

**ANNUAL REPORT**  
**2016/2017**

**NATIONAL  
STORAGE**



# IMPORTANT INFORMATION

### ABOUT THIS REPORT

Welcome to National Storage REIT's 2017 Annual Report which reports our performance for the financial year 1 July 2016 – 30 June 2017.

The 2017 Reporting Suite includes:

**Annual Report** – a review of FY17 performance, strategy and governance

**Financial Report** – FY17 financial accounts and detailed financial performance

**Sustainability Report** – outlines NSR's approach to sustainability based on the Global Reporting Initiatives (GRI) G4 framework

The 2017 Reporting Suite is available online at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au)

National Storage Holdings Limited ACN 166 572 845 ("NSH" or the "Company")  
National Storage Property Trust ARSN 101 227 712 ("NSPT")  
together form the stapled entity National Storage REIT ("NSR" or the "Consolidated Group")

### RESPONSIBLE ENTITY OF NSPT

National Storage Financial Services Limited (NSFL)  
ACN 600 787 246 AFSL 475 228  
Level 23, 71 Eagle Street, Brisbane QLD 4000

### DISCLAIMER

This is the Annual Report for National Storage REIT which comprises the combined assets and operations of National Storage Holdings Limited (ACN 166 572 845) ("NSH") and the National Storage Property Trust (ARSN 101 227 712) ("NSPT"). This report has been prepared by NSH and NSFL (ACN 600 787 246 AFSL 475 228) as responsible entity for NSPT. National Storage REIT (ASX: NSR) currently has stapled securities on issue on the Australian Securities Exchange ("ASX") each comprising one unit in NSPT and one ordinary share in NSH ("Stapled Securities").

The information contained in this report should not be taken as financial product advice and has been prepared as general information only without consideration of your particular investment objectives, financial circumstances or particular needs. This report is not an invitation, offer or recommendation (express or implied) to apply for or purchase or take any other action in respect of Stapled Securities.

This report contains forward-looking statements and forecasts, including statements regarding future earnings and distributions. These forward-looking statements and forecasts are not guarantees of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of NSH and/or NSFL, and which may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements and forecasts contained in this report.

No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved. Similarly, no representation is given that the assumptions upon which forward-looking statements and forecasts may be based are reasonable. These forward-looking statements and forecasts are based on information available to NSH and/or NSFL as of the date of this report. Except as required by law or regulation (including the ASX Listing Rules) each of NSH and NSFL undertake no obligation to update or revise these forward-looking statements or forecasts.

Certain financial information in this report is prepared on a different basis to the Financial Report, which is prepared in accordance with Australian Accounting Standards. Any additional financial information in this report which is not included in the Financial Report was not subject to independent audit or review by Ernst & Young.

# TABLE OF CONTENTS

04	OUR BUSINESS
06	OUR FY17 PERFORMANCE
08	OUR STRATEGY
10	OUR PORTFOLIO
14	CHAIRMAN & MANAGING DIRECTOR'S REPORT
18	INVESTMENT PARTNERS
20	THE YEAR IN REVIEW
26	BOARD OF DIRECTORS
30	SENIOR EXECUTIVES
32	CORPORATE GOVERNANCE
34	DIRECTORS' REPORT
60	FINANCIAL STATEMENTS



## OUR BUSINESS

National Storage is one of Australasia's largest self-storage providers, tailoring self-storage solutions to 40,000 residential and commercial customers at more than 115 storage centres across Australia and New Zealand.

National Storage REIT is the only publicly listed fully integrated owner and operator of self-storage centres in Australasia.

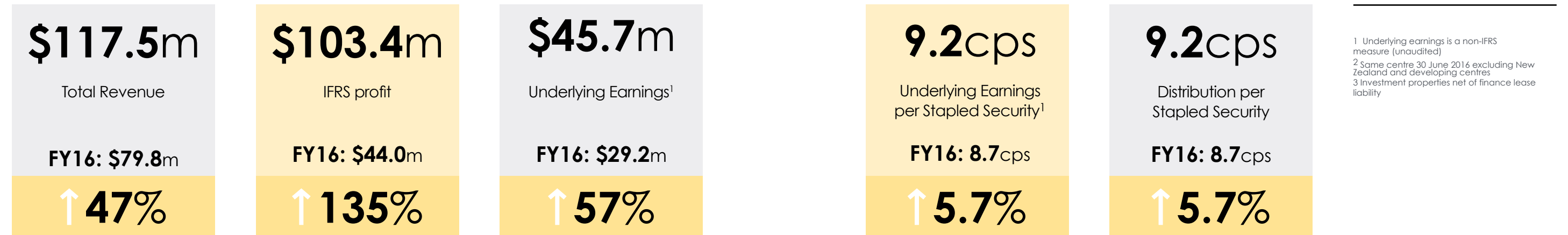
The National Storage offering spans self-storage, business storage, records management, climate controlled wine storage, vehicle storage, vehicle and trailer hire, packaging, insurance and other value added services.

Each National Storage centre reflects our commitment to quality, convenience and service. At National Storage, you can expect secure, clean and modern premises and a wide range of packaging materials on offer, together with a team of professionals trained in the exacting task of efficient storage.

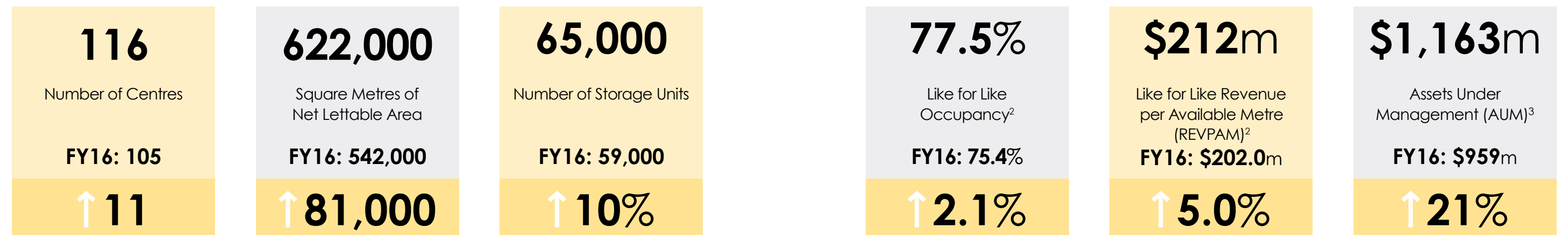


## OUR FY17 PERFORMANCE at 30 June 2017

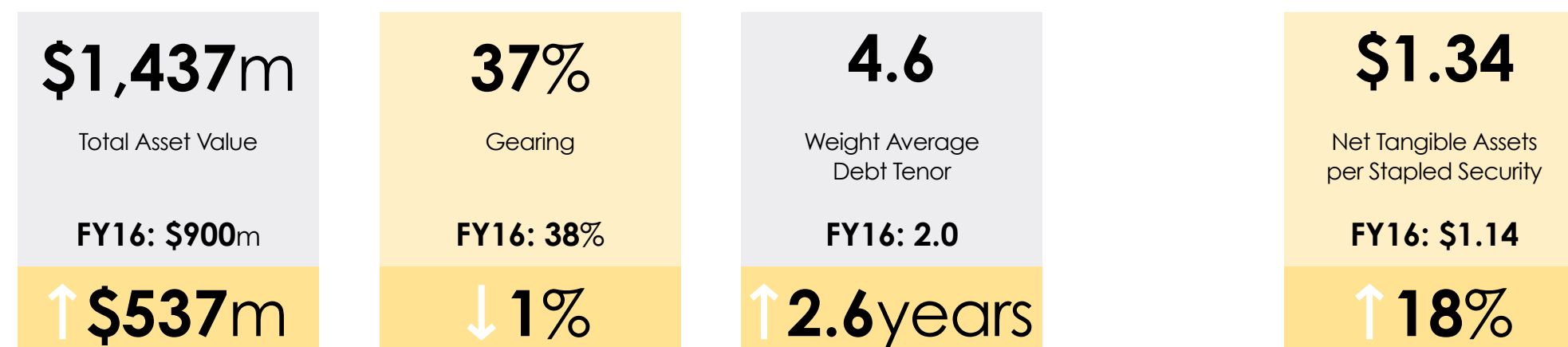
### Financial Highlights



### Operational Highlights

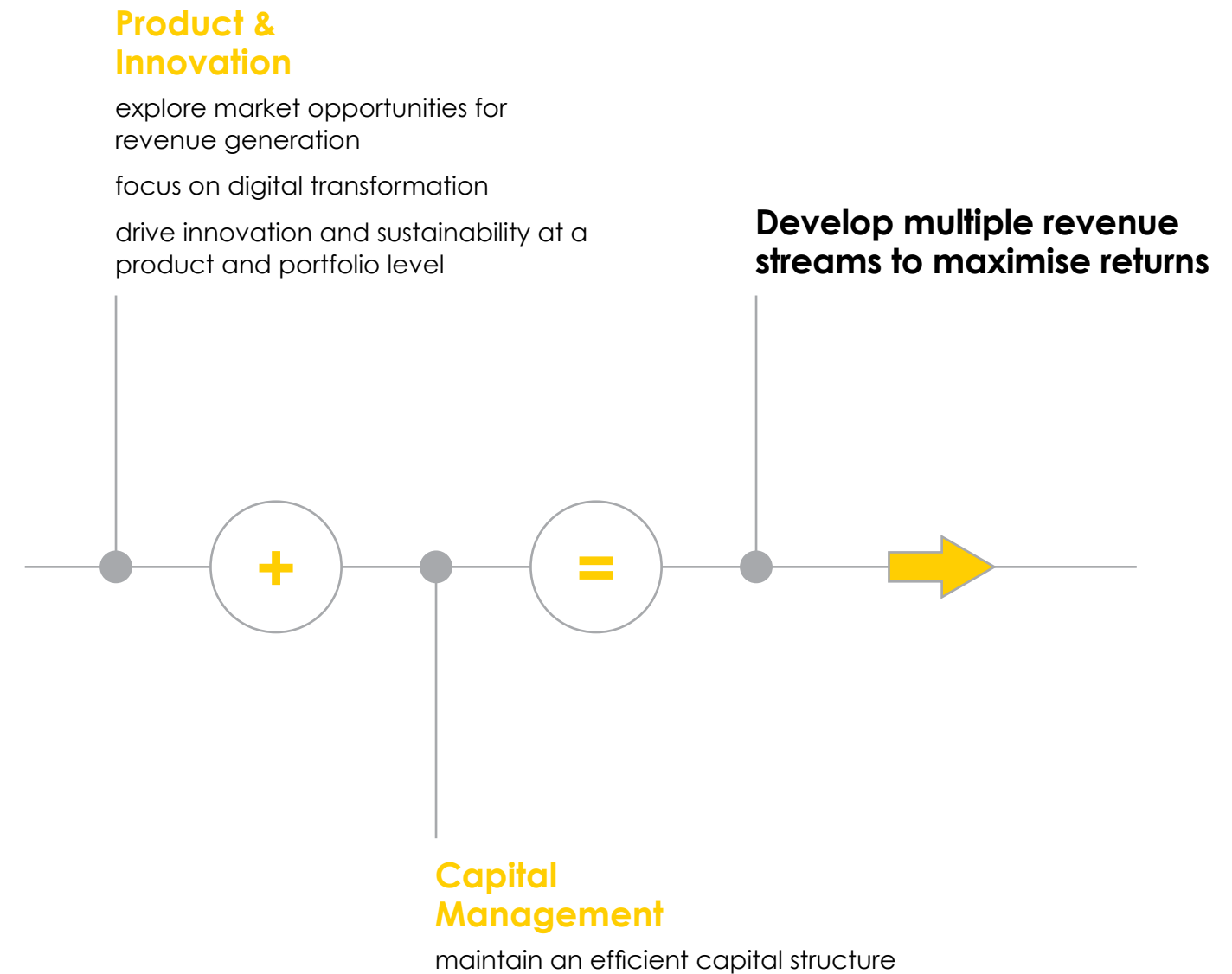
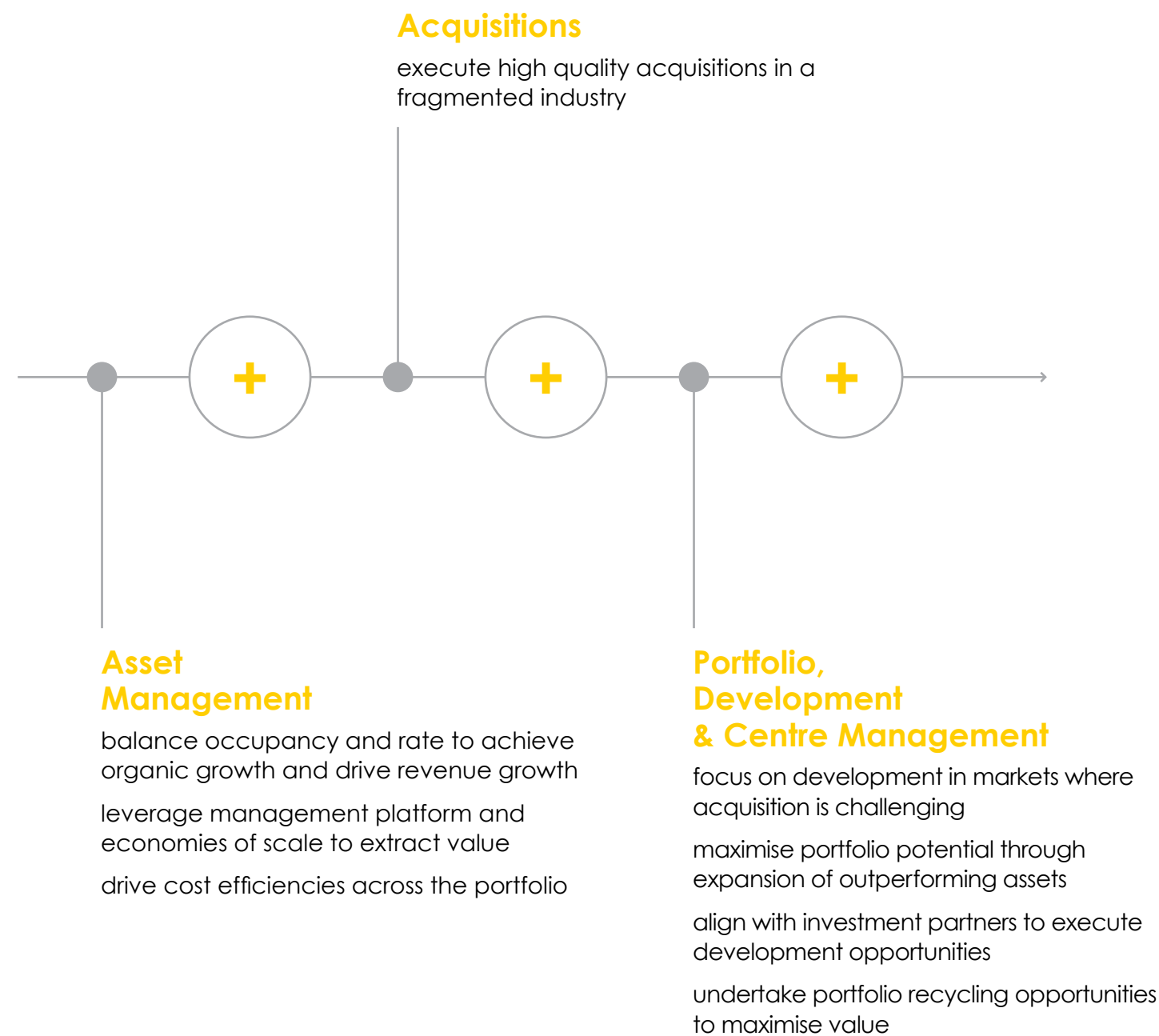


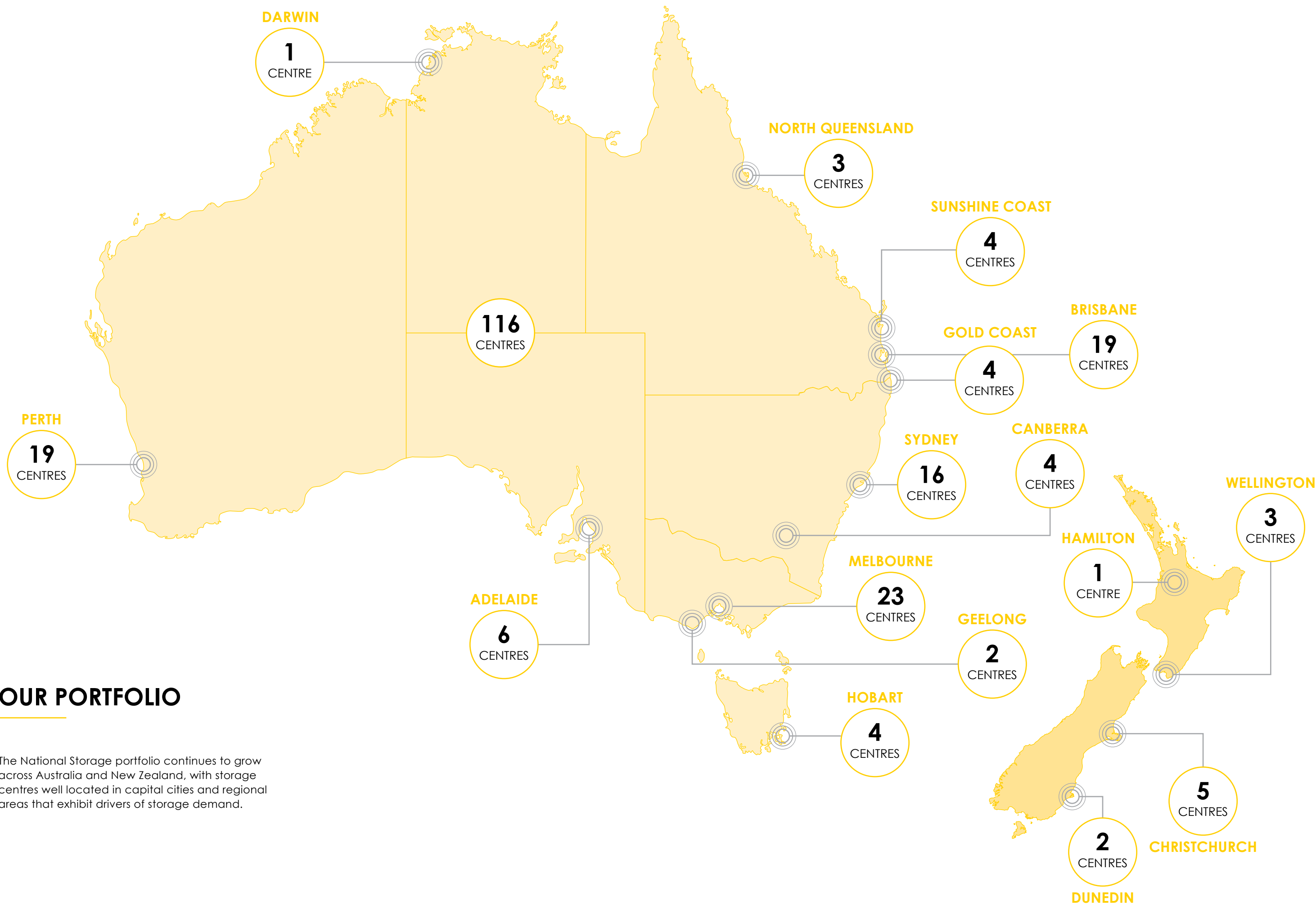
### Capital Strength



# OUR STRATEGY

NSR's objective is to deliver investors a stable and growing income stream from a diversified portfolio of high quality self-storage assets and to drive income and capital growth through active asset and portfolio management.





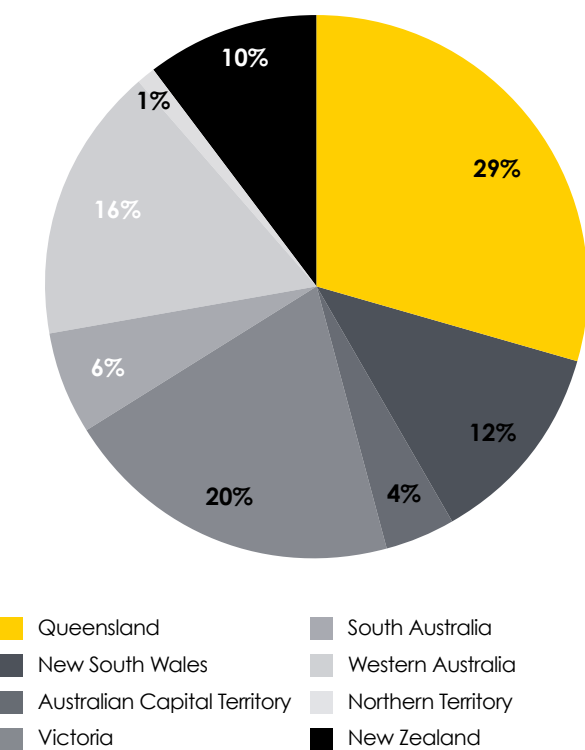
## OUR PORTFOLIO

The National Storage portfolio continues to grow across Australia and New Zealand, with storage centres well located in capital cities and regional areas that exhibit drivers of storage demand.

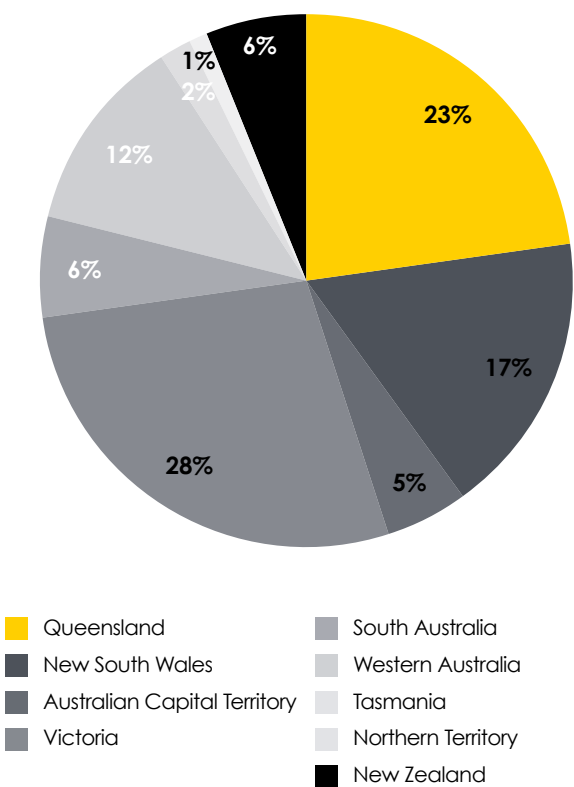


# PORTFOLIO STATISTICS

PORTFOLIO DIVERSIFICATION BY NLA



PORTFOLIO DIVERSIFICATION BY VALUE



PORTFOLIO BY NLA	NUMBER OF CENTRES	JUNE 2017
North Queensland	3	30,100
Sunshine Coast	4	19,500
Gold Coast	4	22,100
Brisbane	19	106,100
Sydney	16	85,700
Canberra	4	27,800
Melbourne	23	111,400
Geelong	2	8,700
Adelaide	6	35,000
Hobart	4	13,100
Perth	19	97,300
Darwin	1	6,200
Christchurch	5	17,900
Hamilton	1	5,200
Wellington	3	12,300
Dunedin	2	24,100
<b>TOTAL</b>	<b>116</b>	<b>622,500</b>

## PORTFOLIO VALUATION

NSR Portfolio Value \$1.16 billion  
 Weighted Average Cap Rate 7.86%

PORTFOLIO COMPOSITION	NUMBER OF CENTRES
NSR Freehold	98
NSR Leasehold	15
Managed for third party owner	3
<b>TOTAL</b>	<b>116</b>

## CHAIRMAN & MANAGING DIRECTOR'S REPORT



National Storage has experienced significant growth since listing in December 2013, with our share price increasing from 98 cents at IPO to over \$1.50 and our market capitalisation rising from \$200 million to over \$750 million. At the same time our portfolio of storage assets has grown from an initial 28 owned storage properties and 62 operating business to over 100 owned properties and 116 operating business today. Our shareholders have enjoyed increasing earnings and distributions with earnings per share growing from 7.5 cps in year one to 9.2 cps or 23% growth over the period to the end of FY17. Total distributions paid or declared to securityholders over the period from IPO to date has been 29.9 cps and when combined with share price appreciation total securityholder returns of 93.0% or 19.8% compound annual return have been achieved. Given our significant expansion since listing, this year we have focused on consolidating our growth and ensuring our systems and processes are at the forefront of industry best practice.

