) reconciliation

	30 June 2020 \$'000	30 June 2019 \$'000
Net cash / (debt)		
Cash and cash equivalents	892,939	398,999
Borrowings - repayable within one year	(306,868)	(4,949)
Borrowings - repayable after one year	(568,203)	(862,228)
Net cash / (debt)	17,868	(468,178)
Cash and liquid investments	892,939	398,999
Gross debt - fixed interest rates	(508,027)	(501,660)
Gross debt - variable interest rates	(367,044)	(365,517)
Net cash / (debt)	17,868	(468,178)

22 Cash flow information (continued)

(b) Net cash / (debt) reconciliation (continued)

	Other assets	Liabilities from financing activities				
		Finance leases due within 1 year	Finance leases due after 1 year	Borrow. due within 1 year	Borrow. due after 1 year	Total
	Cash \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net cash as at 1 July 2018	417,982	-	(6,042)	-	(296,912)	115,028
Cash flows	(18,983)	-	-	-	(494,256)	(513,239)
Other non-cash movements	-	(4,949)	(62,337)	-	(2,681)	(69,967)
Net debt as at 30 June 2019	398,999	(4,949)	(68,379)	-	(793,849)	(468,178)
Cash flows	493,940	-	-	-	-	493,940
Other non-cash movements	-	(108)	(3,398)	(301,811)	297,423	(7,894)
Net cash as at 30 June 2020	892,939	(5,057)	(71,777)	(301,811)	(496,426)	17,868

23 Remuneration of auditors

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers Australia (PwC), the auditor of the parent entity, NEXTDC Limited, by PwC's related network firms and by non-related audit firms:

(a) PwC Australia

	2020 \$	2019 \$
Audit and other assurance services		
Audit and review of financial statements	371,901	325,125
Other assurance services	-	45,084
Total remuneration for audit and other assurance services	371,901	370,209
Taxation Services		
Tax compliance services	46,266	73,902
Total services provided by PwC Australia	418,167	444,111

(b) Network firms of PwC Australia

(i) Audit and other assurance services

Audit and review of financial statements	12,772	13,025
Total remuneration of network firms of PwC Australia	12,772	13,025

23 Remuneration of auditors (continued)

(c) Non-PwC audit firms

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

Total services provided by PwC	430,939	457,136
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24 Interests in other entities

(a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Principal activities
		2020 %	2019 %	
NEXTDC Holdings Trust No. 1	Australia	100	100	Property Holding
NEXTDC Holdings No. 1 Pty Ltd	Australia	100	100	Company Holding
NEXTDC Holdings Trust No. 3	Australia	100	100	Property Holding
NEXTDC Holdings No. 3 Pty Ltd	Australia	100	100	Company Holding

25 Parent entity financial information

The individual financial statements for the parent entity, NEXTDC Limited, show the following aggregate amounts:

	30 June 2020 \$'000	30 June 2019 \$'000
Total current assets	965,247	447,698
Non-current assets	1,441,998	1,121,500
TOTAL ASSETS	2,407,246	1,569,198
Total current liabilities	378,722	63,382
Non-current liabilities	597,237	886,979
TOTAL LIABILITIES	975,959	950,361
NET ASSETS	1,431,287	618,837
Shareholders' equity		
Contributed equity	1,757,262	905,117
Reserves	7,535	6,285
Retained earnings	(333,510)	(292,565)
TOTAL EQUITY	1,431,287	618,837
Profit/(loss) for the year after tax	(40,945)	(266,311)
Total comprehensive income/(loss) for the year	(40,945)	(261,657)

NEXTDC Limited acquired Asia Pacific Data Centre ("APDC") on 18 October 2018. Following acquisition, the entities comprising APDC were subsequently wound up, and the underlying properties were transferred to a new entity established by NEXTDC - NEXTDC Holdings Trust No. 1 (refer to note 24). This resulted in the above prior year loss in the parent entity on derecognition of its investment in APDC, while a corresponding gain was recorded in NEXTDC Holdings Trust No. 1 on transfer of the properties.

(a) Reserves

Due to the requirements of accounting standards, the loan provided by NEXTDC Limited (parent entity) to NEXTDC Share Plan Pty Ltd requires the loan in respect of the loan funded share plan to be recorded as an issue of treasury shares and a corresponding debit to equity (treasury share reserve).