We commenced FY17 with two transformational transactions – announcing the acquisition of a 100% interest in the 26 centre Southern Cross Storage portfolio and a concurrent \$260 million capital raising. For the balance of FY17 we have focused on improving our operating fundamentals and transacting high quality acquisitions while continuing to evolve our business model to deliver synergies and scalability.

We have achieved a strong result with 5.7% growth in underlying earnings per stapled security to \$45.7 million, supported by revenue growth of 47% to \$117.5 million. Our organic revenue growth in FY17 has been underpinned by the delivery of combined improvement in our twin drivers of occupancy and rate per square metre, resulting in revenue per available metre (REVPAM) growth of 5.0% from \$202 to \$212. We have continued to successfully execute our acquisition strategy with a further \$138 million in acquisitions transacted across the year at an average weighted passing income yield of 7.2%, highlighting the long term accretive nature of our acquisitions. An additional \$100 million of assets are actively under consideration as we move into FY18 and we continue to execute our strategy in the highly fragmented Australian and New Zealand self storage markets. Assets under management have grown by 21% to surpass \$1.1 billion, firmly cementing our position as the largest storage owner-operator in Australasia.

A range of tools are assisting us to deliver increasing underlying earnings, including our industry leading revenue management system and a greater focus on data analytics. This is consistent with industry best practice as witnessed in the storage industry globally.

Our successful investment partnerships and third party construction arrangements provide ongoing development and project management fee income through our joint ventures and, when combined with a select number of on-balance sheet expansions, will provide a highly accretive mix of NTA growth and revenue generation from these new projects. Strategically, this will help enhance our long term revenue and capital growth prospects, to the benefit of all of our stakeholders.

We continue to reinforce our prudent approach to capital management, having entered into an institutional term loan securing \$100 million of long term debt funding. Under this loan arrangement, the lender acceded into NSR's existing club finance group providing two \$50 million tranches of debt with tenors of eight and ten years. This arrangement illustrates the continued evolution and maturation of our capital management strategy as we seek to broaden our funding sources, better manage refinance risk and balance funding costs with significantly extended tenor.

Over the year we have placed an emphasis on building our sustainability expertise and FY17 marks the first year NSR will release a standalone sustainability report – an important milestone in the continued growth of our business. The NSR Sustainability Report has been prepared in accordance with the Global Reporting Initiative's G4 reporting guidelines, the global benchmark and leading framework for sustainability reporting. As part of our work in this area, we have conducted a feasibility and impact study on the installation of a solar network across the NSR portfolio. NSR currently consumes approximately 9 Megawatt hours of electricity and phase one of the program (involving an initial tranche of 50 storage centres) seeks to save approximately 2 Megawatt hours once operational, with the potential for this to reduce our emissions by up to 2,600 tonnes of carbon dioxide and electricity costs by approximately one third.

This will be an ongoing process and represents a landmark project for the broader industry and will be a significant contributor to the long term sustainability and energy efficiency of our portfolio.







At every level of our organisation, our team is committed to the growth and the success of the business. Their engagement and dedication is paramount to our success and we remain deeply appreciative of their efforts. Over the year we completed a health program that witnessed the National Storage team collectively take more than 99 million steps and delivered wellbeing outcomes across a range of factors. We continue to embrace the diversity of our team and we are pleased to support the Pride in Diversity workplace initiative. A truly inclusive workplace fosters a diversity of views, greater creativity and ultimately allows all employees to work in an environment where they feel safe, valued and able to be their true selves, creating a fully engaged, highly motivated and united National Storage team.

We continued our strong commitment to community engagement throughout the year, supporting more than 80 not-for-profit organisations with more than \$300,000 in in-kind support for important community initiatives. The National Storage senior management team led by example, committing more than 200 hours to community service and actively encouraging their teams to do the same.

As an extension of commitment to our team, throughout the year we embarked on a number of innovations in process optimisation and automation, with a strong technology program under development to better support and engage our workforce. By using technology as an enabler we are also building the efficiency of our operating platform and focusing on reduction opportunities. These projects include upgrading our operating environments, transitioning to paperless ways of working and providing an improved, simple and streamlined experience for our internal and external customers.

Our customers provide valuable feedback on their tailored storage solutions, and this year we were proud to receive the coveted Canstar Blue award for the Most Satisfied Customers in self-storage in 2017. An ongoing focus on multi-channel marketing and leveraging our strong branding across a range of mediums has delivered improvements in brand and product awareness. Our brand will be viewed more than 70 million times across the calendar year in Australia and New Zealand – an amazing result for a storage business and illustrated by our marketing model being showcased internationally within the storage industry.

The National Storage business has reached a critical mass of centres. Looking further into the future we have a superb platform from which to continue to build the business and drive significant efficiencies of scale which will ultimately serve to provide long term value for shareholders.

At a Board level, we are pleased to welcome Ms Claire Fidler onto the NSR Board as an executive director. Claire is an outstanding candidate and has already added significant value to the business in her roles as co-company secretary and senior legal counsel. She has a strong legal and commercial background together with a focus on governance and compliance and will bolster the Board's skills in these areas.

The Board is confident National Storage is well placed to continue the success of the past year, with the senior executive team focused on driving growth across the business and developing multiple revenue streams to deliver stable and growing returns for our investors.

We would like to thank the Board and the broader National Storage team for their continued commitment to the growth of National Storage. To our valued investors we thank you for your continued support and look forward to the year ahead.

Yours sincerely

**Laurence Brindle**  
Chairman

**Andrew Catsoulis**  
Managing Director



# INVESTMENT PARTNERS

## SOUTHERN CROSS PORTFOLIO

The Southern Cross Storage Group (Southern Cross) was an unlisted joint venture between National Storage and Heitman, a global real estate investment manager. The Southern Cross portfolio comprised 26 storage centres operated by National Storage, and in which NSR held a 10% interest.

In August 2016, NSR acquired the Southern Cross portfolio for a net consideration of \$285 million.

Importantly, this transaction secured the long term ownership of these strategically important assets and will provide NSR the opportunity to unlock further value as the centres continue to mature.

## PERTH DEVELOPMENT PORTFOLIO

The Perth Development Portfolio is a construction and management arrangement with one of Perth's leading self-storage construction companies, Parsons Group. This venture reinforces the National Storage brand as a prominent player in the Perth market.

Five sites in and around Perth have been identified as part of the arrangement, whereby Parsons Group constructs quality self-storage centres branded National Storage. The arrangement will see some centres acquired by NSR on completion and others managed by Parsons Group under the guidelines of the National Storage operating platform.

The partnership has delivered centres at Jandakot, Butler and Perth Airport. NSR acquired Jandakot and Butler during FY17, and Perth Airport is currently operating as a managed centre. NSR retains certain rights to purchase the assets under this arrangement

## AUSTRALIAN PRIME STORAGE FUND

NSR is a cornerstone investor in the Australian Prime Storage Fund (APSF) with an equity interest of up to 25%. APSF was established to facilitate the development and ownership of premium self-storage centres in select major cities around Australia. APSF focuses its activity in inner city markets where there is demand for a premium storage product, developing new institutional grade assets with state-of-the-art facilities and freehold tenure.

The strategy underpins APSF's mandate to maximise absolute investment returns over the investment term.

NSR's involvement will serve to grow market share for the National Storage brand. NSR provides assistance and advice to the Fund on a range of matters including site identification, selection and acquisition, feasibility and input into design and development.

On completion of construction, assets will be integrated onto the National Storage operating platform and managed as part of the National Storage portfolio. NSR holds certain rights to purchase the assets upon termination of the Fund, or earlier sale.

National Storage Carrara and National Storage Albion opened successfully during FY17 and are performing in line with expectations.

National Storage Kelvin Grove is currently under construction and is scheduled to open in late 2017.

## LEYSHON GROUP

In March 2017, NSR entered into arrangements with long term investment partner Leyshon Group to acquire a site on Bundall Road, Bundall on the Gold Coast.

Bundall is located approximately 2.5km west of Surfers Paradise, in close proximity to established drivers of storage demand including residential markets and substantial retail and commercial developments. The 6,900 sqm site currently comprises retail and warehouse components, and is located immediately adjacent to the former Masters Hardware store which is proposed for large format retail redevelopment.

It is anticipated the 2,400 sqm existing retail component of the site will be retained and enhanced, with the warehouse component redeveloped into a multi-level state-of-the-art storage centre comprising approximately 7,000sqm of net lettable area.







# THE YEAR IN REVIEW

## ASSET MANAGEMENT

Revenue per Available Square Metre (REVPAM) is the key operational metric for the NSR portfolio. The Operations Management Team maintain a focus on driving REVPAM using a balanced approach to rate per square metre and occupancy growth on an individual centre and unit type basis. At 30 June 2017, REVPAM on a like-for-like basis (all owned centres at June 2016) was \$212/sqm (June 2016: \$202/sqm). Occupancy across the portfolio on a like-for-like basis increased to 77.5% (June 2016: 75.4%).

A continued focus on active revenue management delivered growth across FY17. The progressive implementation of an advanced multiple signal revenue management modelling system, together with a storage specific data analytics platform continues to deliver efficiencies and enhance scalability across the operating platform.

FY17 saw an evolution of the management structure across storage operations, with a number of senior operational management roles created to strengthen accountability at a regional level. As the portfolio continues to grow, the NSR operating model will continue to evolve in order to meet the challenges of trading environments, and to optimise operating performance.

Partnerships with ParcelPoint, Australia's largest network of locations for parcel collection, and U-Haul, a leading national trailer rental provider work to drive foot traffic and generate awareness of centres in local areas. ParcelPoint delivered more than 11,500 parcels to National Storage centres in FY17, while U-Haul rented more than 1,700 trailers from National Storage centres across Australia.

Ancillary income streams including packaging sales, insurance and vehicle/trailer hire increased by 27% across FY17.

## ACQUISITIONS

National Storage has successfully completed 12 acquisitions (excluding the Southern Cross portfolio) in FY17 and continues to pursue high quality acquisitions across Australia and New Zealand.

The ability to acquire and integrate strategic accretive acquisitions is one of National Storage's major competitive advantages and a cornerstone of its growth strategy. This active growth strategy also strengthens and scales the National Storage operating platform which drives efficiencies across the business.

CENTRE	STATE	DATE	NLA (Sqm)	STORAGE UNITS	PURCHASE PRICE
Butler <sup>1,2</sup>	Western Australia	August 2016	5,100	480	\$8.8m
Kurnell <sup>1</sup>	New South Wales	August 2016	12,400	750	\$17.5m
Moonah Central	Tasmania	September 2016	2,400	200	\$3.3m
Artarmon Central	New South Wales	December 2016	3,400	560	\$10.8m
Guilford, Rockingham, Subiaco <sup>2</sup>	Western Australia	January 2017	-	-	\$30.0m
Kenepuru	Wellington (NZ)	January 2017	4,300	500	NZ \$9.8m
Brooklyn	Victoria	March 2017	5,300	350	\$9.0m
Gardens, Kaikorai	Dunedin (NZ)	March 2017	20,800	1,550	NZ \$14.0m
Jandakot <sup>1</sup>	Western Australia	May 2017	5,200	500	\$8.1m
Brendale, Lawnton, Rothwell	Queensland	June 2017	19,700	1,800	\$28.0m
Total (since 1 July 2016) - 12 Centres			78,600	6,690	\$138.0m

1 - Developing Centres  
2 - Purchase of leasehold interest and renegotiation of lease terms in Subiaco





## MARKETING & CUSTOMER EXPERIENCE

Awareness, engagement and conversion continued to drive marketing strategy in FY17 to deliver growth across the business.

A strong focus on digital channels and platforms saw website traffic increase by 50% over the year. Search engine optimisation strategies delivered results with more customers finding the National Storage website organically than via paid advertising channels, and the emphasis on creating authentic, helpful content on the National Storage blog, The Store-y, contributed to this growth. Engaging content from The Store-y is also gaining reach and momentum on social media, which is playing a more prominent role in our strategy as a platform for building product and brand awareness, reach and engagement. The National Storage Online Box Shop successfully launched during the year, with a new click-and-collect platform to encourage foot traffic into the centres. Investment continues into digital channels including search engine optimisation and online advertising platforms to drive brand awareness and deliver conversions, with the aim of nurturing a digital competitive advantage to capitalise on the shift to digital across the storage landscape.

Sponsorship continued generating high level brand awareness across FY17, engaging fans across Australia and New Zealand and bringing product and brand awareness to a broad demographic across a range of capital city markets and sporting codes. In FY17, collectively the National Storage brand was seen by audiences of over 35 million and tens of thousands of fans engaged with the National Storage Locker Room platform online, through social channels and on game days.

Delivering excellent customer experience is central to the National Storage ethos and this dedication to customer service saw Canstar Blue award National Storage "Most Satisfied Customers" in self-storage 2017. National Storage received five stars across all categories, including overall satisfaction, value for money, customer service, safety and security and quality of storage. Customers continue to share their experiences with National Storage on independent review websites, which currently rank National Storage 8.6 out of 10.

## WINE ARK

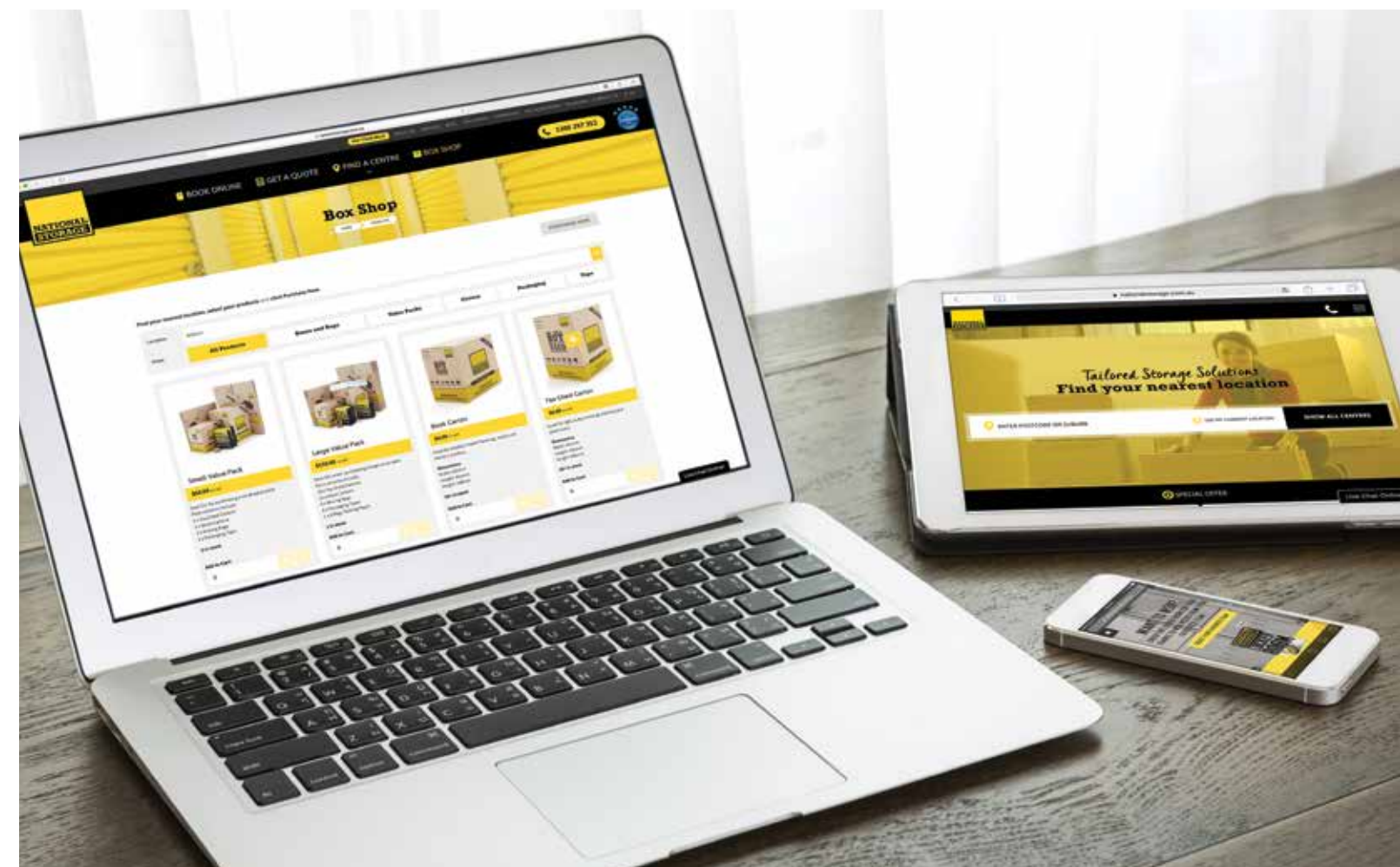
Wine Ark, Australia's largest wine storage provider is part of the National Storage group and houses over two million bottles of fine wine across 16 centres for clients located in over thirty countries. There are few businesses in Australia with more experience when it comes to storing and managing premium wine.

During FY17, Wine Ark released its highly anticipated Australia's Most Collected Wines 2016, with Penfolds Bin 389 atop the list, toppling big brother Penfolds Grange after nine years in the top spot. Wine Ark's list of the 50 most collectable wines, released every three years, has become the go-to guide on the subject and the results are a clear indication of trends when it comes to cellaring. Jeremy Oliver, wine writer and presenter believes "There are lists and rankings of Australian wine labels but none are more current than this list from Wine Ark, which presents a genuine reflection of what Australian wines are being cellared in this country in almost real time". This campaign received broad media coverage across main stream and specialist wine media.

Wine Ark's growing customer base and calendar of wine events, hosted in bespoke event spaces in Alexandria NSW, Brisbane City QLD and Hawthorn VIC, contributed to more than 50% growth in wine sales across the business. This increase in wine sales continues to drive capacity into both managed cellarage and private wine vaults.

Throughout FY17 Wine Ark continued to strengthen its relationship and involvement in the greater wine trade supporting the Wine Communicators of Australia, Sommeliers Association of Australia, Wine Australia, Commanderie de Bordeaux (Australian Chapter). Wine Ark proudly supports women in wine, and is the principal sponsor of the Australian Women in Wine Winemaker of the Year Awards.

Wine Australia is the governing body of wine in Australia and invests in research and development, marketing, disseminating knowledge, encouraging adoption and protecting the reputation of Australian wine. Wine Australia has centralised its wine storage, logistics and consolidation requirements for Australian and International Tasting activities within Wine Ark's national cellars. It is important for Wine Australia to showcase Australian wine that has been stored in optimum conditions to demonstrate the best of Australian wine, its finest characters and vibrancy. In April 2017 Wine Ark was the exclusive storage and logistics provider for the Sommeliers of the World and Top 50 Restaurants in the World campaign in Melbourne. More than 2,600 bottles were managed for over 20 events spanning seven days and 18 event venues.





SUSTAINABILITY

This year National Storage releases its first standalone sustainability report. The report can be found online at [www.nationalstorage.com.au](http://www.nationalstorage.com.au) and details performance across environmental, social and governance aspects based on the Global Reporting Initiative framework.

The overall vision and strategy for National Storage is to ensure we set realistic and achievable goals whilst ensuring rigorous and appropriate sustainability targets in the short, medium and long-term. These targets are designed to manage any potentially significant economic, environmental, and social impacts that National Storage causes, contributes to, or that may be directly linked to our service delivery, products or as a result of relationships with others, including our suppliers and communities.

NSR's key stakeholders have been identified and prioritised according to the level of sustainability impact we believe our operations have on their day to day activities, and, in turn, their sustainability impact on day to day activities. These impacts span our identified material economic, social and environmental sustainability risks.

NSR's key stakeholder groups are:

- **Employees**
- **Customers**
- **Investors**
- **Suppliers**
- **Community**
- **Government and Regulators**



In preparation for this report, the GRI Reporting Principles were incorporated into a review as follows:

- A review of stakeholders and associated engagement throughout the reporting year was conducted, but not specifically for compilation of this report (GRI Principle 'Stakeholder Inclusiveness')
- Economic, social and environmental impacts of National Storage operations were identified and reviewed (GRI Principle 'Sustainability Context')
- Economic, social and environmental impacts were assessed and ranked in terms of risk to the organisation and stakeholders (GRI Principle 'Materiality')
- The GRI and other topics included in this report are those that have been identified as material to National Storage and its stakeholders in FY17 (GRI Principle 'Completeness') and are:

ECONOMIC	SOCIAL	ENVIRONMENTAL	GENERAL
Economic Performance	Employment	Materials	Data Management Systems
Anti-Corruption	Labour / Management Relations	Energy	Cyber Security
Anti-Competitive Behaviour	Occupational Health and Safety	Emissions	Governance / Shareholder Rights
Access to Markets	Training and Education	Effluents and Waste	Technology / Connectivity
Maintenance of Investments	Diversity and Equal Opportunity	Land Remediation	
	Non-Discrimination	Natural Hazards	
	Local Communities		
	Customer Health and Safety		
	Customer Privacy		
	Socio-economic Compliance		
	Ageing population/Changing demographics		
	Changes in consumer expectations		

# BOARD OF DIRECTORS



**LAURENCE BRINDLE**

Independent Non-executive Chairman  
BCom BE (Hons) MBA

Laurence has extensive experience in funds management, finance and investment. Until 2009 he was an executive with Queensland Investment Corporation (QIC). During his twenty-one years with QIC he served in various senior positions including Head of Global Real Estate where he was responsible for a portfolio of \$9 billion. Laurence was also a long term member of QIC's Investment Strategy Committee. He provides advice to a number of investment institutions on real estate investment and funds management matters. Laurence holds a Bachelor of Engineering (Honours) and a Bachelor of Commerce from the University of Queensland, and a Master of Business Administration from Cass Business School, London. He is a former Chairman of the Shopping Centre Council of Australia and a former director of Westfield Retail Trust and Scentre Group, which owns, operates and develops Westfield shopping centres in Australia and New Zealand. Laurence is also currently the Non-executive Chairman of the listed entity, Viva Energy REIT.

Laurence serves on the Audit and Risk Committees and is Chairman of the Nomination and Remuneration Committees.



**ANTHONY KEANE**

Independent Non-executive Director  
BSc(Maths) GradDipCorpFin

Anthony is an experienced finance and business executive with over 30 years background in corporate, institutional, business and retail banking. Prior to accepting his directorship with National Storage, Anthony was most recently Head of Corporate Banking Queensland for National Australia Bank and was responsible for the bank's relationships with large privately owned and public listed companies across a broad range of industries including manufacturing, retail, wholesale, property, professional services, technology, leisure and tourism, transport, mining and associated services. Anthony has a Bachelor of Science (Mathematics) from University of Adelaide and a Graduate Diploma in Corporate Finance from Swinburne. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors and a member of the CEO Institute. He is a Director of Queensland Symphony Orchestra Pty Ltd.

Anthony acts as Chairman of the Audit and Risk Committee and is a member of the Nomination and Remuneration Committee.



**HOWARD BRENCCHLEY**

Independent Non-executive Director  
BEc

Howard has over 30 years' involvement in the Australian property industry, as an analyst, investor and fund manager. He is now a professional company director and consultant to the property funds industry. Howard co-founded Property Investment Research Pty Ltd (PIR) in 1989, which during the 1990's was considered a leading researcher of both listed and unlisted property funds.

In 1998 Howard was instrumental in establishing the funds management business of APN Property Group Limited. During this period he was responsible for the establishment and operations of a number of funds investing both directly and indirectly in real estate. Howard is currently a non-executive director of the ASX-listed APN Property Group Limited (APD) and is also a non-executive director of APN Funds Management Limited, responsible entity for ASX-listed Industria REIT (IDR) and Convenience Retail REIT (CRR). Until July 2017, APN Funds Management Limited was also responsible entity for Generation Healthcare REIT (GHC).

Howard is a member of the Audit and Risk Committees.



**STEVEN LEIGH**

Independent Non-executive Director  
Cert Practising Valuer Grad Dip Proj Mgmt

Steven Leigh joined QIC Global Real Estate in 1991 and was a key member of the senior executive team that acquired and or created through development a portfolio of high quality retail and commercial assets in Australia, USA and the UK. Steven has had significant experience in the wholesale funds management business through various market cycles and conditions and has a strong background in retail, commercial and industrial property with a particular focus on shopping centre acquisitions and redevelopments.

After time as the Managing Director of Trinity Limited, and later Head of Australia for LaSalle Investment Management, Steven re-joined QIC as Managing Director QIC Global Real Estate in 2012 where he is responsible for the group's \$12bn plus property portfolio. Steven is a certified practising valuer and holds a Graduate Diploma in Project Management from the Queensland University of Technology. Steven is an associate member of the Australian Property Institute.

Steven is a member of the Remuneration and Nomination Committees





#### ANDREW CATSOULIS

Managing Director  
BA, LLB, Grad Dip Project Mgmt (Hons)

Andrew is a qualified lawyer who has been admitted to the Supreme Court of Queensland and the Federal Court of Australia. He has had extensive experience in the fields of finance, commercial and property law during his tenure at major law firms both in Australia and overseas. He is also a qualified project manager and has considerable property development experience both within the storage industry and in broader markets.

A founder of the original National Storage business, he has over 20 years of specific self-storage industry expertise including in the areas of acquisition, development, integration and operation of 'greenfield' and developed self-storage centres. Andrew was instrumental in the successful acquisition and integration of the original portfolio and led the company through the IPO.



#### CLAIRE FIDLER

Executive Director and Company Secretary  
LLB (Honours) BBus (Intl Bus)

Claire was appointed as the principal company secretary of National Storage on 26 November 2015 and was appointed Executive Director on 18 July 2017. She holds legal and international business qualifications and is admitted as a solicitor of the Supreme Court of Queensland.

Claire has over ten years' experience in corporate and commercial law in private practice, having practiced in the litigation, resources and corporate areas of two large law firms. Prior to joining National Storage, Claire spent four and a half years as Corporate Counsel and Company Secretary at Rio Tinto Coal Australia. During this time, in addition to providing legal services to the business, she was responsible for the corporate governance and ASX compliance of one of Rio Tinto's listed subsidiaries as well as managing the corporate secretarial responsibilities of approximately 60 subsidiaries within the group and providing joint venture support.

Claire has also worked in corporate compliance with the Australian Securities and Investments Commission.



## SENIOR EXECUTIVES

**Andrew Catsoulis**  
Managing Director  
BA, LLB, Grad Dip Project Mgmt (Honours)

**Claire Fidler**  
Executive Director and Company Secretary  
LLB (Honours) BBus (Intl Bus)

See page 28.



**PETER GREER**

Chief Operating Officer

Peter gained his experience over 15 years in the finance industry with one of Australia's largest banking organisations. He developed extensive experience in relation to the self-storage industry, specifically in the financing, operations and development of self-storage centres. Peter then transferred these skills and has exclusively worked in the self-storage industry for the last 20 years with a focus on commercial management, strategic business planning and day-to-day operational management. He was one of the founding shareholders of National Storage and has worked side by side with Andrew to grow the National Storage business.

Peter is a former board member of the Self Storage Association of Australia (SSAA), including a term as the President of this body and a regular speaker at the national SSAA conference.



**STUART OWEN**

Chief Financial Officer  
BBus, CPA, GAICD

Stuart joined National Storage in late 2014, with extensive experience in the energy sector in coal and gas fired power generation. He has held wide ranging finance and commercial management roles, including as Commercial Manager for Energy Developments Limited. Prior to this, Stuart was commercial manager on the delivery of a multi-site gas fired power generation project and micro LNG plant.

He has significant experience in project financing, mergers and acquisitions and project development. Stuart holds a Bachelor of Business, is a Certified Practising Accountant and is a graduate of the Australian Institute of Company Directors.



**PATRICK ROGERS**

General Counsel and Chief Risk Officer  
LLB, BBus (Accty)

Patrick holds both legal and accounting qualifications and is admitted as a solicitor of the Supreme Court of Queensland. He has practiced as a solicitor for over 18 years in both fields. During his time in private practice, Patrick has had significant experience in corporate, property, commercial, taxation and transactional work. In addition to private practice, Patrick held senior finance roles and was the general counsel and company secretary of the Super A-Mart Group for over eight years where he was extensively involved in the operations of the company. Patrick was appointed Chief Risk Officer of National Storage REIT in June 2016, in addition to his role as General Counsel and a Company Secretary of NSR.



**MAKALA FFRENCH CASTELLI**

General Manager - Marketing and Corporate  
BBus (Marketing/E-Business), Grad Dip Arts

Makala has twelve years' experience in corporate communications, investor relations and marketing communications. She has worked with leading companies in the property and finance industries, including one of Australia's major investment banks.

A range of roles across marketing, customer experience, corporate affairs and compliance have afforded her commercial and transactional experience in property and funds management environments. She joined National Storage pre-IPO and oversees a broad portfolio including retail marketing, technology, innovation, business improvement and corporate affairs.

Makala holds a Bachelor of Business (Marketing/E-Business) and a Graduate Diploma in Arts. She is the Deputy Chair of the Self Storage Association of Australasia.



# CORPORATE GOVERNANCE

The boards of NSH and NSFSL are comprised of the same members. NSH and NSFSL have their own constitutions. The relationship between NSH and the Responsible Entity is governed by a Cooperation Deed and Management Agreement. These documents facilitate common processes and governance for NSR. Through the Board Charter, the NSH Board is charged with the function of providing overall strategic guidance and effective oversight of management of NSR.

### GOVERNANCE FRAMEWORK

The NSH and Responsible Entity Boards and NSH management are committed to high standards of corporate governance and to ensure NSH acts in the best interests of the Stapled Entity and its Securityholders as a whole, balanced with its broader community obligations. To achieve this, the NSH Board has created a framework for managing National Storage Group including internal controls and a business risk management process. The governance system is reviewed during each year by the Company Secretary, Chief Risk Officer and the Board to ensure that it reflects changes in the law. In its ongoing commitment to solid corporate governance, NSR completed the roll out of its broad-scoped enterprise risk project during FY17. The NSH Board's obligations are discharged through a number of mechanisms including meetings and its committees. During the financial year ended 30 June 2017, the NSH Board has convened the following committees as part of its corporate governance framework:

COMMITTEE	CHAIR	MEMBERS
Audit	Anthony Keane	Laurence Brindle, Howard Branchley
Risk	Anthony Keane	Laurence Brindle, Howard Branchley
Nomination	Laurence Brindle	Anthony Keane, Steven Leigh
Remuneration	Laurence Brindle	Anthony Keane, Steven Leigh

NSH committees are governed by their respective Charters.

The NSH Policies provide for an Investment Committee and a Diversity Committee. The Board has determined that the Investment Committee and Diversity Committee functions be undertaken by the full Board at this time.

An important component of the NSR corporate governance structure is the ASX Corporate Governance Principles and Recommendations (the "ASX Recommendations"). The NSH Board considers that as at the date of this statement, the governance practices adopted by NSR comply with the third edition of the ASX Recommendations.

### BOARD & MANAGEMENT RESPONSIBILITY

NSR's compliance with the ASX Recommendations are detailed in the NSR Corporate Governance Statement, Appendix 4G and all NSR governance Policies and Charters, full copies of which can be found in the Governance section of the website at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au). NSFSL became the responsible entity for the NSPT in November 2015. The majority of the board of NSFSL have been determined to be external directors and therefore a compliance committee has not been convened. NSPT is a registered managed investment scheme and the rights and obligations of the Responsible Entity as a responsible entity of NSPT and NSPT Unitholders are governed by the constitution of NSPT. As the responsible entity of NSPT, the Responsible Entity must comply with all obligations set out in the constitution and the Corporations Act. The Responsible Entity is also subject to duties including duties to act in the best interests of NSPT Unitholders, act honestly, exercise care and diligence, and treat NSPT Unitholders of the same class equally. In order to ensure compliance with the constitution and the Corporations Act, the Responsible Entity has in place a compliance plan which sets out the measures it will apply in operating NSPT. The role of the NSH Board is to provide overall strategic guidance for NSR and effective oversight of management. It is responsible for monitoring the financial performance of NSR and the performance of the Managing Director and senior executive team.

The NSH Board ensures the activities of NSR comply with its constitutions, from which NSH Board derives its authority to act, and with legal and regulatory requirements. The responsibility for the daily operation and management of NSR is delegated to the Managing Director who undertakes this task in accordance with the strategy, policies and plans approved by the NSH Board. The Managing Director has authority to subdelegate to the senior management team.

### BOARD COMPOSITION & INDEPENDENCE

The current NSH Board is comprised of six Directors, being four non-executive Directors (one of whom is the Chairman), the Managing Director and an Executive Director. Detailed information about the Directors is set out on pages 26-28. The NSH Board considers that its current members have an appropriate balance of skills, independence and experience to discharge their obligations and effectively chart the strategy of NSR. The NSH Board considers that it is appropriate and in the best interests of NSR and the stapled securityholders to periodically review the size of the Board and its skill set to ensure that it remains appropriate for NSR. In July 2017, the NSH Board resolved to expand the size and skill set of the Board by appointing Ms Claire Fidler as a director of the Board. Ms Fidler has been the Company Secretary of NSH and NSFSL since November 2015 and has worked in the senior executive team during this period. She brings to the Board an extensive legal and compliance background.

The Boards of NSH and NSFSL, as responsible entity, consider that all of the current non-executive Directors, being the Chairman Mr Laurence Brindle, Mr Anthony Keane, Mr Howard Branchley and Mr Steven Leigh to be independent.

### COMPANY SECRETARIES

Ms Claire Fidler is the principal Company Secretary of NSH and NSFSL. Mr Patrick Rogers is an additional Company Secretary for each of NSH and NSFSL. Detailed information on Ms Fidler and Mr Rogers is contained on page 28 and 31 in this report.

### RISK MANAGEMENT

NSR's operations expose it to risks. A summary of potential risks is set out on pages 39-40 of this report. Risks can be either of a controllable nature or of a non-controllable / less controllable nature. Examples of controllable risks are systems, processes and staff based risk. Non-controllable or less controllable risks are generally risks considered to be "external" to the Company such as macroeconomic factors, financial, regulatory or market risks. Assumption of operating risks is undertaken through the risk management framework which seeks to identify, control and minimise risk where possible. NSR maintains a Risk Management Policy which lays a foundation for the NSH Board and senior management to manage risk and decision making by officers of NSR. A copy of the Risk Management Policy can be found on the website at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au). Senior management of NSR and the NSH Board are committed to effective risk management in the operation of NSR.



## DIRECTORS' REPORT



### KEY HIGHLIGHTS

Group	FY16	FY17	Change
Total Revenue	\$79.8m	\$117.5m	47% ▲
IFRS profit after tax	\$44.0m	\$103.4m	135% ▲
Earnings per stapled security	13.06cps	20.74cps	59% ▲
Underlying earnings <sup>(1)</sup>	\$29.2m	\$45.7m	57% ▲
Underlying earnings per stapled security <sup>(1)</sup>	8.7cps	9.2cps	5.7% ▲
Net operating cashflow	\$49.3m	\$65.1m	32% ▲
Distribution per security	8.7cps	9.2cps	5.7% ▲

Portfolio	At June 2016	At June 2017	Change
Number of Centres owned/managed (Total)	76/29 (105)	113/3 (116)	37/(26) (11) ▲
Like for like occupancy <sup>(2)</sup>	75.4%	77.5%	2.1% ▲
Like for like Revenue per available metre (REVPAM) <sup>(2)</sup>	\$202	\$212	5.2% ▲
Weighted Average Primary Cap Rate (AU)	8.24%	7.86%	(0.38%) ▼
Assets Under Management (AUM) <sup>(3)</sup>	\$959m	\$1,163m	21% ▲
June 2016 Portfolio	\$666m	\$739m	11% ▲
Acquisitions / Centres <sup>(4,5)</sup>	\$145m / 23	\$138m / 11	(\$7m)/(12) ▼
NLA (sqm)	541,000	622,000	15% ▲
Completed acquisition of remaining 90% interest in the Southern Cross portfolio of 26 storage centres for \$285 million <sup>(6)</sup>			

Balance Sheet	At June 2016	At June 2017	Change
Total Assets <sup>(5)</sup>	\$900m	\$1,437m	\$537m ▲
Debt drawn <sup>(5)</sup>	\$286m	\$485m	\$199m ▲
Interest Rate Hedges <sup>(5)</sup>	\$120m	\$268m	\$148m ▲
Gearing	38%	37%	(1%) ▼
Weight average cost of debt	4.1%	3.7%	(0.40%) ▼
Weight average debt tenor (years)	2.0	4.6	2.6 ▲
NTA	\$1.14	\$1.34	18% ▲
Entered into \$100 million Long Term Institutional Loan			

### PRINCIPAL ACTIVITIES

NSR is the first internally managed and fully integrated owner and operator of self-storage centres to be listed on the ASX.

NSR is one of Australia's largest self-storage owner/operators, with 116 self-storage centres under operation or management, tailoring storage solutions to over 40,000 customers across Australia and New Zealand. NSR has grown its portfolio of owned and managed centres by over 87% from 62 centres in December 2013 to 116 centres at the date of this Directors' Report. NSR now manages over 65,400 storage units across approximately 622,000 sqm (of which 459,000 sqm is occupied) of net lettable area around Australia and New Zealand. AUM has increased to \$1,163 million as at 30 June 2017.

Of the 116 self-storage properties in the NSR portfolio, ownership is as follows:

- 98 self-storage centres owned by NSPT
- 15 self-storage centres operated as long-term leasehold centres (Leasehold Centres);
- 3 third party managed centres.

<sup>1</sup> Underlying earnings is a non-IFRS measure (unaudited), see table within Operating Results for reconciliation

<sup>2</sup> Same centre 30 June 2016 excluding New Zealand and developing centres

<sup>3</sup> Investment properties net of finance lease liability

<sup>4</sup> Excluding transaction costs

<sup>5</sup> Applying a NZD/AUD exchange rate of 1.05

<sup>6</sup> Net consideration pre transaction costs

The National Storage core product offering covers self-storage, business storage, hard stand/vehicle storage and wine storage at National Storage's climate controlled storage facilities and via Wine Ark (which operates dedicated self-access and managed cellars). Ancillary income streams are derived from other related activities including packaging sales and vehicle/trailer hire.

**BUSINESS STRATEGY**

NSR's objective is to deliver investors a stable and growing income stream from a diversified portfolio of high quality self-storage assets and to drive income and capital growth through active asset and portfolio management (including the acquisition, development or redevelopment and portfolio recycling of self-storage centres).

The key drivers of the business are:

- Asset management – driving an appropriate balance between rental rate and occupancy growth and actively pursuing other business development initiatives in complementary areas such as wine storage, document storage and mini-logistics for SMEs;
- Portfolio management – acquiring and integrating quality self-storage assets into the NSR portfolio;
- Centre Management – effective operation of individual self-storage assets and the expansion of the National Storage Centre Management platform (revenue from third parties);
- Development management – development / refurbishment / redevelopment of new and existing centres and actively managing portfolio recycling opportunities;
- Capital management – maintaining an appropriate and efficient capital structure with a focus on risk minimisation and the development of long term sustainable and growing revenue streams; and
- Product and innovation – exploring opportunities for revenue generation across new sales channels, digital strategies and ancillary product ranges.

Further details on these key business drivers can be found in the National Storage 2017 Annual Report.

**REVIEW AND RESULTS OF OPERATIONS**

The Financial Statements of NSR are prepared in compliance with Australian Accounting Standards and the requirements of the *Corporations Act Cth 2001*.

**OPERATING RESULTS**

IFRS Profit after tax for the Reporting Period was \$103.4 million with EPS of 20.74 cents. Underlying earnings<sup>(7)</sup>, increased by 57% to \$45.7 million. NSR also delivered solid growth of 5.7% in underlying earnings<sup>(7)</sup> per stapled security to 9.2cps for the 2017 financial year.

	FY17	FY16
IFRS Profit	\$103.4m	\$44.0m
Plus tax expense/(benefit)	\$4.2m	(\$0.25m)
Plus business combination, restructure and other non-recurring costs	\$17.0m	-
Plus contracted gain in respect of sale of investment property	\$1.5m	-
Less fair value adjustment	(\$76.8m)	(\$10.0m)
Less finance lease diminution	(\$3.6m)	(\$4.55m)
<b>Underlying Earnings<sup>(7)</sup></b>	<b>\$45.7m</b>	<b>\$29.2m</b>

Total revenue rose by 47% to \$117.5 million. Occupancy across the June 2016 portfolio including Southern Cross (excluding developing centres) increased to 77.5%, up from 75.4% at 30 June 2016. This is a pleasing result and demonstrates that the continued focus on driving increased occupancy is delivering results. Revenue per available metre (REVPAM) increased by 5% to \$212/sqm from \$202/sqm at June 2016 demonstrating strong revenue growth via the combination of growing occupancy and rental rates.

<sup>7</sup> Underlying earnings is a non-IFRS measure (unaudited)

**CASH MANAGEMENT**

Cash and cash equivalents as at 30 June 2017 were \$23.2 million compared to \$13.4 million at 30 June 2016. Net operating cashflow for the year increased to \$65.1 million (2016: \$49.3 million).

On 28 June 2016 NSR announced a fully underwritten \$260 million equity raising, comprising a \$101 million institutional placement of new stapled securities in NSR and a \$159 million pro-rata accelerated non-renounceable entitlement offer. The purpose of the equity raising was to fund the acquisition of the remaining 90% interest in the Southern Cross Joint Venture and four new centres as well as to strengthen the balance sheet and provide funding for future acquisitions in accordance with NSR's acquisition strategy. The Entitlement Offer closed on 15 July 2016 and completion of the issuance of new securities to investors was finalised on 22 July 2016.

An interim distribution of 4.6 cents per stapled security (\$23.1 million) was paid on 27 February 2017 with a final distribution of 4.6 cents per stapled security (\$23.6 million) declared on 22 June 2017 with an estimated payment date of 30 August 2017, delivering a 5.7% increase in the total distribution for the year to 9.2 cents per stapled security.

During the reporting period NSR once again offered the Distribution Reinvestment Plan (DRP) which enables eligible securityholders to receive part or all of their distribution by way of securities rather than cash.

For the December 2016 interim distribution approximately 24% of eligible securityholders (by number of securities) elected to receive their distributions as securities totalling \$5,542,929. The DRP price was set at \$1.4099 which resulted in 3,931,434 new securities being issued.

The June 2017 final distribution has seen approximately 20.8% of eligible securityholders (by number of securities) elect to receive their distributions as securities totalling approximately \$4.9million. The price of the DRP securities will be determined on a 10-day volume weighted average market price (VWAP) commencing on and including 9 August 2017 less a 2.0% discount.

NSR's finance facilities are on a "Club" arrangement with a selection of major Australian banks and a major Australian superannuation fund. The Consolidated Group's borrowing facilities are AUD \$455 million and NZD \$96 million. As at the reporting date AUD \$62 million was undrawn and available. NSR actively manages its debt facilities and continues to increase when and where required to ensure adequate capacity for future acquisitions and working capital requirements. The weighted average debt tenor as at the reporting date is 4.6 years, up from 2.0 years as at 30 June 2016. NSR's target gearing range remains 25%-40% to provide flexibility and the ability to act on acquisition opportunities.

NSR maintains interest rate hedges in accordance with NSR's hedging policy which is reviewed on a regular basis. Additional interest rate hedges were entered into during the year to enable NSR to extend the tenor of its hedge portfolio and lock in historically low interest rates for an extended period. As at the reporting date interest rate hedges totalling A\$461 million were in place with expiry dates ranging from 0.5 years to 9.5 years.

**ACQUISITIONS AND INVESTMENTS**

NSR considers its ability to acquire and integrate quality assets to be one of the key drivers of its growth strategy. During the course of the Reporting Period, the dedicated acquisitions team continued to identify, facilitate and transact on acquisitions that were considered appropriate for the portfolio.

The successful execution of NSR's acquisition strategy has seen 11 new centres acquired and the freehold interest in three existing leasehold centres from 1 July 2016 to the date of this Directors' Report, valued at \$138 million<sup>(8)</sup>. Further, a combined process was undertaken by both external valuers and the Directors to revalue the 30 June 2016 NSR owned centres as at 30 June 2017 (based on valuations and methodologies from independent valuers (m3 Property and Landmark White)), which yielded an increase in valuation of 11% from \$666 million to \$739 million.

<sup>8</sup> Excluding transaction costs

Centre	State	Date	NLA (\$qm)	Units
Butler <sup>1,2</sup>	Western Australia	August 2016	5,100	480
Kurnell <sup>1</sup>	New South Wales	August 2016	12,400	750
Moonah Central	Tasmania	September 2016	2,400	200
Artarmon Central	New South Wales	December 2016	3,400	560
Guilford, Rockingham, Subiaco <sup>2</sup>	Western Australia	January 2017	-	-
Kenepuru	Wellington (NZ)	January 2017	4,300	500
Brooklyn	Victoria	March 2017	5,300	350
Gardens, Kaikorai	Dunedin (NZ)	March 2017	20,800	1,550
Jandakot <sup>1</sup>	Western Australia	May 2017	5,200	500
Brendale, Lawnton, Rothwell	Queensland	June 2017	19,700	1,800
<b>Total (Since 1 July 2016) - 11 Centres</b>			<b>78,600</b>	<b>6,690</b>

1 - Developing Centres

2 - Purchase of leasehold interest and renegotiation of lease terms on Subiaco

## INVESTMENT IN JOINT VENTURES

NSR invested \$6.25 million in 2015 to take a cornerstone 24.9% holding in the Australian Prime Storage Fund (APSF or the fund). APSF is an arrangement with Universal Self Storage to facilitate the development and ownership of multiple premium grade self-storage centres in major cities around Australia. The fund anticipates potentially investing up to \$100 million of funds – initially funded to \$50 million with a target gearing of 50%, to be deployed on assets to be built and operated over a five year term. NSR is entitled to a number of fees associated with the provision of various services including acquisition, design and development, centre management and fund support services. The fund now has two operational centres at Carrara and Albion in South East Queensland and also has another under construction at Kelvin Grove. An additional site has been acquired in Canterbury Victoria and is progressing through the development application stage.

In March 2017 NSR entered into arrangements together with Leyshon Group to acquire a high quality site on Bundall Road, Bundall on the Gold Coast. NSR will invest 25% and Leyshon 75% to develop the site which is located approximately 2.5km west of Surfers Paradise, in close proximity to established drivers of storage demand including residential markets and substantial retail and commercial developments. It is anticipated the 2,400sqm existing retail component of the site will be retained and enhanced, with the warehouse component redeveloped into a multi-level state-of-the-art storage centre comprising approximately 7,000sqm of net lettable area. NSR has been appointed the manager of the project and will generate additional income from providing a range of services including design and development, project management and corporate administration.

## LIKELY DEVELOPMENTS

NSR intends to utilise its position as Australia's first ASX listed fully integrated sector specific self-storage REIT to continue to bring quality independently owned storage centres across Australia and New Zealand under NSR's ownership and/or management structure. In accordance with its stated strategy, NSR continues to seek high-quality acquisition opportunities, to evaluate its existing portfolio for development or re-development or portfolio recycling opportunities and further develop and refine its third party management offerings.

## DIVIDENDS AND DISTRIBUTIONS

NSR has paid or declared distributions totalling 9.2 cents per stapled security for the Reporting Period, comprising:

- A final distribution of 4.6 cents per stapled security for the 6 months to 30 June 2017. The distribution is expected to be paid on 30 August 2017 and is expected to contain a tax deferred component.
- A distribution of 4.6 cents per stapled security for the period 1 July 2016 to 31 December 2016 which was paid on 27 February 2017 which included a tax deferred component.

## OPTIONS OVER STAPLED SECURITIES

No options over issued stapled securities or interests in a Controlled Entity have been granted in NSR during the Reporting Period. There are no options in stapled securities outstanding as at the date of this report.

## ENVIRONMENTAL REGULATION

NSR's operations are not regulated by any environmental law of the Commonwealth or a State or Territory that is enacted specifically for NSR. However, NSR must comply with broader environmental laws. NSH management on behalf of NSR has in place procedures to identify and ensure compliance with such laws including identifying and obtaining of necessary approvals, consents or licences.

There have been no known material breaches during the Reporting Period of any environmental laws to which NSR is subject.