(b) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

As at 30 June 2020, NEXTDC Limited did not have any guarantees in relation to the debts of subsidiaries.

(c) Contingent liabilities of NEXTDC Limited (parent entity)

The parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019.

(d) Contractual commitments by NEXTDC for the acquisition of property, plant and equipment

Contractual commitments detailed in Note 15 relate to NEXTDC Limited as parent entity.

(e) Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Tax consolidation legislation

NEXTDC Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

25 Parent entity financial information (continued)

(e) Determining the parent entity financial information (continued)

(i) Tax consolidation legislation (continued)

The head entity, NEXTDC Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, NEXTDC Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate NEXTDC Limited for any current tax payable assumed and are compensated by NEXTDC Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to NEXTDC Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(ii) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of NEXTDC Limited.

26 Summary of significant accounting policies

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

(a) Reporting Period and Comparative information

These financial statements cover the period 1 July 2019 to 30 June 2020. The comparative reporting period is 1 July 2018 to 30 June 2019.

(b) Basis of preparation

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

(i) Compliance with IFRS

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

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

(ii) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for their annual reporting year commencing 1 July 2019:

- AASB 2017-6 Amendments to Australian Accounting Standards - Prepayment Features with negative Compensation

26 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(ii) New and amended standards adopted by the group (continued)

- AASB 2017-7 Amendments to Australian Accounting Standards - Long-term Interests in Associates and Joint Ventures
- AASB 2018-1 Amendments to Australian Accounting Standards - Annual Improvements 2015 - 2017 Cycle
- AASB 2018-2 Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement
- Interpretation 23 Uncertainty over Income Tax Treatments

Other than the new standards listed above, none of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2019 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Historical cost convention

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

(iv) New standards and interpretations not yet adopted

There are no standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Critical accounting estimates

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

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

(i) Deferred taxation

Deferred tax assets may be a combination of unused tax losses, offsets and timing differences based on management's foreseeable forecasts, to the extent that it is probable that taxable profit will be available against which the losses, offsets and timing differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

During the year, the Group derecognised deferred tax assets in relation to carry-forward tax losses and temporary differences as it believed they no longer met the requirement to be recognised, stemming from the impact that the recent growth and expansion activity has had on taxable profits. Despite the derecognition, these carry-forward tax losses and offsets can be carried forward indefinitely and have no expiry date.

(ii) Income taxes

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

26 Summary of significant accounting policies (continued)

(c) Critical accounting estimates (continued)

(iii) Leases

On adoption of AASB 16 *Leases* from 1 July 2018, the Group was required to determine the measurement of lease liabilities based on the present value of remaining lease payments, discounted using the Group's incremental borrowing rate at commencement date. Judgement is required in determining an appropriate incremental borrowing rate, and the Group has determined the rate based on the effective interest rate of its most recent borrowings, adjusted to the specific term of each lease. In determining the lease term, management considered all relevant facts and circumstances that create an economic incentive to either exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if it is reasonably certain to be extended. The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment, and that is within the control of the lessee.

(iv) Revenue from contracts with customers

Key judgements in the recognition of revenue from contracts with customers include the identification of performance obligations within the contracts, allocation of the transaction price within the contract to the identified performance obligations, treatment of the upfront project fees and treatment of any variable consideration subsequent to initial commencement. Refer to Note 3 for further details.

(v) Impairment

The Group owns and operates a data centre in Canberra with a carrying value of \$90 million (3% of total assets). The data centre is strategically important to the Group, and the Group has invested in recent times to ensure that the data centre is competitive. As is common with data centre investments, contracted capacity can lag the investment made, and as such the carrying value of C1 is a key area of estimation uncertainty.

The group has assessed the carrying value using a value in use model and has assessed that the recoverable amount is in excess of the carrying value and no impairment arises. The key areas of estimation uncertainty in making this assessment are: revenue (data centre operating at a capacity and margin similar to other data centres in the group), the estimated cost of data centre fit out, and the discount rate.

(d) Employee Share Trust

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

(e) Share-based payments reserve

The share-based payments reserve is used to recognise:

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

(f) Functional and presentation currency

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

26 Summary of significant accounting policies (continued)

(g) Impairment of assets

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

(h) Cash and cash equivalents

For the purpose of presentation in the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Investments and other financial assets

(i) Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

26 Summary of significant accounting policies (continued)

(i) Investments and other financial assets (continued)

(iii) Measurement (continued)

Debt instruments (continued)

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated income statement.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 13(b) for further details.

(j) Provisions

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

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

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

26 Summary of significant accounting policies (continued)

(k) Employee benefits

SHORT-TERM OBLIGATIONS

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

OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

SHARE-BASED PAYMENTS

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

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

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

RETIREMENT BENEFIT OBLIGATIONS

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

(l) Rounding of amounts

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

(m) Goods and Services Tax (GST)

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

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

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

26 Summary of significant accounting policies (continued)

(n) Parent entity financial information

The financial information for the parent entity, NEXTDC Limited, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements.

(o) Assets in the course of construction

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

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

(p) Revenue received in advance

Revenue received in advance primarily relates to the advance consideration received from customers in relation to project fees and service credits, for which revenue is recognised over time.

Directors' Declaration
30 June 2020

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 52 to 97 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and

Note 26 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.



Craig Scroggie
Director

Sydney
27 August 2020



Independent auditor's report

To the members of NEXTDC Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001

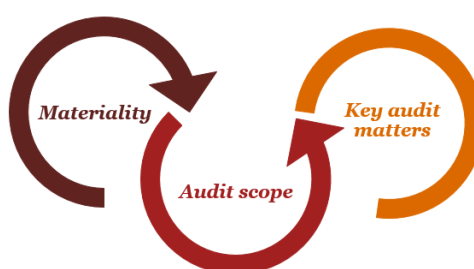
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Our audit approach

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$2.6 million, which represents approximately 2.5% of the Group's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. NEXTDC has data centres operating in capital cities across Australia. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Data centre services revenue recognition Non-current asset additions These are further described in the <i>Key audit matters</i> section of our report.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
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Data centre services revenue recognition

Refer to Note 3 Revenue and Other income (\$201m)

The Group applies AASB 15 Revenue from Contracts with Customers to account for the services it provides to its customers.

Accounting for revenue recognition was a key audit matter due to the:

- significance of revenue to understanding the financial results for users of the financial report;
- complexity involved in applying the requirements of AASB 15 given the number of revenue streams and contracts with customers with bespoke terms and conditions, including in relation to recurring service fees, upfront project fees and service credits;
- judgements required by the Group in applying the requirements of AASB 15, such as:
 - identifying the performance obligations under its contracts with customers; and
 - determining the transaction price, considering the terms in the contracts relating to recurring service fees, upfront project fees, and service credits;
 - the method of allocating the transaction price in the contract to the performance obligations.

We performed the following procedures, amongst others:

- Assessed whether the Group's accounting policies were in accordance with the requirements of AASB 15 Revenue from Contracts with Customers;
- Evaluated the judgements made by the Group in applying the accounting policy by obtaining an understanding of the revenue streams and considering the terms and conditions of a sample of contracts;
- For a sample of contracts for each revenue stream, we:
 - developed an understanding of the key terms of the arrangement including parties, term dates, performance obligations and payment terms;
 - considered the Group's identification of performance obligations and allocation of the transaction prices to the performance obligations;
 - recalculated the amount of revenue which the Group has recognised, taking into account the terms of the contracts for recurring service fees, upfront project fees, and service credits.
- Evaluated the adequacy of the disclosures made in Note 3 in light of the requirements of Australian Accounting Standards.



Key audit matter	How our audit addressed the key audit matter
<p>Non-current asset additions Refer to Note 8 Property, plant and equipment(\$1,671m) and Note 9 Intangible assets (\$29m)</p> <p>NEXTDC has continued to invest in new data centres during the period, and to expand its existing data centre infrastructure. These growth projects require significant capital outlay which results in the capitalisation of external and internal costs into Property, Plant and Equipment and Intangible Assets.</p> <p>During the current year, \$411m has been capitalised as additions to Property, Plant and Equipment, while \$7m has been capitalised to Intangible Assets.</p> <p>Costs should be capitalised in line with Australian Accounting Standards which outline the criteria required for costs to be capitalised.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> • significance of the additions balance to the Consolidated Balance Sheet; • judgement involved in assessing whether internally generated intangible assets meet the criteria for capitalisation by reference to the appropriate accounting requirements; and • potential significance of the additions balance to the Consolidated Statement of Comprehensive Income should the costs not meet the criteria required for capitalisation. 	<p>Our audit approach included testing individually large value additions, while the residual balance of additions were tested on a sample basis.</p> <p>Additional focus was paid to internal costs capitalised as these are deemed more judgemental. In particular, costs relating to salaries and wages were an area of focus.</p> <p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Developed an understanding of and evaluated the Group's cost capitalisation policy; • Assessed the processes implemented by the Group for the measurement of capitalised costs; • Sample tested capitalised costs to related documentation, including assessing whether they meet the criteria for capitalisation with reference to Australian Accounting Standards; and • For a sample of assets, assessed the timing and method of transfers from assets in the course of construction to the appropriate property, plant and equipment asset class, and recalculated the amount of depreciation that the Group had recognised.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 30 to 48 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of NEXTDC Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Michael Shewan'.