## ENVIRONMENTAL, ECONOMIC AND OTHER SUSTAINABILITY RISKS

NSR recognises that it's operating activities and strategic goal of delivering securityholder growth and returns expose it to potential risks. The identification, management and where possible elimination or mitigation of those risks is a key facet of our daily operations.

Risk is managed centrally by management to minimise potential adverse effects on the financial performance of NSR and protect long-term securityholder value.

The Chief Risk Officer is responsible for management of NSR's risk function and in turn reports to the Managing Director and the Risk Committee. The Risk Committee is charged with risk oversight and reports to the full Board. The full Board is then actively involved in the ultimate review of and determination of risk to within sensible tolerances.

Potential risks faced by NSR and its mitigation strategies include but are not limited to:

RISK
<b>Strategic Risk</b> - Poor development and or execution of business strategy by the executive management team can lead to the risk of loss and or poor performance. To mitigate this risk, strategies are developed by the relevant responsible executive or senior officer. These are then reviewed and discussed, as appropriate, by other executive officers and approved by the Managing Director and or Chief Operating Officer. Strategic decisions of a significant nature are further put before the Board and discussed in detail and require Board approval. The senior executive team meet a number of times a year to discuss strategy and ensure that it remains current and appropriate. This allows management to ensure it is employing strategies that are updated for changes in the operating environment of the business.
<b>Economic Conditions</b> - Fluctuations in economic conditions including consumer confidence may adversely impact upon demand for storage space. Material macroeconomic events occurring or any significant trading downturns due to factors beyond the control of management have the potential to negatively impact on forecast trading performance. The results of NSR's operating activities are dependent on the performance of the properties in which it invests and those it manages on behalf of other parties. This performance in turn depends on economic factors; these include economic growth rates, inflation rates and taxation levels. There are also industry and location specific risks to consider, including competitor behaviour.
<b>Operational Risk</b> - Risk of loss due to its overall operations and management of other risks exists as a function of any operating business. NSR aims to ensure that the necessary processes, training and supervision is in place and effected to eliminate such loss wherever possible. The risk of loss from system failures is reduced through system backups and disaster recovery (contingency) procedures, which aim to ensure the maintenance of NSR's critical data availability.
<b>General commercial property risks</b> - Risks commonly associated with commercial property investment apply equally to NSR, including levels of occupancy, capital expenditure requirements, development and refurbishment risk, environmental or compliance issues, changes to government and planning regulations, including zoning and damage caused by flood or other extreme weather (to the extent that it is not or could not be insured against). NSR utilises a comprehensive due diligence process when acquiring centres to mitigate or eliminate risk where possible.
<b>Tenure</b> - Storage agreements are typically month to month and there is no guarantee customers will renew or that other customers will be found to take their place upon departure. To mitigate this risk, customer relationships are carefully managed to maximise duration of stay and highly developed marketing and management systems are in place to maximise conversion of new customer enquiries.
<b>Competition</b> - Entry by new competing storage centres or discounting by existing storage centres may adversely impact upon occupancy and rental rates on a centre specific basis. While there are



RISK
barriers to entry for new competition, NSR constantly monitors its competitors' activities to ensure pricing and terms remain competitive.
<b>Valuations</b> - Valuations ascribed to NSR's assets will be influenced by a number of ongoing factors including supply and demand for self-storage centres and general property market conditions. Valuations represent only the analysis and opinion of qualified experts at a certain point in time. There is no guarantee that a property will achieve a capital gain on its sale or that the value of the property will not fall as a result of the assumptions on which the relevant valuations are based proving to be incorrect.
<b>Property liquidity</b> - Self storage centres are property based illiquid assets and subject to supply and demand factors dependent upon prevailing market conditions. As a result it may not be possible for NSR to dispose of assets in a timely or price accretive fashion should the need to do so arise.
<b>Future acquisitions and expansions</b> - NSR may consider opportunities to make further acquisitions of self-storage assets. NSR may also develop and expand the lettable area at a number of NSR's centres. The rate at which NSR is able to expand will reflect market forces and the availability of capital at the time. Forecast distributions may be affected by such actions. The risks faced by NSR in relation to any future development projects will depend on the terms of the transaction at the time. There can be no assurance that NSR will successfully identify, acquire and integrate further self-storage assets, or successfully implement acquisitions on time and on budget. Furthermore, there is no guarantee that any acquisition will perform as expected. Future acquisitions may also expose NSR to unanticipated business risks and liabilities.
<b>Personnel risk</b> - NSR relies upon the expertise and experience of the senior management team. As a consequence, if the services of key personnel were no longer available this may have an adverse impact on the financial performance of NSR. However, NSR's senior management team are considered internally to be stable and committed and succession planning is undertaken periodically by the NSH Board and Managing Director.
<b>Interest rate fluctuations and derivative exposure</b> - unfavourable movements in interest rates could lead to increased interest expense to the extent that these rates are not hedged. NSR uses derivative instruments to hedge a percentage of its exposure to interest rates however the interest rate movements could still result in an adverse effect on financial performance.
<b>Workplace health and safety</b> - There is a risk that liability arising from occupational health and safety matters at a property in NSR's portfolio may be attributable to NSR as the registered proprietor. To the extent that any liabilities may be incurred by NSR, this may impact upon the financial position and performance of NSR (to the extent not covered by insurance). In addition, penalties may be imposed upon NSR which may have an adverse impact on NSR. NSR has a dedicated focus on Health and Safety including comprehensive reporting to assist in the mitigation or elimination of such risks and keep our team members, customers and contractors safe.
<b>Insurance risk</b> - There is no certainty that appropriate insurance will be available for all risks on acceptable commercial terms or that the cost of insurance premiums will not continue to rise. Some risks are not able to be insured at acceptable premiums. Examples of losses that are generally not insured against include war or acts of terrorism and natural phenomena. If any of NSR's assets are damaged or destroyed by an event for which NSR does not have cover, or a loss occurs which is in excess of the insured amounts, NSR could incur a capital loss and lost income which could reduce returns for holders of stapled securities. Any failure by the company or companies providing insurance (or any reinsurance) may adversely affect NSR's right of recovery under its insurance.
<b>Funding</b> - NSR's ability to raise funds from either debt or equity sources in the future depends on a number of factors, including the state of debt and equity markets, the general economic and political climate and the performance, reputation and financial strength of NSR. Changes to any of these underlying factors could lead to an increase in the cost of funding, limit the availability of funding, and increase the risk that NSR may not be able to refinance its debt and/or interest rate hedges before expiry or may not be able to refinance them on substantially the same terms as the existing facility or hedge instruments. If alternative financing is not available, this could adversely affect NSR's ability to acquire new properties and to fund capital expenditure, and NSR may need to realise assets at less than valuation, which may result in financial loss to NSR.
<b>Leasehold interests</b> - NSR holds lease agreements with certain third parties which allow it to operate storage centres from these properties. Lease terms for these properties are typically long (greater than 10 years). However, there is no guarantee that these lease arrangements will be able to be renewed upon expiry or if so on suitable terms to NSR.
<b>Environmental issues</b> - Unforeseen environmental issues may affect the properties in the property portfolio owned by NSR. These liabilities may be imposed irrespective of whether or not NSR is responsible for the circumstances to which they relate. NSR may also be required to remediate sites affected by environmental liabilities. The cost of remediation of sites could be substantial. If NSR is not able to remediate the site properly, this may adversely affect its ability to sell the relevant property or to use it as collateral for future borrowings. Material expenditure may also be required to comply with new or more stringent environmental laws or regulations introduced in the future, for example in relation to climate change.

## DIRECTORS

### NATIONAL STORAGE HOLDINGS LIMITED

The NSH Directors in office during the Reporting Period, or appointed prior to the date of this Directors' Report, and continuing as at the date of this Directors' Report are set out below.

NAME	POSITION
Laurence Brindle	Non-Executive Chairman (Appointed 1 November 2013)
Andrew Catsoulis	Managing Director (Appointed 1 November 2013)
Anthony Keane	Non-Executive Director (Appointed 1 November 2013)
Howard Brenchley	Non-Executive Director (Appointed 21 November 2014)
Steven Leigh	Non-Executive Director (Appointed 21 November 2014)
Claire Fidler	Executive Director (Appointed 18 July 2017)

### NATIONAL STORAGE FINANCIAL SERVICES LIMITED (NSFSL)

NSFSL was appointed as responsible entity on 10 November 2015. The Directors of NSFSL in office during the Reporting Period, or appointed prior to the date of this Directors' Report, and continuing as at the date of this Directors' Report are set out below.

NAME	POSITION
Laurence Brindle	Non-Executive Chairman (appointed 18 July 2014)
Andrew Catsoulis	Managing Director (appointed 18 July 2014)
Anthony Keane	Non-Executive Director (appointed 18 July 2014)
Howard Brenchley	Non-Executive Director (appointed 8 September 2015)
Steven Leigh	Non-Executive Director (appointed 8 September 2015)
Claire Fidler	Executive Director (appointed 18 July 2017)

### DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

#### Boards of National Storage Holdings Limited and National Storage Financial Services Limited

#### **Laurence Brindle, Independent Non-executive Chairman** **BCom, BE (Hons), MBA**

Laurence has extensive experience in funds management, finance and investment. Until 2009 he was an executive with Queensland Investment Corporation (QIC). During his twenty-one years with QIC he served in various senior positions including Head of Global Real Estate where he was responsible for a portfolio of \$9 billion. Laurence was also a long term member of QIC's Investment Strategy Committee. He provides advice to a number of investment institutions on real estate investment and funds management matters. Laurence holds a Bachelor of Engineering (Honours) and a Bachelor of Commerce from the University of Queensland, and a Master of Business Administration from Cass Business School, London. He is a former Chairman of the Shopping Centre Council of Australia and a former director of Westfield Retail Trust and Scentre Group, which owns, operates and develops Westfield shopping centres in Australia and New Zealand. Laurence is also currently the Non-executive Chairman of the listed entity, Viva Energy REIT.

Laurence serves on the Audit and Risk Committees and is Chairman of the Nomination and Remuneration Committees.

#### **Andrew Catsoulis, Managing Director** **BA, LLB, Grad Dip Proj Mgmt (Hons)**

Andrew is a qualified lawyer who has been admitted to the Supreme Court of Queensland. He has had extensive experience in the fields of finance, commercial and property law during his tenure at major law firms both in Australia and overseas. He is also a qualified project manager and has considerable property development experience both within the storage industry and in broader markets. A founder of the original National Storage business, he has over 20 years of specific self-storage industry expertise including in the areas of acquisition, development, integration and operation of 'greenfield' and developed self-storage centres. Andrew was instrumental in the successful acquisition and integration of the original pre-existing Group portfolio and led the Company through the IPO and planned and negotiated the acquisition of the Southern Cross portfolio in 2016.

**Anthony Keane, Independent Non-executive Director**  
**BSc (Maths), Grad Dip Corp Fin**

Anthony is an experienced finance and business executive with over 30 years background in corporate, institutional, business and retail banking. Prior to accepting his directorship with the Company, Anthony was most recently Head of Corporate Banking Queensland for National Australia Bank and was responsible for the bank's relationships with large privately owned and public listed companies across a broad range of industries including manufacturing, retail, wholesale, property, professional services, technology, leisure and tourism, transport, mining and associated services. Anthony has a Bachelor of Science (Mathematics) from University of Adelaide and a Graduate Diploma in Corporate Finance from Swinburne. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors and a fellow of the CEO Institute. He is a director of Queensland Symphony Orchestra Holdings Limited and an Independent Non-executive director of Oncore Group Holdings Pty Ltd.

Anthony acts as Chairman of the Audit and Risk Committees and is a member of the Remuneration and Nomination Committees.

**Howard Brenchley, Independent Non-executive Director**  
**BEC**

Howard has over 30 years' involvement in the Australian property industry, as an analyst, investor and fund manager. He is now a professional company director and consultant to the property funds industry. Howard co-founded Property Investment Research Pty Ltd (PIR) in 1989, which during the 1990's was considered a leading researcher of both listed and unlisted property funds.

In 1998 Howard was instrumental in establishing the funds management business of APN Property Group Limited. During this period he was responsible for the establishment and operations of a number of funds investing both directly and indirectly in real estate.

Howard is currently a non-executive director of the ASX-listed APN Property Group Limited (APD) and is also a non-executive director of APN Funds Management Limited, responsible entity for ASX-listed Industria REIT (IDR) and Convenience Retail REIT (CRR). Until July 2017, APN Funds Management Limited was also responsible entity for Generation Healthcare REIT (GHC).

Howard is a member of the Audit and Risk Committees.

**Steven Leigh, Independent Non-executive Director**  
**Certified Practising Valuer, Grad Dip Proj Mgmt**

Steven joined QIC Global Real Estate in 1991 and was a key member of the senior executive team that acquired and or created through development a portfolio of high quality retail and commercial assets in Australia, USA and the UK. Steven has had significant experience in the wholesale funds management business through various market cycles and conditions and has a strong background in retail, commercial and industrial property with a particular focus on shopping centre acquisitions and redevelopments.

After time as the Managing Director of Trinity Limited, and later Head of Australia for LaSalle Investment Management, Steven re-joined QIC as Managing Director QIC Global Real Estate in 2012 where he is responsible for the group's \$12bn plus property portfolio. Steven is a certified practising valuer and holds a Graduate Diploma in Project Management from the Queensland University of Technology. Steven is an associate member of the Australian Property Institute.

Steven is a member of the Remuneration and Nomination Committees.

**Claire Fidler, Executive Director**  
**LLB (Hons), B Bus (Int)**

Claire was appointed as an executive director on 18 July 2017 after acting as the principal company secretary of National Storage since 26 November 2015. She holds legal and international business qualifications and is admitted as a solicitor of the Supreme Court of Queensland. Claire has over 10 years' experience in corporate and commercial law in private practice, having practiced in the litigation, resources and corporate areas of two large law firms. Prior to joining National Storage, Claire was Corporate Counsel and Company Secretary at Rio Tinto Coal Australia. During this time, in addition to providing legal services to the business, she was responsible for the corporate governance and ASX compliance of one of Rio Tinto's listed subsidiaries as well as managing the corporate secretarial responsibilities of over 50 subsidiaries within the group and providing joint venture support. Claire has also worked in corporate compliance with the Australian Securities and Investments Commission.

**DIRECTORSHIPS OF OTHER LISTED COMPANIES**

Directorships of other listed companies held by current Directors in the three years immediately before the end of the financial year are as follows:

NAME	COMPANY	PERIOD OF DIRECTORSHIP
Laurence Brindle	Scentre Group (ASX:SCG)	01/07/2014 – 07/05/2015
	Westfield Retail Trust (ASX:WRT)	December 2010 - 30/06/2014
	Viva Energy REIT (ASX:VVR)	10/07/2016 - Current
Howard Brenchley	APN Property Group (ASX:APD)	1998 - Current
	APN Funds Management Limited, responsible entity for:	
	Industria REIT (ASX:IDR)	03/12/2013 - Current
	Convenience Retail REIT (ASX:CRR)	27/07/2017 - Current
	And previously Generation Healthcare REIT (ASX:GHC)	12/08/2011 – July 2017

**DIRECTORS' INTERESTS IN NSR SECURITIES**

As at the date of this Directors' Report, the interests of the Directors (including indirect interests) in the stapled securities of NSR were:

DIRECTOR	DIRECT	INDIRECT	TOTAL
Laurence Brindle	-	1,342,120	1,342,120
Anthony Keane	-	148,200	148,200
Andrew Catsoulis	463,900	12,857,845	13,321,745
Howard Brenchley	-	50,000	50,000
Steven Leigh	-	81,900	81,900
Claire Fidler	-	8,938	8,938

**DIRECTORS' MEETINGS**

The number of meetings of directors of NSH (including meetings of sub-committees of directors) held during the Reporting Period and the number of meetings attended by each director were as follows:

DIRECTOR	BOARD	AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Laurence Brindle	11 (11)	7 (7)	6 (6)	4 (4)	3 (3)
Anthony Keane	11 (11)	7 (7)	6 (6)	4 (4)	3 (3)
Andrew Catsoulis	11 (11)	-	-	-	-
Howard Brenchley	11 (11)	7 (7)	6 (6)	-	-
Steven Leigh	10 (11)	-	-	4 (4)	3 (3)

Notes:

- Figures in brackets indicate the number of meetings held whilst the director was in office or was a member of the relevant Committee during the Reporting Period. Figures not in brackets indicate the number of meetings or Committee meetings that the director attended.
- Mr. Catsoulis attends Nomination, Remuneration, Risk and Audit Committee meetings by invitation.
- The Company has an Investment Committee Charter to govern an Investment Committee. The Board has determined that at this time, the full Board will act as the Investment Committee and therefore there are no separate Investment Committee meetings noted.
- Ms Fidler was ineligible to attend Directors' meetings through the period as her appointment as Director being post 30 June 2017.



COMPANY SECRETARY

NATIONAL STORAGE HOLDINGS LIMITED

NAME	APPOINTMENT DATE
Claire Fidler	26 November 2015
Patrick Rogers	1 November 2013

NATIONAL STORAGE FINANCIAL SERVICES LIMITED

NAME	APPOINTMENT DATE
Claire Fidler	26 November 2015
Patrick Rogers	18 July 2014

**Claire Fidler**  
**LLB (Hons), B Bus (Int)**

Refer to page 28.

**Patrick Rogers**  
**LLB, B Bus - Accounting**

Patrick holds both legal and accounting qualifications and is admitted as a solicitor of the Supreme Court of Queensland. He has practiced as a solicitor for over 18 years in both fields. During his time in private practice, Patrick has had significant experience in corporate, property, commercial, taxation and transactional work. In addition to private practice, Patrick held senior finance roles and was the general counsel and company secretary of the Super A-Mart Group for over 8 years. Patrick was appointed Chief Risk Officer of NSR in June 2016 in addition to his role as General Counsel and Company Secretary.

CORPORATE GOVERNANCE

NSH and The Responsible Entity have their own respective Boards and constitutions. The relationship between NSH and the Responsible Entity is governed by a Cooperation Deed and Management Agreement that allows NSH to provide key services to NSFSL as Responsible Entity in exchange for a monthly fee. These services include finance and administrative services, property management, provision of staff and equipment.

The NSH and Responsible Entity Boards and NSH management are committed to achieving and demonstrating to securityholders high standards of corporate governance and to ensure NSH acts in the best interests of its securityholders balanced with its broader community obligations.

An important component of the NSR corporate governance structure is the 3<sup>rd</sup> edition of the ASX Corporate Governance Principles and Recommendations (the “ASX Recommendations”). A more detailed discussion of NSR’s Corporate Governance is found on pages 32 - 33 of the Annual Report and a statement of the extent of NSR’s compliance with the ASX Recommendations can be viewed on the NSR website at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au). Full copies of all NSR governance policies and Charters can also be found in the Governance section of the website.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the Directors and executive officers of the Company and its group entities to the extent permitted by law, for the amount of any liability, loss, cost, charge, damage, expense or other liability suffered by the Director or executive officer as an officer of the Company or group entity or as a result of having been an officer of the Company or any Group entity. This includes any liability arising out of or in connection with any negligence, breach of duty, or breach of trust (“Indemnity”).

However, the Indemnity does not extend to a claim in the nature of:

- (a) a challenge to any rejection of a Director’s claim by the provider of the Company’s insurance cover; or
- (b) a cross-claim or a third-party claim for contribution or indemnity in, and results directly from, any Proceedings in respect of which the Director has made a claim under the Indemnity.

Deeds of indemnity to effect the above have been formally entered into by the Company and each of the Directors.

The Deeds of Indemnity require the Company to obtain a back to back indemnity to the Company from the Responsible Entity out of the assets of the NSPT. This has been procured by the Company and is in place. The back to back indemnity requires the Responsible Entity to indemnify the Company for any liability under the Directors/officers indemnity to the extent that the Company is not able to meet that obligation. The indemnity does not extend to any payment made or due as a result of a breach by the Company of its obligations under a Director/officer indemnity or to any payment which the Company makes voluntarily but is not due and payable under the terms of a Director/officer indemnity.

The total amount of insurance contract premiums paid for Directors and Officers insurance for NSR (including subsidiary entities) during the Reporting Period was \$156,015.

No insurance premiums are paid out of the assets of the NSPT in regards to insurance cover provided to either the Responsible Entity or the auditors of the NSPT. So long as the officers of the Responsible Entity act in accordance with the constitution and the law, the officers remain indemnified out of the assets of the NSPT against losses incurred while acting on behalf of the NSPT. The auditors of the NSPT are in no way indemnified out of the assets of the NSPT.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made or claim received by NSR to indemnify Ernst & Young during the Reporting Period or up to the date of this report.

REMUNERATION REPORT (AUDITED) – NSH GROUP

MESSAGE FROM THE BOARD

The NSH Board remains committed to ensuring that remuneration strategies are structured to support and reinforce NSR’s overall business strategy. By linking the Short Term Incentive (“STI”) and Long Term Incentive (“LTI”) (at risk remuneration) of executive remuneration to the drivers that support the business strategy, the remuneration of executives is aligned with the creation of long-term value for securityholders. The Board believes that the remuneration practices of NSR should fairly and responsibly reward Key Management Personnel (“KMP”) having regard to their individual performance, the performance of NSH and NSPT and the broader external environment as it relates to KMP reward.

The policy also aims to provide a platform for sustainable value creation for securityholders by attracting and retaining quality KMP.

COVERAGE OF THIS REPORT

The following remuneration report has been prepared to provide information to securityholders of the remuneration details of the KMP of NSH involved in the management of the NSPT.

Directors of the Responsible Entity do not receive any remuneration from the Responsible Entity in respect to their roles with the Responsible Entity. However, the director fees paid by NSR take into account the complexity involved and additional duties in the operation of the Responsible Entity as a subsidiary of NSH and as part of the consolidated governance group. The Responsible Entity receives a fee for management services rendered.

This information has been audited as required by section 308(3C) of the Act.

KMP are defined as “those persons having authority and responsibility for planning, directing and controlling the major activities of NSH, the Consolidated Group and the NSPT, directly or indirectly, including any director (whether executive or otherwise) of NSH.”

Key management personnel covered in this report are as follows:

- NON-EXECUTIVE AND EXECUTIVE DIRECTORS**  
Laurence Brindle - Chairman (non-executive)  
Andrew Catsoulis – Managing Director (executive)  
Anthony Keane - Director (non-executive)  
Howard Brenchley - Director (non-executive)  
Steven Leigh - Director (non-executive)  
Claire Fidler – Company Secretary (appointed executive Director effective 18 July 2017)

- KEY MANAGEMENT PERSONNEL – SENIOR EXECUTIVES**  
Peter Greer – Chief Operating Officer (COO)  
Stuart Owen – Chief Financial Officer (CFO)  
Patrick Rogers – General Counsel and Chief Risk Officer (GC/CRO)

REMUNERATION GOVERNANCE

REMUNERATION COMMITTEE AND USE OF REMUNERATION CONSULTANTS

The Remuneration Committees activities are governed by its Charter, a copy of which is available at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au).

The responsibilities of the Remuneration Committee include:

- Formulate and recommend remuneration policies to apply to the Company's Managing Director, senior executives and non-executive Directors;
- Formulate the specific remuneration packages for senior executives (including base salary, STIs, LTIs and other contractual benefits);
- Review contractual rights of termination for senior executives;
- Review the appropriateness of the Company's succession planning policies;
- Review management's recommendation of the total proposed STI and LTI awards;
- Administering the STI and LTI awards; and
- Review management recommendations regarding the remuneration framework for the company as a whole.

The deliberations of the Remuneration Committee, including any recommendations made on remuneration issues, are considered by the NSH Board. In making its recommendations to the Board, the Remuneration Committee takes into account advice from independent remuneration advisers on trends in remuneration for KMP. The independent remuneration advisors consider a range of factors including the specific responsibilities assumed by KMP. The Remuneration Committee determined it was not necessary to engage an independent remuneration consultant during the reporting period. An independent report was previously commissioned in the 2016 financial year. The Board reviewed the independent consultants previous report and determined that there had been no significant changes to either the Board and Executive structure or the market parameters used in the independent consultants previous report and determined that a new independent consultants report was not required.

The Remuneration Committee comprises three independent non-executive directors and is chaired by Laurence Brindle. The Remuneration committee met four times during the Reporting Period.

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the remuneration policy is to ensure that Group remuneration is competitive, reflects responsibilities of the officers and ensures that NSR is able to attract and retain executives and directors with the skills and capabilities required to sustainably deliver NSR's objectives.

The remuneration of directors and senior executives is reviewed at least annually by the Remuneration Committee and the full NSH Board. External analysis and advice is sought by the Committee, where considered appropriate, to ensure that the remuneration for directors and senior executives is competitive in the market place and appropriate for the organisation.

The policy seeks to align executive reward with the achievement of strategic objectives and the creation of value for securityholders. The primary tenets of the policy are:

- Attract and retain high quality executives and to reward the capabilities and experience brought to NSR by those executives.
- Total reward for key executives is to have a significant “at risk” component.
- The “at risk” component for key executives is to include both short term incentives (“STI”) and long term incentives (“LTI”) which have a strong focus on quantitative measures.
- Provide industry competitive rewards linked to securityholder returns.
- Provide recognition for contribution, complexity of role and responsibilities of the officer.
- Remuneration policies and structures must be clear and transparent both to the executives and Board of NSR and to securityholders.

TARGET MARKET POSITIONING

Total Annual Remuneration (TAR) is assessed against a broad comparator group and adjusted to reflect factors such as the criticality of the role, experience, length of service and NSR's positioning within the comparator group. The individual components of TAR, comprising Total Fixed Remuneration (TFR), STI and LTI are individually assessed within this framework and structured to provide both short term and long terms incentives to KMP that align with delivery of short term and long term value to securityholders.

When selecting the comparator group the data is collected from a combination of sources including audited Remuneration Reports of the selected companies. It provides an appropriate pool of data that is statistically relevant. This data is then assessed against NSR's current size, industry positioning and other relevant factors to determine the appropriate information against which to assess NSR's remuneration framework.

The composition of 2017-18 TAR for KMP is detailed in the table below.

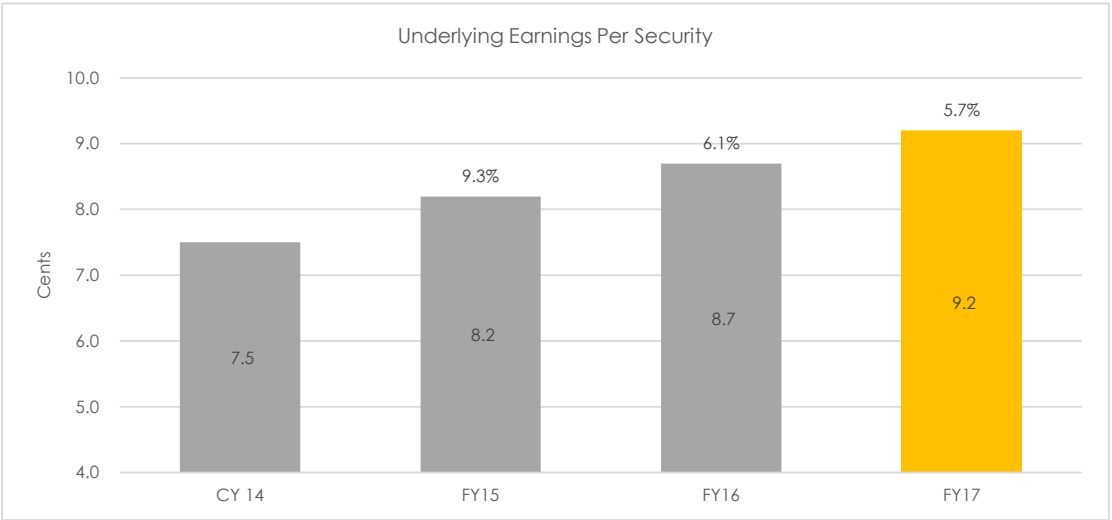
ROLE	TFR	STI	LTI
MD	57.4%	21.3%	21.3%
COO	57.2%	21.4%	21.4%
CFO	65.6%	17.2%	17.2%
GC/CRO	74.8%	12.6%	12.6%
CoSec	80.0%	10.0%	10.0%



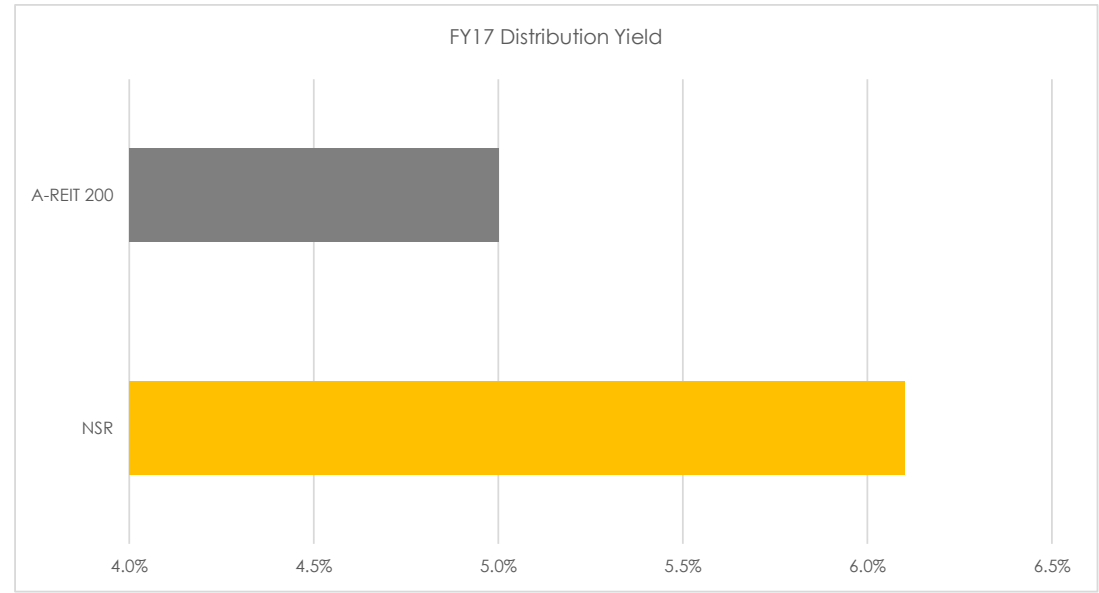
NSR PERFORMANCE

NSR has delivered its growth objectives over the reporting period including the acquisition of \$138 million in new storage centres in addition to the successful completion of the \$260 million capital raise associated with the finalisation of the \$285 million acquisition of the remaining 90% interest in the Southern Cross Storage Joint Venture. This is a significant achievement for the company which can be attributed to a combination of a strong share price, continued growth in earnings and the successful implementation of the Company's growth strategy. This has resulted in significant growth in assets under management during this time which in turn has delivered returns to securityholders.

The Company has established a track record of delivering strong and consistent underlying earnings<sup>(9)</sup> growth since listing, increasing underlying earnings<sup>(1)</sup> per stapled security by 5.7% in the 12 months to 30 June 2017 over the corresponding period to 30 June 2016. A consistent and considered approach to driving increased underlying earnings through a combination of organic growth from existing assets as well as targeted EPS accretive acquisitions has been instrumental in achieving this result.



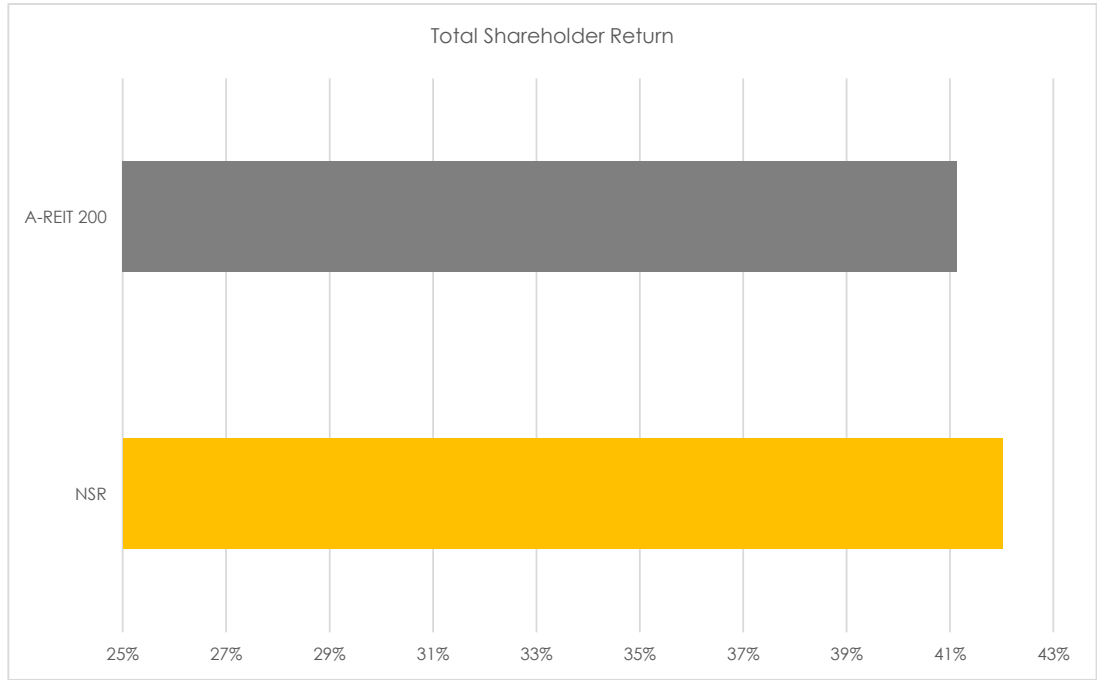
NSR has maintained a distribution policy which targets distribution of 90% - 100% of underlying earnings<sup>(1)</sup> to securityholders. During financial year 2017 NSR declared distributions totalling 9.2 cents per stapled security, being at the upper end of the stated policy, delivering DPS yield of 6.1%, some 22% above that of the A-REIT 200 average of 5.0%.



Source: Bloomberg. Market Data as at 24 July 2017

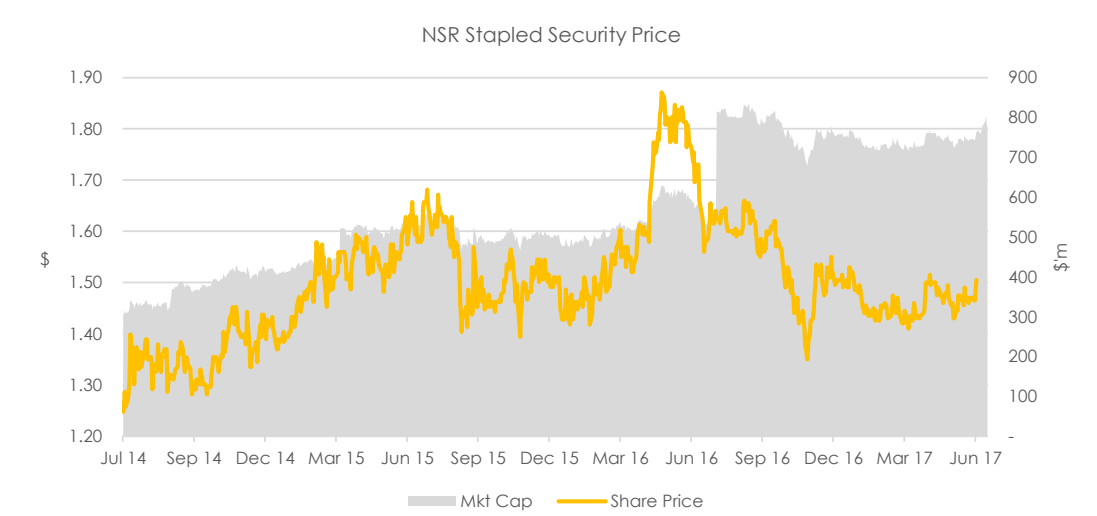
<sup>9</sup> Underlying earnings is a non-IFRS measure (unaudited). See page 36 of Directors' Report for reconciliation of underlying earnings

NSR has delivered Total Shareholder Return "TSR" (a combination of share price growth and distributions received by securityholders) over the past three years to 30 June 2017 of 42%, outperforming the A-REIT 200 index average of 41%.

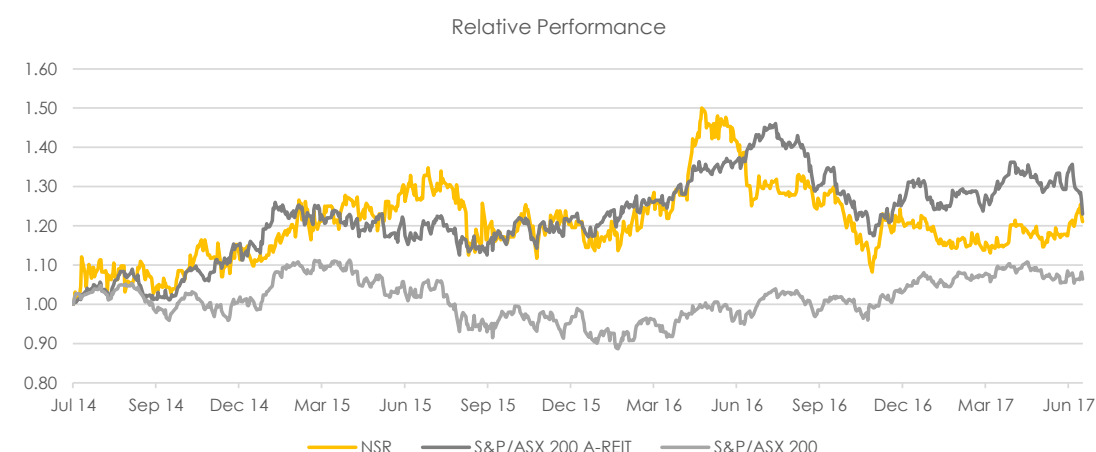


Source: Bloomberg. Market Data as at 24 July 2017  
Total shareholder return, assuming dividends are re-invested in the underlying shares. Calculated daily over 3 years to 30 June 2017

NSR listed in December 2013 with an issue price of \$0.98. From that time to 30 June 2017 the stapled security price has increased by 54% with 30 June 2017 closing price of \$1.51.



Security price performance over the period 1 July 2014 to 30 June 2017 has shown a 21% increase. This compares to an increase of 23% for the A-REIT 200 index and 6% for the broader ASX 200 Index over the same period.



## NSR REMUNERATION FRAMEWORK

### NON-EXECUTIVE DIRECTORS

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the non-executive directors and their contribution towards the performance of NSR as well as the complexity of the National Storage Property Trust, National Storage Financial Services Limited and the operating business. The remuneration policy seeks to ensure that NSR attracts and retains directors with appropriate experience and qualifications to oversee the operations of NSR on behalf of the securityholders.

The number of meetings of directors is shown on page 43 of this report.

The Constitution of NSH specifies that the amount of the remuneration of the non-executive directors is a yearly sum not exceeding the sum from time to time determined by the Company in general meeting. Under the ASX Listing Rules, the total amount paid to all NSH non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by NSH's annual general meeting. The amount approved by securityholders at the 2014 Annual General meeting is \$900,000.

Annual NSH non-executive directors' fees and Committee fees currently agreed to be paid by NSH effective from 1 July 2017 are detailed below. Non-executive directors are not eligible to participate in NSR's incentive plan.

NON-EXECUTIVE DIRECTORS	BASE FEE	AUDIT AND RISK COMMITTEE FEES	REMUNERATION AND NOMINATION COMMITTEE FEES	TOTAL
Laurence Brindle <sup>a</sup>				\$270,000
Anthony Keane <sup>b</sup>	\$108,000	\$21,500	\$5,500	\$135,000
Steven Leigh	\$108,000	-	\$5,500	\$113,500
Howard Branchley	\$108,000	\$8,500	-	\$116,500

a. Chairman and chair of the Remuneration and Nomination Committees and receives a single fee for all roles  
b. Chair of the of Audit and Risk Committees

All NSH non-executive directors' fees include superannuation at the required statutory rate.

### KEY MANAGEMENT PERSONNEL - EXECUTIVE DIRECTOR AND SENIOR EXECUTIVES

All remuneration paid to executive directors and senior executives comprises four components:

- Base pay and benefits (including superannuation)
- Short-term performance incentives
- Long-term performance incentives
- Other remuneration (if applicable)

#### Base salary and benefits

The Managing Director and senior executives are paid a base salary that includes employer contributions to superannuation funds. The remuneration of the Managing Director is reviewed annually by the Remuneration Committee and Board. The remuneration of senior executives is reviewed annually by the Managing Director who makes a recommendation to the Remuneration Committee.

The Committee then considers, but is not obliged to accept, the recommendation of the Managing Director and takes whatever additional steps it determines appropriate to assess the senior executive salaries.

There is no guarantee of base salary increases included in any executive director or senior executive contracts or through the annual review process. The remuneration of all KMP was reviewed during the year.

The Managing Director and senior executives can potentially be paid a bonus as part of their remuneration. Whether such a bonus is paid and the amount of such a bonus is at the discretion of the Remuneration Committee and the Board. Any bonuses paid would fall into the category of "other remuneration".

### Service agreements

Remuneration and other terms of employment for the KMP senior executives are formalised in service agreements. The service agreements specify the components of remuneration, benefits and notice periods. Termination benefits are designed to fall within the limits relevant to the *Corporations Act Cth 2001* such that they do not require securityholder approval. However, in addition, all executive contracts make any such benefits subject to the *Corporations Act Cth 2001*, all other applicable laws and where necessary securityholder approval. They also contain provisions which allow NSH to reduce any such payments to ensure compliance with the law.

NAME	TERM OF AGREEMENT AND NOTICE PERIOD	BASE SALARY INCLUDING SUPERANNUATION*	TERMINATION PAYMENTS
Andrew Catsoulis	No fixed term 6 months	\$890,000	<ul style="list-style-type: none"> <li>• 6 months in lieu of notice if required by NSH.</li> <li>• 6 months in the event of incapacity or illness.</li> </ul>
Peter Greer	No fixed term 6 months	\$800,000	<ul style="list-style-type: none"> <li>• 6 months in lieu of notice if required by NSH.</li> <li>• 6 months in the event of incapacity or illness.</li> </ul>
Stuart Owen	No fixed term 6 months	\$420,000	<ul style="list-style-type: none"> <li>• 6 months in lieu of notice if required by NSH.</li> <li>• 6 months in the event of incapacity or illness.</li> <li>• 1 months fixed remuneration plus 2 weeks for each year of service – capped at 2 months in the event of redundancy</li> </ul>
Patrick Rogers	No fixed term 6 months	\$325,000	<ul style="list-style-type: none"> <li>• 6 months in lieu of notice if required by NSH.</li> <li>• 6 months in the event of incapacity or illness.</li> <li>• 1 months fixed remuneration plus 2 weeks for each year of service – capped at 2 months in the event of redundancy</li> </ul>
Claire Fidler (Part time)	No fixed term 6 months	\$200,000	<ul style="list-style-type: none"> <li>• 6 months in lieu of notice if required by NSH.</li> <li>• 6 months in the event of incapacity or illness.</li> <li>• 1 months fixed remuneration plus 2 weeks for each year of service – capped at 2 months in the event of redundancy</li> </ul>

\* Base salaries are annual salaries for the financial year commencing 1 July 2017. They are reviewed annually by the Remuneration Committee. Actual salaries paid in the year ended 30 June 2017 are shown on page 54.

### Short and long term incentives

KMP senior executives may also be entitled to participate in the STI and LTI programs that are in place from time to time. The incentive programs are at the discretion of the Board and do not constitute an entitlement under the executive service agreements of the respective KMP. Total incentive programs are assessed against a broad comparator group and adjusted to reflect factors such as the criticality of the role, experience, length of service and NSR's positioning within the comparator group including the ASX A-REIT 200 index. The Board continually assesses the structure of the incentive plans and has determined that at this point in time payments made under these plans will be paid in cash. The Board considers that there is a sufficient nexus between the cash remuneration and the equity based payments given the link between security price performance and TSR.

An independent consultant was engaged during the 2016 Reporting Period to assess the appropriateness of the remuneration structure currently in place and to provide advice on market practice relating to executive remunerations structures. The advice did not constitute a remuneration



recommendation as defined in the *Corporations Act Cth 2001*. After considering all the relevant information the Board has determined that the existing short and long term incentive program is appropriate. The following incentive program is effective from 1 July 2017.

#### Short Term Incentive (STI)

The STI contains four separate elements that will be assessed independently of the other elements. The STI is an annual incentive and is to be paid in cash annually.

ELEMENT	PERCENTAGE OF STI	CRITERIA
Financial	70%	Underlying Earnings <sup>(1)</sup> as determined by the Board
Financial – Out Performance*	10%	Exceeding Underlying Earnings <sup>(1)</sup> targets
Individual KPI's	15%	Individual performance criteria set in conjunction with MD / Board
Strategic	15%	Assessment in accordance with performance in the following areas: <ul style="list-style-type: none"> <li>Implementation of major projects</li> <li>Staff continuity</li> <li>Risk Management</li> <li>Innovation and enhancement of processes and procedures</li> </ul>

**Total 100% (Max)**

\* The Financial Out-Performance STI is only payable to the extent that the total STI payable does not exceed 100%. The minimum STI payable is zero and maximum STI payable is \$820,000 for FY18 in aggregate for all KMP.

#### Long Term Incentive (LTI)

The LTI criteria have been set so as to align the interests of KMP with those of securityholders. The LTI contains two separate components which are independently tested:

ELEMENT	PERCENTAGE OF LTI	CRITERIA
Total Shareholder Return	70%	Minimum total shareholder return above the 50 <sup>th</sup> percentile in comparison to the ASX 200 A-REIT index. The LTI becomes payable in accordance with the sliding scale below once the 50 <sup>th</sup> percentile hurdle is met.
Earnings Per Share Growth	30%	Earnings per share growth of 5% per annum

For the purposes of determining the LTI attributable to Total Shareholder Return in any given period, the following scale is applied:

NSR TSR v ASX 200 A-REIT INDEX	LTI PAYABLE
<50 <sup>th</sup> percentile	0%
50 <sup>th</sup> percentile	50%
>50 <sup>th</sup> - <75 <sup>th</sup> percentile	Pro-rata from 50% - 100%
>= 75 <sup>th</sup> percentile	100%

The LTI is assessed over a rolling 3 year period and as such to be eligible for payment of the LTI, KMP must have been employed by NSR for three years (or shorter period as determined by the Board). Post three years' service the LTI will be paid on an annual basis on the previous three years' performance against the pre-determined criteria.

The minimum LTI payable is zero and maximum LTI payable is \$820,000 for FY18 in aggregate for all KMP.

#### Other Incentives

An additional one-off incentive relating to the successful delivery of the aspects of the sustainability program, cost saving initiatives, and other measures is available to KMP during FY18. The sustainability program relates to the roll out of solar initiatives which may deliver reduced energy costs as well as improved asset valuations. Any payment under this incentive program will be at the discretion of the Board. The minimum payable is zero and maximum payable is \$345,100 (in aggregate for all KMP).

#### Short and long term incentives in place during reporting period:

The KMP were eligible for payment of STI's and LTI's for the financial year ended 30 June 2017 in accordance with the incentive program outlined in the 2016 Annual Report. The program is the same as that outlined above.

The STI's and LTI's were agreed with the KMP to reward them for performance against both financial and operational objectives. The minimum payable was zero and maximum payable was \$1,450,000 for FY17 in aggregate for all KMP.

The STI and LTI hurdles included:

1. Underlying earnings<sup>1</sup> exceeding 9.2 cents per security
2. TSR over the period three years to 30 June 2017 being greater than the 50<sup>th</sup> percentile of the comparator group (ASX A-REIT 200)
3. Rolling three year compound EPS growth exceeding 5% - (June 2017 target 9.1cps)

The Board has assessed the performance of the Company and the KMP against the performance criteria and have determined that the following STI and LTI's has been earned and is payable, inclusive of statutory Superannuation amounts, for the period 1 July 2016 to 30 June 2017. In addition to the formalised incentive scheme the Board deemed it appropriate, in view of the significance of the transaction, to pay a one-off discretionary bonus in relation to the successful completion of the \$285 million acquisition of the remaining 90% interest in the Southern Cross Storage Joint Venture and associated \$260 million capital raising which is shown as Other Remuneration below.