Michael Shewan
Partner

Brisbane
27 August 2020

The following shareholder information was applicable as at 19 August 2020.

Distribution of equity securities

Holding	Number of investors	Number of securities
100,001 and over	89	373,300,952
10,001 - 100,000	1,848	38,275,097
5,001 - 10,000	2,700	19,286,550
1,001 - 5,000	7,891	20,032,610
1 - 1000	11,152	4,151,255
Total	23,680	455,046,464

Equity security holders

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

Name	Number held	Percentage of issued shares
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	139,126,068	30.57
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	85,862,154	18.87
3. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	33,946,705	7.46
4. CITICORP NOMINEES PTY LIMITED	30,851,770	6.78
5. NATIONAL NOMINEES LIMITED	28,480,480	6.26
6. BNP PARIBAS NOMS PTY LTD <DRP>	10,543,735	2.32
7. AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	7,864,487	1.73
8. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,622,352	0.80
9. UBS NOMINEES PTY LTD	2,472,750	0.54
10. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,970,085	0.43
11. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,946,784	0.43
12. MR CRAIG IAN SCROGGIE	1,605,744	0.35
13. NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	1,605,078	0.35
14. BNP PARIBAS NOMS (NZ) LTD <DRP>	1,537,238	0.34
15. BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	1,207,253	0.27
16. MIRRABOOKA INVESTMENTS LIMITED	1,178,205	0.26
17. BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	1,024,399	0.23
18. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	763,694	0.17
19. SUAVE INVESTMENTS PTY LTD	756,844	0.17
20. PACIFIC CUSTODIANS PTY LIMITED	753,173	0.17
	357,118,998	78.50

Unquoted equity securities	Number on issue	Number of holders
Performance rights - issued in FY18	743,078	15
Performance rights - issued in FY19	828,285	22
Performance rights - issued in FY20	754,809	26
Deferred share rights - issued in FY20	13,517	2

Shareholder Information
30 June 2020
(continued)

Substantial holders

Substantial holders in the Company are set out below:

Substantial holders	Number held	Percentage of issued shares
UniSuper	28,363,546	6.23%

Voting rights

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

(i) Ordinary shares

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

(ii) Performance rights and deferred share rights

No voting rights.

Directors

Douglas Flynn
Chairman
Craig Scroggie
Chief Executive Officer
Stuart Davis
Non-Executive Director
Dr Gregory J Clark AC
Non-Executive Director
Sharon Warburton (resigned 31 March 2020)
Non-Executive Director
Stephen Smith (appointed 1 July 2019)
Non-Executive Director
Jennifer Lambert (appointed 1 October 2019)
Non-Executive Director
Dr Eileen Doyle (appointed 26 August 2020)
Non-Executive Director

Company secretary

Michael Helmer

Registered office

20 Wharf St
Brisbane Qld 4000
Tel: +61 7 3177 4777

Website address

www.nextdc.com

Auditor

PricewaterhouseCoopers
480 Queen Street
Brisbane Qld 4000
+61 7 3257 5000

Solicitors

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

Herbert Smith Freehills
ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

Share register

Link Market Services
Level 21, 10 Eagle Street
Brisbane Qld 4000
Tel: 1300 554 474 (in Australia)
Tel: +61 (2) 8280 7111 (overseas)

Stock exchange listing

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



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1 July 2019 to 30 June 2020
NEXTDC Limited
ABN 35 143 582 521

For any queries related to NEXTDC's
Annual Report please contact us at
investorrelations@nextdc.com