INCENTIVE OFFICER	STI		LTI		OTHER REMUNERATION	TOTAL
	AMOUNT	% EARNED	AMOUNT	% EARNED		
Andrew Catsoulis (MD)	\$148,200	49%	\$90,000	30%	\$50,000	\$288,200
Peter Greer (COO)	\$119,350	43%	\$82,500	30%	\$50,000	\$251,850
Stuart Owen (CFO)	\$50,900	51%	\$30,000	30%	\$30,000	\$110,900
Patrick Rogers (GC/CRO)	\$23,200	46%	\$15,000	30%	\$20,000	\$58,200
Claire Fidler (CoSec)*	-	-	-	-	\$17,500	\$17,500
<b>Total</b>	<b>\$341,650</b>	<b>47%</b>	<b>\$217,500</b>	<b>30%</b>	<b>\$167,500</b>	<b>\$726,650</b>

\* Ms Fidler was not an Incentivised Officer during FY17

#### DETAILS OF REMUNERATION

The following tables set out details of the remuneration received by the Company's KMP for the Reporting Period.

	SALARY & FEES	SHORT TERM INCENTIVE (CASH)	SHORT TERM INCENTIVE (NON-MONETARY)	POST-EMPLOYMENT BENEFITS SUPERANNUATION	LONG TERM INCENTIVE (CASH)	LONG SERVICE LEAVE	TOTAL	PERFORMANCE RELATED
<b>2017</b>	\$	\$	\$	\$	\$	\$	\$	%
<i>Non-executive directors</i>								
Laurence Brindle	229,189	-	-	21,773	-	-	250,962	0%
Anthony Keane	114,594	-	-	10,887	-	-	125,481	0%
Howard Branchley	108,000	-	-	-	-	-	108,000	0%
Steven Leigh	95,153	-	-	9,040	-	-	104,193	0%
<i>Executive director</i>								
Andrew Catsoulis	799,592	184,193	8,762	50,917	82,192	18,836	1,144,492	23%
<i>Senior executives</i>								
Peter Greer	685,222	157,155	8,762	47,739	75,342	16,895	991,115	23%
Stuart Owen	358,915	74,293	8,762	37,130	27,397	8,904	515,401	20%
Patrick Rogers	270,008	39,617	8,762	32,912	13,699	6,849	371,847	14%
Claire Fidler	166,572	15,982	8,762	17,135	-	5,137	213,588	7%
<b>Total</b>	<b>2,827,245</b>	<b>471,240</b>	<b>43,810</b>	<b>227,533</b>	<b>198,630</b>	<b>56,621</b>	<b>3,825,079</b>	

	SALARY & FEES	SHORT TERM INCENTIVE (CASH)	POST-EMPLOYMENT BENEFITS SUPERANNUATION	LONG TERM INCENTIVE (CASH)	LONG SERVICE LEAVE	TOTAL	PERFORMANCE RELATED
<b>2016</b>	\$	\$	\$	\$	\$	\$	%
<i>Non-executive directors</i>							
Laurence Brindle	169,129	-	16,067	-	-	185,196	0%
Anthony Keane	92,123	-	8,752	-	-	100,875	0%
Howard Branchley	89,000	-	-	-	-	89,000	0%
Steven Leigh	82,201	-	7,809	-	-	90,010	0%
<i>Executive director</i>							
Andrew Catsoulis	766,532	61,088	49,474	79,118	17,536	973,748	14%
<i>Senior executives</i>							
Peter Greer	700,791	42,761	46,745	71,269	15,784	877,350	13%
Stuart Owen	337,887	47,625	32,266	-	7,973	425,751	11%
Patrick Rogers	243,355	8,439	23,922	9,661	5,788	291,165	6%
<b>Total</b>	<b>2,481,018</b>	<b>159,913</b>	<b>185,035</b>	<b>160,048</b>	<b>47,081</b>	<b>3,033,095</b>	

#### SECURITY HOLDINGS OF DIRECTORS AND EXECUTIVES

The movement during the Reporting Period in the number of stapled securities, directly, indirectly or beneficially held by Directors and KMP senior executives, including parties related to them, is as follows:

	BALANCE 30 JUNE 2016	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	ACQUIRED	BALANCE 30 JUNE 2017
<i>Directors of NSH</i>					
Laurence Brindle	1,032,400	-	-	309,720	1,342,120
Anthony Keane	114,000	-	-	34,200	148,200
Andrew Catsoulis	12,695,163	-	-	626,582	13,321,745
Howard Branchley	50,000	-	-	-	50,000
Steven Leigh	63,000	-	-	18,900	81,900
<i>Executives of NSH</i>					
Peter Greer	5,586,735	-	-	-	5,586,735
Stuart Owen	-	-	-	-	-
Patrick Rogers	-	-	-	5,163	5,163
Claire Fidler*	-	-	-	-	8,938
<b>Total</b>	<b>19,541,298</b>	<b>-</b>	<b>-</b>	<b>994,565</b>	<b>20,544,801</b>

\* Claire Fidler became an Executive of NSH on 1 July 2016

#### RELATED PARTY TRANSACTIONS

There were no other transactions with KMP and their related parties during the reporting period.



SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

No subsequent events have occurred since the reporting date and the issue date of the annual report which require disclosure in the financial statements.

ROUNDING

The amounts contained in this Directors' Report and in the Financial Report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Consolidated Group and NSPT Group are entities to which the ASIC Instrument applies.

AUDITOR’S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act Cth 2001* is set out on page 59.

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The Directors of NSH are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act Cth 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services conducted during the financial year:

1. Tax compliance	\$50,350
2. Assurance Related	\$145,976
3. Other	\$34,037

FEES PAID TO AND INTERESTS HELD IN THE NSPT BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the Responsible Entity and its associates out of NSPT property during the year are disclosed in the Statement of Comprehensive Income and are detailed in Note 18 to the financial statements.

No fees were paid to the Directors of the Responsible Entity during the year out of NSPT.

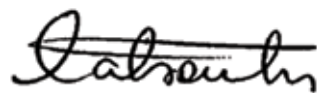
INTERESTS IN THE NSPT

The movement in units on issue by the NSPT during the year is set out in Note 14 to the financial statements.

This Directors' Report is made on 22 August 2017 in accordance with a resolution of the Board of Directors of National Storage Holdings Limited and is signed for and on behalf of the Directors.



Laurence Brindle  
Chairman  
National Storage Holdings Limited  
Brisbane



Andrew Catsoulis  
Managing Director  
National Storage Holdings Limited  
Brisbane

This Directors' Report is made on 22 August 2017 in accordance with a resolution of the Responsible Entity and is signed for and on behalf of the Responsible Entity.



Laurence Brindle  
Director  
National Storage Financial Services Limited  
Brisbane



Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001

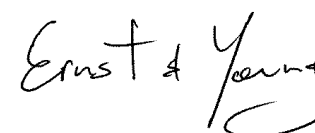
Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100  
ey.com/au

## Auditor's Independence Declaration to the Directors of National Storage REIT

As lead auditor for the audit of National Storage REIT for the financial year ended 30 June 2017, I declare 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 National Storage REIT and the entities it controlled during the financial year.



Ernst & Young



Ric Roach  
Partner  
22 August 2017



## FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the year ended 30 June 2017

		Consolidated Group		NSPT Group	
	Notes	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Revenue from storage rent		105,814	70,574	-	-
Rental revenue		-	-	52,511	34,894
Revenue from sale of goods and services		6,999	6,651	-	-
Other revenue	6	4,689	2,525	258	146
<b>Total revenue</b>		<b>117,502</b>	<b>79,750</b>	<b>52,769</b>	<b>35,040</b>
Employee expenses	7	(22,472)	(15,460)	-	-
Premises costs		(13,284)	(8,956)	-	(15)
Advertising and marketing		(2,683)	(1,646)	-	-
Cost of packaging and other products		(1,433)	(954)	-	-
Management fees - operational		(27)	(215)	(2,311)	(908)
Other operational expenses	7	(7,967)	(4,753)	(327)	(39)
Finance costs	8	(24,160)	(15,787)	(15,137)	(7,011)
Share of profit of joint ventures and associates		2,110	1,732	1,509	1,732
Fair value adjustments	11.4	76,803	10,025	73,975	15,531
Business combination costs	5	(13,837)	-	(13,536)	-
Restructuring and other non-recurring costs		(2,971)	-	-	-
<b>Profit before income tax</b>		<b>107,581</b>	<b>43,736</b>	<b>96,942</b>	<b>44,330</b>
Income tax (expense) / benefit	9	(4,168)	250	(676)	(165)
<b>Profit after tax</b>		<b>103,413</b>	<b>43,986</b>	<b>96,266</b>	<b>44,165</b>
<b>Profit / (loss) for the year attributable to:</b>					
Members of National Storage Holdings Limited		7,147	(179)	-	-
Non-controlling interest (unit holders of NSPT)		96,266	44,165	96,266	44,165
		<b>103,413</b>	<b>43,986</b>	<b>96,266</b>	<b>44,165</b>
<b>Basic and diluted earnings per stapled security / unit (cents)</b>	20	20.74	13.06	19.31	13.11

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

Notes	Consolidated Group		NSPT Group	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Profit after tax</b>	<b>103,413</b>	<b>43,986</b>	<b>96,266</b>	<b>44,165</b>
<b>Other comprehensive income</b>				
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	38	205	5	227
Net gain / (loss) on cash flow hedges	6,403	(5,176)	6,403	(5,176)
<b>Other comprehensive income / (loss) for the year, net of tax</b>	<b>6,441</b>	<b>(4,971)</b>	<b>6,408</b>	<b>(4,949)</b>
<b>Total comprehensive income for the year</b>	<b>109,854</b>	<b>39,015</b>	<b>102,674</b>	<b>39,216</b>
<b>Total comprehensive income for the year attributable to:</b>				
Members of National Storage Holdings Limited	7,180	(201)	-	-
Unit holders of National Storage Property Trust	102,674	39,216	102,674	39,216
	<b>109,854</b>	<b>39,015</b>	<b>102,674</b>	<b>39,216</b>

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2017

Notes	Consolidated Group		NSPT Group	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	10.1	23,166	13,374	8,748
Trade and other receivables	10.2	11,340	7,329	58,756
Inventories	11.1	600	373	-
Assets held for sale	11.2	5,713	-	5,713
Other current assets	10.3	4,309	2,743	7
<b>Total current assets</b>		<b>45,128</b>	<b>23,819</b>	<b>73,224</b>
<b>Non-current assets</b>				
Trade and other receivables	10.2	110	220	-
Property, plant and equipment	11.3	1,229	1,684	-
Investment properties	11.4	1,330,878	844,130	1,089,111
Investment in joint ventures and associates	13	10,591	15,101	913
Intangible assets	11.5	45,536	14,648	-
Deferred tax assets	9	525	125	-
Other non-current assets	10.3	3,328	-	3,328
<b>Total non-current assets</b>		<b>1,392,197</b>	<b>875,908</b>	<b>1,093,352</b>
<b>Total Assets</b>		<b>1,437,325</b>	<b>899,727</b>	<b>1,166,576</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	10.4	8,778	6,198	642
Finance lease liability	10.7	4,504	4,425	-
Deferred revenue	11.6	11,585	7,726	138
Income tax payable		314	152	314
Provisions	11.7	2,188	1,750	-
Other liabilities	10.6	23,760	14,803	23,760
<b>Total current liabilities</b>		<b>51,129</b>	<b>35,054</b>	<b>24,854</b>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	10.5	481,770	284,526	480,520
Finance lease liability	10.7	163,851	173,823	-
Provisions	11.7	1,331	1,316	-
Deferred tax liability	9	3,368	136	322
Other liabilities	10.6	3,259	6,522	3,259
<b>Total non-current liabilities</b>		<b>653,579</b>	<b>466,323</b>	<b>484,101</b>
<b>Total Liabilities</b>		<b>704,708</b>	<b>501,377</b>	<b>508,955</b>
<b>Net Assets</b>		<b>732,617</b>	<b>398,350</b>	<b>657,621</b>
<b>EQUITY</b>				
Non-controlling interest (unit holders of NSPT)		664,627	364,978	-
Contributed equity	14	59,145	31,707	543,476
Other reserves	15	11	(22)	187
Retained earnings		8,834	1,687	113,958
<b>Total Equity</b>		<b>732,617</b>	<b>398,350</b>	<b>657,621</b>

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2017

Attributable to securityholders of National Storage REIT

	Notes	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Non-controlling interest \$'000	Total Equity \$'000
<b>Balance at 1 July 2016</b>		<b>31,707</b>	<b>1,687</b>	<b>(22)</b>	<b>364,978</b>	<b>398,350</b>
Profit for the year		-	7,147	-	96,266	103,413
Other comprehensive income	15	-	-	33	6,408	6,441
<b>Total comprehensive income</b>		<b>-</b>	<b>7,147</b>	<b>33</b>	<b>102,674</b>	<b>109,854</b>
Issue of stapled units through institutional and retail placement		26,354	-	-	233,646	260,000
Issue of stapled units through distribution reinvestment plan		897	-	-	8,106	9,003
Issue of stapled units through vendor scrip issue		828	-	-	7,572	8,400
Costs associated with issue of units		(641)	-	-	(5,608)	(6,249)
Distributions provided for or paid	17	-	-	-	(46,741)	(46,741)
		<b>27,438</b>	<b>-</b>	<b>-</b>	<b>196,975</b>	<b>224,413</b>
<b>Balance at 30 June 2017</b>		<b>59,145</b>	<b>8,834</b>	<b>11</b>	<b>664,627</b>	<b>732,617</b>
<b>Balance at 1 July 2015</b>		<b>31,419</b>	<b>1,866</b>	<b>-</b>	<b>352,377</b>	<b>385,662</b>
(Loss) / profit for the year		-	(179)	-	44,165	43,986
Other comprehensive income / (loss)	15	-	-	(22)	(4,949)	(4,971)
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>(179)</b>	<b>(22)</b>	<b>39,216</b>	<b>39,015</b>
Issue of stapled securities through distribution reinvestment plan		288	-	-	2,569	2,857
Distributions provided for or paid	17	-	-	-	(29,184)	(29,184)
		<b>288</b>	<b>-</b>	<b>-</b>	<b>(26,615)</b>	<b>(26,327)</b>
<b>Balance at 30 June 2016</b>		<b>31,707</b>	<b>1,687</b>	<b>(22)</b>	<b>364,978</b>	<b>398,350</b>

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 30 June 2017

Attributable to unitholders of the National Storage Property Trust Group

	Notes	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
<b>Balance at 1 July 2016</b>		<b>299,760</b>	<b>64,433</b>	<b>227</b>	<b>(6,448)</b>	<b>357,972</b>
Profit for the year		-	96,266	-	-	96,266
Other comprehensive income	15	-	-	5	6,403	6,408
<b>Total comprehensive income</b>		<b>-</b>	<b>96,266</b>	<b>5</b>	<b>6,403</b>	<b>102,674</b>
Issue of stapled units through institutional and retail placement		233,646	-	-	-	233,646
Issue of stapled units through distribution reinvestment plan		8,106	-	-	-	8,106
Issue of stapled units through vendor scrip issue		7,572	-	-	-	7,572
Costs associated with issue of units		(5,608)	-	-	-	(5,608)
Distributions provided for or paid	17	-	(46,741)	-	-	(46,741)
		<b>243,716</b>	<b>(46,741)</b>	<b>-</b>	<b>-</b>	<b>196,975</b>
<b>Balance at 30 June 2017</b>		<b>543,476</b>	<b>113,958</b>	<b>232</b>	<b>(45)</b>	<b>657,621</b>
<b>Balance at 1 July 2015</b>		<b>297,191</b>	<b>49,452</b>	<b>-</b>	<b>(1,272)</b>	<b>345,371</b>
Profit for the year		-	44,165	-	-	44,165
Other comprehensive income / (loss)	15	-	-	227	(5,176)	(4,949)
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>44,165</b>	<b>227</b>	<b>(5,176)</b>	<b>39,216</b>
Issue of units through distribution reinvestment plan		2,569	-	-	-	2,569
Distributions provided for or paid	17	-	(29,184)	-	-	(29,184)
		<b>2,569</b>	<b>(29,184)</b>	<b>-</b>	<b>-</b>	<b>(26,615)</b>
<b>Balance at 30 June 2016</b>		<b>299,760</b>	<b>64,433</b>	<b>227</b>	<b>(6,448)</b>	<b>357,972</b>

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 30 June 2017

	Notes	Consolidated Group		NSPT Group	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Operating activities</b>					
Receipts from customers		125,923	85,676	42,205	30,613
Payments to suppliers and employees		(61,355)	(36,546)	(2,465)	(2,083)
Interest received		683	155	52	79
Income tax paid		(155)	-	(155)	-
<b>Net cash flows from operating activities</b>	10.1	<b>65,096</b>	<b>49,285</b>	<b>39,637</b>	<b>28,609</b>
<b>Investing activities</b>					
Purchase of investment properties		(141,958)	(145,597)	(135,159)	(132,425)
Proceeds on sale of investment property		1,600	-	1,600	-
Acquisition of subsidiary and property portfolio, net of cash acquired	5	(303,081)	-	(273,138)	-
Return of capital on dissolution of joint venture	13	9,950	-	9,950	-
Improvements to investment properties		(5,571)	(3,801)	(342)	(462)
Purchase of property, plant and equipment	11.3	(900)	(1,164)	-	-
Purchase of intangible assets		(364)	(739)	-	-
Investments in associate and joint venture	13	(3,330)	(6,660)	(913)	-
<b>Net cash flows used in investing activities</b>		<b>(443,654)</b>	<b>(157,961)</b>	<b>(398,002)</b>	<b>(132,887)</b>
<b>Financing activities</b>					
Proceeds from issue of stapled securities	14	260,000	-	233,646	-
Transaction costs on issue of stapled securities		(6,249)	-	(5,608)	-
Distributions paid to stapled security holders		(28,947)	(25,572)	(28,947)	(25,860)
Proceeds from borrowings		409,291	160,469	408,041	140,669
Repayment of borrowings		(210,580)	-	(190,780)	-
Financing provided to joint venture	18	(5,625)	-	-	-
Payment of finance lease liabilities		(12,494)	(12,800)	-	-
Financing provided to related party		-	-	(41,745)	-
Interest and other finance costs paid		(17,105)	(9,537)	(16,897)	(9,070)
<b>Net cash flows from financing activities</b>		<b>388,291</b>	<b>112,560</b>	<b>357,710</b>	<b>105,739</b>
Net increase / (decrease) in cash and cash equivalents		9,733	3,884	(655)	1,461
Net foreign exchange difference		59	(4)	36	44
Cash and cash equivalents at 1 July		13,374	9,494	9,367	7,862
<b>Cash and cash equivalents at 30 June</b>	10.1	<b>23,166</b>	<b>13,374</b>	<b>8,748</b>	<b>9,367</b>

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

### 1. CORPORATE INFORMATION

National Storage REIT ("the Consolidated Group" or "NSR") is a joint quotation of National Storage Holdings Limited ("NSH" or "the Company") and its controlled entities ("NSH Group") and National Storage Property Trust ("NSPT" or "the Trust") and its controlled entities ("NSPT Group") on the Australian Securities Exchange ("ASX").

The Constitutions of NSH and NSPT ensure that, for so long as the two entities remain jointly quoted, the number of shares in the Company and the number of units in the Trust shall be equal and that the shareholders and unitholders be identical. Both the Company and the Responsible Entity (National Storage Financial Services Limited) of the Trust must at all times act in the best interest of NSR. The stapling arrangement will continue until either the winding up of the Company or the Trust, or termination by either entity.

The financial report of NSR for the year ended 30 June 2017 was approved on 22 August 2017, in accordance with a resolution of the Board of Directors of NSH.

The financial report of NSPT for the year ended 30 June 2017 was approved on 22 August 2017, in accordance with a resolution of the Board of National Storage Financial Services Limited as the Responsible Entity for NSPT.

The nature of the operations and principal activities of the Consolidated Group are described in the Directors' Report.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian accounting standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements have been prepared on a historical cost basis, except for selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Both NSH and NSPT are for-profit entities for the purpose of preparing the financial statements. The financial statements are presented in Australian Dollars ("AUD") and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

The accounting policies applied by NSH Group and the NSPT Group in these financial statements are the same as the 30 June 2016 financial statements except for the accounting policies impacted by new or amended accounting standards detailed in this note.

In this note reference to "the Group" or "Group" is used to refer to the Consolidated Group and the NSPT Group, unless otherwise indicated. The Group has elected to utilise ASIC Corporations (Stapled Group reports) Instruments 2015/838 and present the NSPT Group within the financial statements of NSR. In some circumstances the categorisation of prior year comparative figures has been adjusted to conform to changes in presentation for the current financial year.

#### Deficiency of net current assets

As at 30 June 2017, the Consolidated Group had an excess of current liabilities over current assets of \$6m.

Accounting standard AASB 140 *Investment Property* requires the financial lease liability to be split between current and non-current while the corresponding asset is classed as non-current. The Directors believe the excess value of the total investment property over the finance lease liability reflects the positive position in both the immediate and long-term and that sufficient cash inflows from operations will occur to enable all liabilities to be paid when due.



Current liabilities also include deferred revenue of \$11.6m associated with prepaid storage rentals which are not expected to result in a significant cash outflow. The Consolidated Group also has available funding facilities beyond 12 months of \$61.8m (see note 16).

On this basis, the financial report has been prepared on a going concern basis as the Directors of NSH believe the Consolidated Group will continue to generate operating cash flows to meet all payment obligations.

#### (b) Compliance with IFRS

The consolidated financial statements of the Consolidated Group and the NSPT Group comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

#### (c) Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as detailed below.

The following new and amended standards relevant to the Group's activities have been adopted for the reporting period commencing 1 July 2016.

Reference	Title	Application date of standard	Application date for Group
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (AASB 1 and AASB 11)	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	1 January 2016	1 July 2016
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	1 January 2016	1 July 2016
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 July 2016
AASB 2015-5	Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception	1 January 2016	1 July 2016

Adoption of these standards have had no material impact in the presentation or disclosures within the financial statements and are not likely to affect future periods.

#### Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and interpretations relevant to the Group's operations, that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2017 are outlined in the following table.

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 is a new standard which replaces AASB 139. AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. This includes new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. The new rules should make it easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>On adoption of AASB 9, the Group expects no material changes in the classification of financial assets and liabilities. The Group already adopts hedge accounting under AASB139 for interest rate swaps designated as a cash flow hedge and a net investment hedge against foreign currency risk. The new standard does not materially change the amounts recognised in relation to existing arrangements but will simplify the requirements for measuring hedge effectiveness and eligibility for applying hedge accounting. AASB9 is expected to have no notable impact on the financial risk and capital management structure adopted by the Group as detailed in notes 16 and 17. The introduction of the expected loss impairment model for determining any provision on trade receivables and other financial assets is not expected to have a material impact on the Group's results.</p>	1 January 2018	1 July 2018
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations.</p> <p>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by</p>	1 January 2018	1 July 2018

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
AASB 16	Leases	<p>applying the following steps:  Step 1: Identify the contract(s) with a customer  Step 2: Identify the performance obligations in the contract  Step 3: Determine the transaction price  Step 4: Allocate the transaction price to the performance obligations in the contract  Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>To date, the Group's focus has been on evaluating the impact of AASB 15 on revenue from storage rent which in the current year represents 90% of total revenue. The Group has reviewed the performance obligations under AASB 15 and revenue recognition in this area is expected to be unchanged under the new standard.</p> <p>The Group also recognises revenue from the sale of goods and services. AASB 15 includes additional guidance to determine an entity's role as either principal or agent. It can occur in some cases that some revenue streams will no longer qualify as a principal under the new guidance, but instead generate commission revenue from their agent activities. Each of the revenue streams in this category will be reviewed in the upcoming financial year. Any adjustment is likely to be one of presentation and the Group is currently quantifying any impact of this change.</p> <p>Within other revenue, the Group also recognises revenue from design, development and project management fees based upon the achievement of contractual project milestones. AASB 15 requires the separation of performance obligations within a contract and recognition of revenue when a customer obtains control of a good or service. Depending on management's assessment of the separation or combination of performance standards under AASB 15 there could be changes in timing of revenue recognition. The Group is currently quantifying any impact of this change.</p>	1 January 2019	1 July 2019
		AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for leases of 'low-value' assets and short-term leases with a term of 12 months or less. At		

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>The Group has conducted a provisional assessment of the impact of the new standard. The standard removes the distinction between operating leases and finance leases and requires that, where a lease is identified in a contract, a right-of-use asset and lease liability is recognised. The Group anticipates that adoption is likely to result in the majority of arrangements currently accounted for as operating leases being recognised in the consolidated statement of financial position as right-of-use assets and liabilities. The Group's current commitments under operating leases are detailed in note 19. Due to the relative size of these commitments to the Group's total assets, adoption of AASB16 is not expected to have a material impact on the Group's financial statements. The Group's leasehold investment properties will continue to be accounted for under AASB140 and will be unaffected by the application of AASB16.</p>	1 January 2018	1 July 2018
		<p>AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p>		
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other	<p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> <li>AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration</li> <li>AASB 12 Disclosure of Interests in Other</li> </ul>	1 January 2018	1 July 2018



Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
	Amendments	<p>Entities – clarification of scope</p> <ul style="list-style-type: none"> <li>AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value</li> <li>AASB 140 Investment Property – change in use.</li> </ul>		
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1 January 2018	1 July 2018
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	This standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 July 2017
IFRIC 23	Uncertainty over Income Tax Treatments	<p>The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> <li>Whether an entity considers uncertain tax treatments separately</li> <li>The assumptions an entity makes about the examination of tax treatments by taxation authorities</li> <li>How an entity determines taxable profit, tax bases, unused tax losses, unused tax credits and tax rates</li> <li>How an entity considers changes in facts and circumstances.</li> </ul>	1 January 2019	1 July 2019

### Basis of consolidation

The Financial Report of NSR as at 30 June 2017 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

The consolidated financial statements of NSPT as at 30 June 2017 comprises the consolidated financial statements of the NSPT Group.

The financial statements for the Consolidated Group are prepared on the basis that NSH was the acquirer of NSPT. The non-controlling interest is attributable to stapled security holders presented separately in the statement of comprehensive income and within equity in the statement of financial position, separately from parent shareholders' equity.

### Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power to direct the activities of the entity.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control. The acquisition method of accounting is used to account for business combinations (see note 2 (g)).

Intercompany transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of all subsidiaries are consistent with the policies adopted by the Group.

Non-controlling interests are shown separately in the consolidated statement of profit or loss, statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in

a separate reserve within equity attributable to owners of the parent entity.

### Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method. The Consolidated Group has an associate investment that is accounted for using the equity method.

### Joint arrangements

Under AASB 11 *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Consolidated Group and NSPT have investments in joint ventures that are accounted for using the equity method.

### Equity method

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the consolidated statement of profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of associates or joint ventures.

The financial statements of the associate and joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit or loss of joint ventures and associates' in the consolidated statement of profit or loss. Upon loss of significant influence over an associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### (d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its material revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

##### *Rental and storage revenue*

Revenue from the provision of storage space is recognised less any amount contractually refundable to customers over the term of the general agreement. The value of discounts offered to customers at the end of an incentive period is recognised on a straight-line basis over the same period.

In the NSPT Group, rental income from investment properties is recognised on a straight-line basis over the lease term and is included in revenue in the consolidated statement of profit or loss.

##### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer, usually on delivery of the goods.

##### *Interest income*

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

##### *Other revenue*

Design, development, and project management fees are recognised on the fulfillment of contractual conditions, and the achievement of project milestones. Other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### (e) Taxes

The Consolidated Group comprises taxable and non-taxable entities. A liability for current and deferred tax expense is only recognised in respect of taxable entities that are subject to income tax.

Under current Australian income tax legislation trusts within the NSPT Group are not liable to Australian income tax provided securityholders are presently entitled to the taxable income of the trusts and the trusts distribute their taxable income. NSPT's subsidiary National Storage New Zealand Property Trust ("NSNZPT") is an Australian registered trust which owns investment property in New Zealand. For New Zealand tax purposes NSNZPT is classed as a unit trust and is subject to New Zealand income tax.

##### *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### *Deferred tax*

Deferred tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint arrangements, when the timing of the reversal of temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax liabilities in relation to freehold investment property measured at fair value is determined assuming the property value will be recovered entirely through a sale.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability

that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary difference will not reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right to offset current tax assets and liabilities exists and when the deferred tax balances relate to the same taxation authority.

##### *Tax consolidation legislation*

NSH and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements. Accounting for the tax consolidation legislation is only relevant for the individual financial statements of the parent entity (head entity) in the tax consolidated group, but not for the consolidated financial statements.

##### *Goods and services tax ("GST")*

Revenue, expenses, assets, and liabilities are recognised net of the amount of GST, except:



- When the GST incurred on a sale or purchase of assets is not payable or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or expense item or part of the cost of acquisition of the asset, as applicable.
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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

#### (f) Foreign currencies

The Group's consolidated financial statements are presented in Australian dollars. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

##### *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

#### (g) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in business combination expenses in the statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

#### (h) Leases

The determination of whether an arrangement is a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Consolidated Group leases properties which are classified as investment properties (note 11.4). The Consolidated Group also leases office premises and items of plant and equipment. The NSPT Group does not have any finance leases for investment properties or property, plant and equipment.

##### *Leased investment properties and property, plant and equipment*

Leases of investment property and property, plant and equipment, where the group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Leasehold investment property and property, plant and equipment finance leases are capitalised at the lease's inception at the fair value of the leased property.

The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at fair value. Changes in value are presented in profit or loss.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

##### *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 19). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.



NSPT Group as lessor

Lease income from operating leases where the group is a lessor is recognised in revenue less any amount contractually refundable to customers over the term of lease.

#### (i) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and term deposits as defined above.

#### (j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (see note 10.2 for further information about the Group's accounting for trade receivables and note 16 for a description of the group's impairment policies).

#### (k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

#### (l) Financial assets

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

All financial assets are recognised initially at fair value, plus in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

##### Subsequent measurement

*Financial assets at fair value through profit or loss*  
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and other operational expenses for receivables.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate, less impairment.

##### *Available-for-sale financial assets*

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group currently has no available-for-sale financial assets.

##### Derecognition

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. When

securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

##### Impairment

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

##### *Financial assets carried at amortised cost*

For loans and receivables and held to maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

##### *Assets classified as available for sale*

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as

available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

#### (m) Derivatives and hedging activities

The Group uses derivative financial instruments, such as interest rate swaps and a net investment hedge to hedge its foreign currency and interest rate risks.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 10.8. Movements in the hedging reserve in equity are shown in note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading

derivatives are classified as a current asset or liability.

#### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

#### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as a cash flow hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within finance income or finance costs.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). On reclassification, the gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance costs. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any

cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

#### *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### **(n) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component asset is derecognised when replaced. All repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Leasehold improvements - remaining length of lease term
- Plant and equipment - 2.5 to 20 years

Each asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (note 2(q)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

### **(o) Investment properties**

#### *Freehold investment properties*

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

Fair values are determined by a combination of independent valuations and Director valuations. The independent valuations are performed by an accredited independent valuer. Investment properties are independently valued on a rotational basis every three years, unless the underlying financing requires or the Directors determine a more frequent valuation cycle. For properties subject to an independent valuation report the Directors verify all major inputs to the valuation and review the results with the independent valuer. The Director valuations are completed by the NSH Group Board. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to property, plant and equipment the deemed cost for subsequent accounting is the fair value at the date of change in use. If property, plant and equipment becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### *Leasehold investment properties*

The NSH Group, as lessee, has properties under operating leases that, in accordance with AASB 140 Investment Property, qualify for treatment as investment properties. Under this treatment, for each property, the present value of the minimum lease payments is determined and carried as a lease liability as if it were a finance

lease and the fair value of the lease to the NSH Group is recorded each period as investment property under an operating lease.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined using the same valuation process applied to freehold investment property.

Lease payments are allocated between the principal component of the lease liability and interest expense so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognised in finance costs in the consolidated statements of profit and loss and within payment of finance lease liabilities within the consolidated statements of cash flows.

### **(p) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as



the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives, such as goodwill, are not amortised but are tested for impairment at each reporting period, either individually or at the CGU level. The assessment of indefinite life is reviewed at each reporting period to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in other operational expenses. During the period of development, the asset is tested for impairment annually.

#### **(q) Impairment of assets**

Goodwill and 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 of disposal 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 have been impaired in previous periods are reviewed for possible reversal of the impairment at the end of each reporting period.

#### **(r) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Payables to related parties are carried at the principal amount. No interest is charged on these payables.

#### **(s) Interest bearing loans and borrowings**

Interest bearing loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Interest bearing loans and 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 interest bearing loans and 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.

Interest bearing loans and borrowings are removed from the balance sheet when the

obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Interest bearing loans and borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### **(t) Borrowing costs**

Borrowing costs are recognised as an expense when incurred unless they relate to the acquisition, construction or production of a qualifying asset or to upfront borrowing establishment and arrangement costs, which are deferred and amortised as an expense over the life of the facility. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

#### **(u) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

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 period. 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.

Neither the Consolidated Group nor the NSPT Group have any provision for legal claims.

In accordance with lease agreements, the Consolidated Group must restore the leased premises in a number of leasehold premises to its original condition at lease expiry. A provision has been recognised for the obligation to remove leasehold improvements from the leased premises (note 11.7).

The Consolidated Group has also recognised an onerous lease provision related to future lease payments payable on former head office premises no longer occupied by the Group.

#### **(v) Employee benefits**

##### *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, and accumulating annual leave which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

##### *Other long-term employee benefits obligations*

The Group does not expect its long service leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to previous experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on the applicable corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

##### *Retirement benefit obligations*

All employees can direct the Group to make contributions to a defined contribution plan of their choice. Contributions to defined contribution superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### **(w) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Group and the NSPT Group.



Stapled securities are classified as equity. Incremental costs directly attributable to the issue of securities are shown in equity as a deduction, net of tax, from the proceeds.

#### (x) Dividends and distribution to securityholders

The Consolidated Group and the NSPT Group recognise a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and is no longer at the discretion of the Company or the Responsible Entity. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity. Any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

#### (y) Rounding of amounts

The Company and NSPT are 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 to the nearest thousand dollars, or in certain cases, the nearest dollar.

#### (z) Parent entity financial information

The financial information for the parent entities, NSH and NSPT, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

##### *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the financial statements of NSH and NSPT.

##### *Tax consolidation legislation*

NSH and its wholly-owned entities have implemented the tax consolidation legislation. The head entity, NSH, and the controlled entities that are 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 tax payer in its own right. In addition to its own current and deferred tax amounts, NSH 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 NSH for any current tax payable assumed and are compensated by NSH for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to NSH 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. 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 Consolidated Group.

#### (aa) Fair value measurement

The Consolidated Group and the NSPT Group measure financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value

measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For further details on fair value refer to notes 10.8 and 11.8.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Consolidated Group's and the NSPT Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

## Judgements

In the process of applying the Consolidated Group's and the NSPT Group's accounting policies, management has made the following judgements, which have a significant effect on the amounts recognised in the consolidated financial statements:

#### *Significant judgements*

##### *Classification of joint arrangement*

During the year, the NSPT Group acquired a 25% interest in the Bundall Storage Trust, and the NSH Group acquired a 25% interest in the Bundall Commercial Trust. These investments have been classified as a joint venture as both trusts are subject to a Securityholders Agreement that has been contractually structured such that the parties to the agreement have equal representation on the advisory board responsible for the overall direction and supervision of each trust.

##### *Deferred income tax*

Deferred tax assets are recognised by the Consolidated Group for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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 the level of future taxable profits together with future tax planning strategies.

## Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Assumptions and estimates are based on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about the future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

##### *Revaluation of investment properties*

The Consolidated Group and NSPT Group carries its investment properties at fair value, with

changes in fair value being recognised in the statement of profit or loss under fair value adjustments. Fair values are determined by a combination of independent valuations assessed on a rotational basis and Director valuations, determined using the same techniques and similar estimates to those applied by the independent valuer. The key assumptions used to determine the fair value of the properties and the sensitivity analyses are provided in note 11.8.

*Impairment of non-financial assets – intangibles*

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the fair value of the Consolidated Group's stapled securities as listed on the Australian Securities Exchange which has been assessed as one CGU, less costs of disposal.

The value in use calculation is based on a discounted cash flow model. The cash flows are

derived from the budget for the next five years and do not include restructuring activities that the Consolidated Group is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

*Development costs*

The Consolidated Group capitalises development costs for a project in accordance with the Group's accounting policy. Initial capitalisation of costs is based on management's judgement that economic feasibility is confirmed, usually when a product development project has reached a defined milestone. In determining the amounts to be capitalised, management makes assumptions regarding the expected future economic benefits of the project.

#### 4. SEGMENT INFORMATION

The Consolidated Group has identified its operating segments based on the internal management information used by the Group's executive management team, the Consolidated Group's chief decision makers.

The Consolidated Group operates wholly within one business segment being the operation and management of storage centres in Australia and New Zealand. The operating results presented in the statements of profit or loss represent the same segment information as reported to the Group's executive management team. The Group's financing is managed on a Group basis and not allocated to operating segments.

##### Geographic information

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Revenue from external customers</b>				
Australia	110,669	77,002	48,250	33,559
New Zealand	6,833	2,748	4,519	1,481
<b>Total</b>	<b>117,502</b>	<b>79,750</b>	<b>52,769</b>	<b>35,040</b>

The revenue information above is based on the location of storage centres.

##### Geographic information

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Non-current operating assets</b>				
Australia	1,302,454	822,801	1,020,559	578,103
New Zealand	74,895	53,107	68,552	51,429
<b>Total</b>	<b>1,377,349</b>	<b>875,908</b>	<b>1,089,111</b>	<b>629,532</b>

Non-current assets for this purpose consists of property, plant and equipment, investment properties and intangible assets.

The Consolidated Group has no individual customer which represents greater than 10% of total revenue.

## 5. BUSINESS COMBINATIONS

### Business combination and acquisition of Southern Cross Storage Group

On 30 August 2016, National Storage (Operations) Pty Ltd, a subsidiary of the Consolidated Group acquired 100% of the share capital of Southern Cross Storage Operations Pty Ltd. National Storage Property Trust and National Storage Southern Trust, subsidiaries of both the Consolidated Group and NSPT Group, acquired the investment properties of Southern Cross Storage Trust.

The assets and liabilities assumed as part of this transaction constitute those of a business. On this basis, the Consolidated Group has determined that this transaction meets the definition of a Business Combination and accounted for this transaction following the requirements of AASB 3.

The acquisition secured long term ownership of strategically important assets which were complementary to the Consolidated Group and NSPT Group's pre-existing property portfolio and already integrated into the Consolidated Group's operating platform.

Prior to completion the Consolidated Group and NSPT Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in a joint venture (see note 13).

### Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities acquired of the Southern Cross Storage Group as at the date of acquisition were:

	Notes	Consolidated Group \$'000
<b>Assets</b>		
Investment properties		267,096
Cash and cash equivalents		1,261
Trade and other receivables		219
Inventories		138
Deferred tax asset		1,039
Other current assets		241
		<u>269,994</u>
<b>Liabilities</b>		
Trade and other payables		(6,639)
Deferred revenue		(2,681)
Provisions		(364)
		<u>(9,684)</u>
<b>Total identifiable net assets at fair value</b>		<u><b>260,310</b></u>
Goodwill arising on acquisition	11.5	30,195
<b>Purchase consideration transferred</b>		<u><b>290,505</b></u>

The goodwill of \$30.2m represents the premium attached to a portfolio purchase of investment properties and the expected synergies arising from the acquisition.

From the date of acquisition Southern Cross Storage Operations Pty Ltd contributed \$23.1m of revenue and \$2.2m of profit before tax to the Consolidated Group. From the date of acquisition National Storage Property Trust and National Storage Southern Trust received \$11.4m of rental income from Southern Cross Storage Operations Pty Ltd which contributed to revenue and profit before tax of the Consolidated Group and NSPT Group.

If the combination had taken place at the beginning of the period, revenue for the Consolidated Group would have been \$122m. Due to the terms and conditions agreed at inception of the venture, on wind up the Group achieved a management performance fee equal to the profit of Southern Cross for the period 1 July 2016 to the date of acquisition. Therefore, profit before tax for the Consolidated Group would have been unchanged.

	Consolidated Group \$'000
<b>Purchase consideration</b>	
Cash and cash equivalents	290,505
<b>Total consideration</b>	<u>290,505</u>
<b>Analysis of cash flows on acquisition</b>	
Transaction costs of the acquisition (included in cash flows from investing activities)	13,837
Net cash acquired with the subsidiary (included in acquisition of subsidiary and property portfolio, net of cash acquired per statement of cashflows)	(1,261)
	<u>303,081</u>

The acquisition had no elements of contingent consideration.

The Consolidated Group incurred transaction costs of \$13.8m which were expensed and are included within business combination costs in the income statement.

## 6. OTHER REVENUE

	Notes	Consolidated Group		NSPT Group	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Other revenue</b>					
Interest revenue	8	853	155	52	79
Design, development and project management fees		1,630	1,239	-	-
Other revenue		2,206	1,131	206	67
<b>Total other revenue</b>		<u>4,689</u>	<u>2,525</u>	<u>258</u>	<u>146</u>



## 7. EXPENSES AND OTHER INCOME

		Consolidated Group		NSPT Group	
	Notes	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Other operational expenses</b>					
Insurance		1,894	839	-	-
Professional fees		1,353	562	310	39
Communications costs		1,259	946	-	-
Information technology costs		924	637	-	-
Bank charges		701	468	-	-
Motor vehicle expenses		373	247	-	-
Depreciation of non-current assets	11.3	309	310	-	-
Amortisation of intangible assets	11.5	266	261	-	-
Other		888	483	17	-
<b>Total other operational expenses</b>		<b>7,967</b>	<b>4,753</b>	<b>327</b>	<b>39</b>
<b>Employee expenses</b>					
Wages and salaries		17,635	11,978	-	-
Post-employment benefits		1,621	1,084	-	-
Other employee costs		3,216	2,398	-	-
<b>Total employee expenses</b>		<b>22,472</b>	<b>15,460</b>	<b>-</b>	<b>-</b>
<b>Minimum lease payments recognised as an operating lease expense</b>					
		459	323	-	-
<b>Fair value adjustments</b>					
<b>Investment property – net gain</b>	11.4	<b>76,803</b>	<b>10,025</b>	<b>73,975</b>	<b>15,531</b>

## 8. FINANCE INCOME AND EXPENSES

		Consolidated Group		NSPT Group	
	Notes	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Finance income</b>					
Bank interest		715	155	52	79
Interest income from related parties		138	-	-	-
<b>Total finance income</b>	6	853	155	52	79
<b>Finance costs</b>					
Interest on interest bearing loans and borrowings		15,345	7,546	15,137	7,011
Finance charges on finance leases		8,815	8,241	-	-
<b>Total finance costs</b>		24,160	15,787	15,137	7,011

## 9. INCOME TAX

Under current Australian tax legislation, NSPT is not liable to pay income tax provided its taxable income and taxable realised gains are fully distributed to unit holders. NSPT's subsidiary National Storage New Zealand Property Trust ("NSNZPT") is an Australian registered trust which owns investment property in New Zealand. For New Zealand tax purposes NSNZPT is classed as a unit trust and is subject to New Zealand income tax at a rate of 28%. Future distributions from NSNZPT to NSPT may have attached Foreign Income Tax Offsets, which when subsequently distributed by NSPT may be claimed by an Australian tax resident, depending on their personal circumstances.

The major components of income tax expense / (benefit) for the years ended 30 June 2017 and 30 June 2016 are:

		Consolidated Group		NSPT Group	
	Notes	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Consolidated statement of profit or loss</b>					
Current tax		1,548	152	317	152
Deferred tax		2,620	(402)	359	13
Total income tax expense / (benefit)		4,168	(250)	676	165
<b>Consolidated statement of other comprehensive income</b>					
<i>Deferred tax relating to items recognised in other comprehensive income during the year</i>					
Net gain / (loss) on revaluation of cash flow hedges	15	24	(74)	24	(74)
Deferred tax charged to other comprehensive income		24	(74)	24	(74)
<b>Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2017 and 2016:</b>					
Profit from continuing operations		107,581	43,736	96,942	44,330
Deduct profit before tax from Trusts owning Australian property		(96,248)	(45,579)	(96,248)	(45,579)
Accounting profit / (loss) before income tax		11,333	(1,843)	694	(1,249)
Tax at the Australian tax rate of 30% (2016 – 30%)		3,400	(553)	208	(375)
Non-assessable income		(240)	-	-	-
Adjustments in respect of previous years		27	(241)	(41)	-
Other non-deductible expenses		581	514	510	514
Derecognition of previously recognised tax losses		371	-	-	-
Effect of lower tax rates in New Zealand		29	30	(1)	26
<b>Income tax expense / (benefit)</b>		<b>4,168</b>	<b>(250)</b>	<b>676</b>	<b>165</b>

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax expense included in income tax expense / (benefit) comprises:</b>				
(Increase) / decrease in deferred tax assets	(63,626)	(44,680)	39	(110)
Increase in deferred tax liabilities	66,458	44,204	344	49
Deferred tax assets acquired in business combinations	1,039	-	-	-
Movement of deferred tax asset on carry forward losses shown in current tax expense	(1,232)	-	-	-
Exchange variations	5	-	-	-
Movement in deferred tax asset recognised in other comprehensive income	(24)	74	(24)	74
<b>Total deferred tax expense / (benefit)</b>	<b>2,620</b>	<b>(402)</b>	<b>359</b>	<b>13</b>
<b>Deferred tax assets and liabilities</b>				
<b>Deferred tax assets</b>				
<i>The balance comprises temporary differences attributable to:</i>				
Lease liability	181,333	117,536	-	-
Employee benefits	620	623	-	-
Accrued expenses	602	179	-	7
Carry forward losses	1,973	2,462	-	-
Formation expenses	10	177	-	-
Make-good provision	164	70	-	-
Revaluation of cash flow hedges	50	74	50	74
Other	31	36	21	29
<b>Total deferred tax assets</b>	<b>184,783</b>	<b>121,157</b>	<b>71</b>	<b>110</b>
<b>Deferred tax liabilities</b>				
<i>The balance comprises temporary differences attributable to:</i>				
Prepayments	9	217	-	-
Other receivables	47	-	-	-
Revaluations of investment properties	187,555	120,944	391	42
Unrealised foreign exchange losses	15	7	2	7
<b>Total deferred tax liabilities</b>	<b>187,626</b>	<b>121,168</b>	<b>393</b>	<b>49</b>
<b>Net deferred tax (liability) / asset</b>	<b>(2,843)</b>	<b>(11)</b>	<b>(322)</b>	<b>61</b>
<b>Reconciliation to statement of financial position</b>				
Deferred tax asset	525	125	-	61
Deferred tax liability	(3,368)	(136)	(322)	-
<b>Net deferred tax (liability) / asset</b>	<b>(2,843)</b>	<b>(11)</b>	<b>(322)</b>	<b>61</b>

The Consolidated Group offsets tax assets and liabilities if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax asset and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Consolidated Group has total gross tax losses which arose in Australia of \$12,456,902 (2016: \$8,041,665). These losses are available for offsetting against future taxable profits of the NSH Australian tax group. These losses are subject to the satisfaction of the same business test and a reduced rate of utilisation under the 'available fraction' rules. The Consolidated Group has assessed the expected utilisation profile of these tax losses and has recognised a deferred tax asset of \$1,418,148 on NSH Australian group tax losses of \$4,727,160 on the basis it is probable that there will be sufficient future

taxable profits in the Group against which this deferred tax asset will be recovered. The NSH Australian group also has gross tax losses of \$7,729,742 for which a deferred tax asset has not been recognised, as the future utilisation of these losses is more uncertain.

The Consolidated Group has gross tax losses of NZD \$2,070,495 (AUD \$1,981,879) (2016: NZD \$193,799 (AUD: \$178,464)). These losses are available indefinitely for offsetting against future taxable profits of National Storage Limited which arose in New Zealand. The Group has assessed the expected utilisation profile of these tax losses and has recognised a deferred tax asset of NZD \$579,739 (AUD: \$554,926) (2016: NZD \$54,264) (AUD: \$49,970)). The NSPT Group has no tax losses that are available for offsetting against future taxable profits of the NSPT Group (2016: none).

## 10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

This note provides information about the Consolidated Group's and the NSPT Group's current and non-current financial instruments including:

- an overview of all financial instruments held by both groups
- specific information about each type of financial instrument
- information about determining the fair value of the instruments, including areas of judgement, estimates and other assumptions.

The Consolidated Group and the NSPT Group hold the following financial instruments:

		Consolidated Group		NSPT Group	
		2017	2016	2017	2016
	Notes	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>					
<i>At amortised cost</i>					
Cash and cash equivalents	10.1	23,166	13,374	8,748	9,367
Trade and other receivables	10.2	11,450	7,549	58,756	9,224
Other assets *	10.3	631	970	-	199
		<b>35,247</b>	<b>21,893</b>	<b>67,504</b>	<b>18,790</b>
<i>Derivatives used for hedging – at fair value through other comprehensive income</i>					
Other assets	10.3	3,328	-	3,328	-
<b>Total financial assets</b>		<b>38,575</b>	<b>21,893</b>	<b>70,832</b>	<b>18,790</b>
<b>Financial liabilities</b>					
<i>At amortised cost</i>					
Trade and other payables	10.4	8,778	6,198	642	4,095
Interest-bearing loans and borrowings	10.5	481,770	284,526	480,520	264,726
Finance leases	10.7	168,355	178,248	-	-
		<b>658,903</b>	<b>468,972</b>	<b>481,162</b>	<b>268,821</b>
<i>Derivatives used for hedging – at fair value through other comprehensive income</i>					
Other liabilities	10.6	3,425	6,522	3,425	6,522
<b>Total financial liabilities</b>		<b>662,328</b>	<b>475,494</b>	<b>484,587</b>	<b>275,343</b>

\*Excluding prepayments

Other liabilities for the Consolidated Group and NSPT Group include a distribution payable of \$23.6m (2016: \$14.8m) not included in the table above.

The Consolidated Group and NSPT Group's approach to financial risk management is discussed in note 16. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset mentioned above.

### 10.1. Cash and cash equivalents

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Current assets</b>				
Cash on hand	41	30	-	-
Cash at bank	23,125	13,344	8,748	9,367
<b>Total cash and cash equivalents</b>	<b>23,166</b>	<b>13,374</b>	<b>8,748</b>	<b>9,367</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

### Cash flow reconciliation of net profit after tax to net cash flows from operations

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Profit after income tax	103,413	43,986	96,266	44,165
Income tax expense / (benefit)	4,168	(250)	676	165
Profit before tax	107,581	43,736	96,942	44,330
<i>Adjustments to reconcile profit before tax to net cash flows:</i>				
Depreciation and amortisation	309	310	-	-
Amortisation of intangible assets	266	261	-	-
Impairment of assets included within restructuring and other non-recurring costs	633	-	-	-
Fair value adjustment to investment properties	(76,803)	(10,025)	(73,975)	(15,531)
Share of profit of joint venture	(2,110)	(1,732)	(1,509)	(1,732)
Finance income	(853)	(155)	(52)	(79)
Finance costs	24,160	15,787	15,137	7,011
Business combination costs	13,837	-	13,536	-
<i>Changes in operating assets and liabilities:</i>				
Increase in receivables	(3,518)	(3,357)	(10,587)	(7,985)
Increase in inventories	(89)	(73)	-	-
(Increase) / decrease in other assets	(991)	-	119	-
Increase in payables	879	2,614	50	2,457
Increase in deferred revenue	1,178	1,326	79	59
Increase in provisions	89	438	-	-
<b>Cash flows from operating activities</b>	<b>64,568</b>	<b>49,130</b>	<b>39,740</b>	<b>28,530</b>
Interest received	683	155	52	79
Income tax paid	(155)	-	(155)	-
<b>Net cash flows from operating activities</b>	<b>65,096</b>	<b>49,285</b>	<b>39,637</b>	<b>28,609</b>

### 10.2. Trade and other receivables

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Current</b>					
Trade receivables		2,291	1,517	-	-
Provision for doubtful debts		(42)	-	-	-
		2,249	1,517	-	-
Other receivables		2,390	2,095	319	285
Receivables from related parties	18	6,701	3,717	58,437	8,939
		11,340	7,329	58,756	9,224
<b>Non-current</b>					
Other receivables		110	220	-	-
<b>Total current and non-current</b>		<b>11,450</b>	<b>7,549</b>	<b>58,756</b>	<b>9,224</b>

### Classification as trade and other receivables

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

### Impairment of receivables

The provision for impairment (doubtful debts) of receivables represents an estimate of trade debtors that are not considered to be recoverable. At 30 June 2017 the Consolidated Group recognised a provision for trade receivables relating to receivables acquired on the purchase of investment properties and via a business combination where there are specific risks around recoverability. At 30 June 2016 the Consolidated Group recognised no provision for trade receivables. As at 30 June 2017 and 30 June 2016 the NSPT Group had no trade receivables and therefore recognised no provision. See below for the movements in the provision for impairment of receivables in the Consolidated Group.

	2017	2016
	\$'000	\$'000
<b>At 1 July</b>	-	-
Charge for the year	-	-
Recognised on acquisition of investment properties / business combination	238	-
Utilised	(196)	-
<b>At 30 June</b>	<b>42</b>	<b>-</b>

The age of trade receivables not impaired was as follows:

	2017	2016
	\$'000	\$'000
0 to 3 months	1,570	1,236
3 to 6 months	331	232
Over 6 months	348	49
	2,249	1,517

The carrying amounts of current receivables are assumed to be the same as their fair values, due to their short-term nature. The fair value of non-current receivables approximates carrying value.



### 10.3. Other assets

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Deposits	631	970	-	199
Prepayments	3,678	1,773	7	7
	4,309	2,743	7	206
<b>Non-current</b>				
Financial assets (derivatives)	3,328	-	3,328	-
<b>Total current and non-current</b>	7,637	2,743	3,335	206

All derivatives have been designated as cash flow hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period. The derivatives above relate to interest rate swaps held by the Consolidated Group and NSPT Group, for further details see note 10.5.

### 10.4. Trade and other payables

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Current</b>					
Trade payables		530	403	-	-
Accrued expenses		5,951	2,615	537	2,003
GST and employment taxes payable		1,301	935	77	-
Other payables		996	2,245	28	1,707
Related party payables	18	-	-	-	385
<b>Total</b>		8,778	6,198	642	4,095

Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables and accruals are paid when amounts fall due. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

### 10.5. Interest-bearing loans and borrowings

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Non-current</b>				
Bank finance facility	484,615	286,073	483,365	266,273
Non-amortised borrowing costs	(2,845)	(1,547)	(2,845)	(1,547)
<b>Total interest-bearing loans and borrowings</b>	481,770	284,526	480,520	264,726

The Consolidated Group and NSPT Group has non-current borrowing facilities denominated in Australian Dollars ("AUD") and New Zealand Dollars ("NZD").

The major terms of these agreements are as follows:

- The facility limits are AUD \$455m (2016: \$280m) and NZD \$96m (AUD \$91.5m) (2016: NZD \$46m (AUD \$44m) of which AUD \$417.5m (2016: \$242.1m), and NZD \$70.5m (AUD \$67.2m) (2016: NZD \$46m (AUD \$44m)) was drawn at the year end.
- Maturity dates on the facilities range from 23 December 2019 to 23 December 2026 (2016: 23 December 2019 to 23 July 2023).
- All facilities are interest only facilities with any drawn balances payable at maturity.
- Security has been granted over the Consolidated Group's owned and leased storage centre properties.

The Consolidated Group has a bank overdraft facility with a limit of \$3m that was undrawn at 30 June 2017 and 30 June 2016. During the year, the Consolidated Group and NSPT Group refinanced part of the existing debt portfolio via an institutional term loan.

The Consolidated Group and the NSPT Group have complied with the financial covenants of their borrowing facilities during the 2017 and 2016 reporting periods (see note 17). The fair value of interest bearing loans and borrowings approximates carrying value. Details of the exposure to risk arising from current and non-current interest bearing loans and borrowings are set out in note 16.

### Interest rate swaps

The Consolidated Group and NSPT Group have AUD \$410m (2016: \$140m), and NZD \$53.5m (AUD \$50.1m) (2016: NZD \$23.5m (AUD \$22.5m)) of current and future interest rate hedges in place as at the end of the reporting period with maturity dates ranging from 22 December 2017 to 23 September 2026 (2016: 23 December 2016 to 23 December 2024).

Under this arrangement the Consolidated Group and the NSPT Group pay a fixed rate of interest of 2.29% (2016: 3.05%) and receive interest at a variable rate equal to BBSY plus a margin on the notional amount. The swaps are used to hedge the exposure to changes in cash flows arising from its secured variable interest rate loan and has been designated as a cash flow hedge, recognised through other comprehensive income.

### Hedge of net investments in foreign operations

Included in interest bearing loans and borrowings at 30 June 2017 was a borrowing of NZD \$23.1m (AUD \$22m) which has been designated as a hedge of the net investments against the value of investment property held in New Zealand (2016: NZD \$13m, (AUD \$12.4m)). This borrowing is being used to hedge the Group's exposure to the NZD foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness in the years ended 30 June 2017 or 30 June 2016.

### 10.6. Other liabilities

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Current</b>					
Distribution payable	17	23,594	14,803	23,594	14,803
Financial liabilities (derivatives)	10.8	166	-	166	-
<b>Total current</b>		23,760	14,803	23,760	14,803
<b>Non-current</b>					
Financial liabilities (derivatives)	10.8	3,259	6,522	3,259	6,522
<b>Total current and non-current</b>		27,019	21,325	27,019	21,325

For details on the classification of derivatives see note 10.3.

## 10.7. Finance leases

The Consolidated Group has finance leases for investment. These leases have terms of renewal but no purchase options. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments are as follows:

	2017		2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated Group</b>				
Within one year	12,885	4,504	13,694	4,425
After one year but not more than five years	53,240	22,800	57,708	23,896
More than five years	241,941	141,051	249,973	149,927
Minimum lease payments	308,066	168,355	321,375	178,248
Future finance charges	(139,711)	-	(143,127)	-
<b>Recognised as a liability/present value of minimum lease payments</b>	<b>168,355</b>	<b>168,355</b>	<b>178,248</b>	<b>178,248</b>

The NSPT Group's investment properties are leased to entities within the NSH Group under long-term finance leases (see note 11.4).

## 10.8. Financial instruments fair value measurement

### Fair value hierarchy

This note explains the judgements and estimates made in determining the fair values of the financial instruments recognised in the financial statements, as detailed in notes 10.1 to 10.7. To provide an indication about the reliability of the inputs used in determining fair value, financial instruments are classified into the following three levels.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for any financial assets held is the current bid price. These instruments are included in level 1.

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

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific fair valuation techniques used to determine fair values include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, adjusted for counterparty or own credit risk.

The resulting fair value estimates for interest rate swaps are included in level 2.

	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Consolidated Group and NSPT Group</b>					
<b>At 30 June 2017</b>					
<i>Derivative used for hedging - interest rate swap</i>					
Non-current financial assets	10.3	-	3,328	-	3,328
Current financial liabilities	10.6	-	(166)	-	(166)
Non-current financial liabilities	10.6	-	(3,259)	-	(3,259)
		-	(97)	-	(97)

### Consolidated Group and NSPT Group At 30 June 2016

*Derivative used for hedging - Interest rate swap*

Non-current financial liabilities	10.6	-	(6,522)	-	(6,522)
-----------------------------------	------	---	---------	---	---------

There were no transfers between levels of fair value hierarchy during the year ended 30 June 2017.

## 11. NON-FINANCIAL ASSETS AND LIABILITIES

This note provides information about the Consolidated Group's and the NSPT Group's non-financial assets and liabilities including:

- an overview of all non-financial assets and liabilities held by both groups
- specific information about each type of non-financial asset and non-financial liability
- information about determining the fair value of the non-financial assets and liabilities, including areas of judgement, estimates and other assumptions.

### 11.1. Inventories

	Consolidated Group		NSPT Group	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Finished goods - at lower of cost and net realisable value</b>	<b>600</b>	<b>373</b>	<b>-</b>	<b>-</b>

### 11.2. Assets held for sale

	Notes	Consolidated Group		NSPT Group	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Current assets</b>					
Opening balance at 1 July		-	-	-	-
Items reclassified from freehold investment property	11.4	5,713	-	5,713	-
<b>Total assets held for sale</b>		<b>5,713</b>	<b>-</b>	<b>5,713</b>	<b>-</b>

On 19 October 2016, the Consolidated Group and NSPT Group entered into a contractual agreement for the sale of the land and buildings of the Croydon self-storage centre for \$5.8m, less cost of sale of \$0.1m.

This has resulted in an unrealised gain of \$0.8m from the assets' carrying value within freehold investment property at 30 June 2016. This has been included within fair value adjustments in the statement of profit or loss. The transaction is expected to settle in February 2018.

As a result of the transaction the asset has been reclassified from investment property to current assets held for sale.

### 11.3. Property, plant and equipment

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
At cost	1,748	2,589	-	-
Accumulated depreciation	(519)	(905)	-	-
<b>Total property, plant and equipment</b>	<b>1,229</b>	<b>1,684</b>	<b>-</b>	<b>-</b>

Reconciliation of the carrying amounts for each class of property, plant and equipment at the beginning and end of the current financial period are shown below:

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Plant and equipment</b>					
Carrying amount at beginning of the year		1,684	832	-	-
Additions		900	1,164	-	-
Items reclassified as investment property	11.4	(464)	-	-	-
Depreciation		(309)	(310)	-	-
Impairment of assets on restructuring*		(592)	-	-	-
Effect of movement in foreign exchange		10	(2)	-	-
<b>Carrying amount at end of the year</b>		<b>1,229</b>	<b>1,684</b>	<b>-</b>	<b>-</b>

\*Presented within restructuring costs in the consolidated statements of profit or loss.

Plant and equipment under finance lease arrangements included in the totals noted above are as follows:

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Leasehold plant and equipment at cost	-	51	-	-
Accumulated depreciation	-	(26)	-	-
Carrying amount	-	25	-	-

### 11.4. Investment properties

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Investment properties at valuation</b>					
Leasehold investment properties	11.8	226,955	218,430	-	-
Freehold investment properties	11.8	1,101,860	625,700	1,087,048	621,030
<b>Investment property at cost</b>					
Freehold investment property under construction		2,063	-	2,063	-
<b>Total investment properties</b>		<b>1,330,878</b>	<b>844,130</b>	<b>1,089,111</b>	<b>621,030</b>
<b>Leasehold investment properties</b>					
Opening balance at 1 July		218,430	125,304	-	-
Property acquired through business combinations*	5	10,809	-	-	-
Other property acquisitions		8,317	83,241	-	-
Improvements to investment properties		497	1,431	-	-
Items reclassified from freehold investment properties		1,200	-	-	-
Items reclassified to freehold investment properties		(4,303)	(5,715)	-	-
Reassessment of lease terms		(10,823)	19,675	-	-
Finance lease diminution, presented as fair value adjustments		(3,586)	(4,559)	-	-
Other fair value adjustments		6,414	(947)	-	-
<b>Closing balance at 30 June</b>		<b>226,955</b>	<b>218,430</b>	<b>-</b>	<b>-</b>
<b>Freehold investment properties at valuation</b>					
Opening balance at 1 July		625,700	467,100	621,030	465,293
Property acquired through business combinations	5	260,900	-	259,602	-
Other property acquisitions		140,497	132,645	140,730	137,437
Property disposals		(1,600)	-	(2,800)	-
Improvements to investment properties		4,736	2,370	422	462
Items reclassified to leasehold investment properties		(1,200)	-	-	-
Items reclassified from leasehold investment properties		4,303	5,715	-	-
Items reclassified from property, plant and equipment	11.3	464	-	-	-
Items reclassified to assets held for sale	11.2	(5,713)	-	(5,713)	-
Net gain from fair value adjustments		73,975	15,531	73,975	15,531
Effect of movement in foreign exchange		(202)	2,339	(198)	2,307
<b>Closing balance at 30 June</b>		<b>1,101,860</b>	<b>625,700</b>	<b>1,087,048</b>	<b>621,030</b>
<b>Freehold investment property under construction at cost</b>					
Opening balance at 1 July		-	-	-	-
Property acquisitions		2,063	-	2,063	-
<b>Closing balance at 30 June</b>		<b>2,063</b>	<b>-</b>	<b>2,063</b>	<b>-</b>



	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Gains for the year in profit or loss (recognised in fair value adjustments)</b>				
Realised gains	750	-	750	-
Unrealised gains	76,053	10,025	73,225	15,531
	76,803	10,025	73,975	15,531

\*Represents acquisition of leasehold investment property of \$6,196,000 plus net gross up of \$4,613,000 relating to the adoption of investment property accounting under AASB 140.

Included within net gain from fair value adjustment for freehold investment properties is a realised gain of \$750,000 and an unrealised gain of \$779,000 relating to the contracted divestment of self-storage centres during the period. As a result of this divestment one investment property has been reclassified to assets held for sale and is recorded at fair value within current assets (see note 11.2).

#### Leasing arrangements

Leasehold and freehold investment properties are held for lease to customers requiring self-storage facilities and are carried at fair value. These are largely leased to customers under a short-term lease with most rentals payable monthly in advance. Most leases can be terminated by either party giving not less than seven days' notice. Changes in fair value are presented in profit or loss under fair value adjustments. Information about the valuation of leasehold investment properties is provided in note 11.8.

The NSPT Group's investment properties are leased to entities within the NSH Group under long-term finance leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	NSPT Group	
	2017	2016
	\$'000	\$'000
Within one year	57,392	42,415
Later than one year but not later than five years	167,517	123,229
Later than five years	389,751	158,505
<b>Total</b>	<b>614,660</b>	<b>324,149</b>

#### 11.5. Intangible assets

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Goodwill</b>					
Opening net book value		13,759	13,759	-	-
Arising through business combinations	5	30,195	-	-	-
Closing net book value		43,954	13,759	-	-
<b>Other intangible assets</b>					
Opening net book value		889	411	-	-
Additions		1,000	739	-	-
Amortisation	7	(266)	(261)	-	-
Impairment		(41)	-	-	-
Closing net book value		1,582	889	-	-
<b>Total intangible assets</b>		<b>45,536</b>	<b>14,648</b>	<b>-</b>	<b>-</b>

Goodwill is an asset acquired through business combinations. As described in note 5, during the period the Consolidated Group recognised \$30.2m of goodwill on the acquisition of Southern Cross Storage Group.

#### Impairment testing of goodwill

Goodwill has been allocated to the listed group (NSR). Management have determined that the listed group, which is considered one operating segment (see note 4), is the appropriate CGU against which to allocate these intangible assets owing to the synergies arising from combining the portfolios of the NSH Group, NSPT Group, and Southern Cross Storage Group.

The recoverable amount of the listed group has been determined based on the fair value less costs of disposal method using the fair value quoted on an active market. As at 30 June 2017 NSR had 512,913,914 stapled securities quoted on the Australian Securities Exchange at \$1.51 per security providing a market capitalisation of \$774.5m. This amount is in excess of the carrying amount of the Consolidated Group's net assets. Had the security price decreased by 5% the market capitalisation would still have been in excess of the carrying amount.

#### 11.6. Deferred revenue

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Deferred rent revenue</b>	<b>11,585</b>	<b>7,726</b>	<b>138</b>	<b>59</b>

In the Consolidated Group, deferred rent revenue represents funds received in advance from customers for rental storage. In the NSPT Group, deferred rent revenue relates to rental income received in advance from sub-tenants within investment properties.

#### 11.7. Provisions

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Current</b>					
Onerous operating lease		353	-	-	-
Annual leave		1,069	1,072	-	-
Long service leave		766	678	-	-
		2,188	1,750	-	-
<b>Non-current</b>					
Make good provision		1,030	990	-	-
Onerous operating lease		67	-	-	-
Long service leave		234	326	-	-
		1,331	1,316	-	-
<b>Reconciliation of movement in make good provisions</b>					
Opening balance		990	223	-	-
Arising on business combination	5	364	-	-	-
Arising on acquisition of leasehold investment properties		-	757	-	-
Provision raised		-	10	-	-
Unwinding of discount and changes in discount rates		(324)	-	-	-
<b>Closing balance</b>		<b>1,030</b>	<b>990</b>	<b>-</b>	<b>-</b>

payments payable on former head office premises no longer occupied by the Group

The Consolidated Group is required to restore the leased premises in a number of leasehold properties to their original condition at the end of lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

#### 11.8. Non-financial assets fair value measurement

The group has classified its non-financial assets into the three levels prescribed in note 10.8 to provide an indication about the reliability of inputs used to determine fair value.

	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Consolidated Group</b>					
<b>At 30 June 2017</b>					
Assets held for sale	11.2	-	5,713	-	5,713
Leasehold investment properties	11.4	-	-	226,955	226,955
Freehold investment properties	11.4	-	-	1,101,860	1,101,860
		-	5,713	1,328,815	1,334,528
<b>At 30 June 2016</b>					
Leasehold investment properties	11.4	-	-	218,430	218,430
Freehold investment properties	11.4	-	-	625,700	625,700
		-	-	844,130	844,130
<b>NSPT Group</b>					
<b>At 30 June 2017</b>					
Assets held for sale	11.2	-	5,713	-	5,713
Leasehold investment properties	11.4	-	-	-	-
Freehold investment properties	11.4	-	-	1,087,048	1,087,048
		-	5,713	1,087,048	1,092,761
<b>At 30 June 2016</b>					
Leasehold investment properties	11.4	-	-	-	-
Freehold investment properties	11.4	-	-	621,030	621,030
		-	-	621,030	621,030

#### Recognised fair value measurements

The Consolidated Group's and the NSPT Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. During the year ended 30 June 2017 the Consolidated Group and NSPT Group transferred \$5.7m from level 3 to level 2 following the reclassification of an asset from freehold investment properties to assets held for sale as detailed in note 11.2.

In the year ended 30 June 2016 there were no transfers in and out of level 3.

#### Fair value measurements using significant observable inputs (level 2)

The fair value of assets held for sale is determined using valuation techniques which maximise the use of observable market data. For the year ended 30 June 2017, the Consolidated Group and NSPT has valued assets classified at held for sale at the contractually agreed sales price less estimated cost of sale.

#### Fair value measurements using significant unobservable inputs (level 3)

#### Valuation techniques used to determine level 3 fair values and valuation process

Investment properties, principally storage buildings, are held for rental to customers requiring self-storage facilities. They are carried at fair value. Changes in fair values are presented in profit or loss as fair value adjustments.

Fair values are determined by a combination of independent valuations and Director valuations. The independent valuations are performed by an accredited independent valuer. Investment properties are independently valued on a rotational basis every three years unless the underlying financing requires a more frequent valuation cycle. For properties subject to an independent valuation report the Directors verify all major inputs to the valuation and review the results with the independent valuer. The Director valuations are completed by the NSH Group Board. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

In previous financial years, independent valuations were obtained at both 31 December and 30 June financial reporting periods. For the 2017 financial year, the Consolidated Group and NSPT Group have elected to obtain independent valuations for a proportion of the portfolio at 30 June financial year end. This is consistent with the valuation cycle applied by other real estate investment trusts.

The Directors' valuations are applied to all investment properties which have not been valued by an independent valuer in the preceding 12 months. The carrying value of investment properties which have been independently valued within this timescale have been maintained at the independent valuation, unless there is evidence of impairment.

The table below details the percentage of the number of investment properties subject to internal and external valuations during the current and comparable reporting periods

	Consolidated Group		NSPT Group	
	External valuation %	Internal valuation %	External valuation %	Internal valuation %
<b>Year ended 30 June 2017</b>				
Leasehold	15%	85%	-	-
Freehold	38%	62%	38%	62%
<b>Year ended 30 June 2016</b>				
Leasehold	50%	50%	-	-
Freehold	24%	76%	24%	76%

The Consolidated Group and NSPT Group also obtained external valuations on 12 freehold investment properties and 1 leasehold property acquired during the reporting period. These external valuations provide the basis of the Directors valuations applied to these properties at 30 June 2017. Including these valuations, 57% of freehold investment properties, and 31% of leasehold properties were subject to external valuations during the year.

#### Valuation inputs and relationship to fair value

Description	Valuation technique	Significant unobservable inputs	Range at 30 June 2017	Range at 30 June 2016
Investment properties - leasehold	Capitalisation method	Primary capitalisation rate	9% to 26%	9% to 26%
		Secondary capitalisation rate	9% to 26%	10% to 28%
		Sustainable occupancy	76% to 93%	73% to 92%
		Stabilised average EBITDA	\$489,073	\$446,015
Investment properties - freehold	Capitalisation method	Primary capitalisation rate	7% to 10%	7% to 11%
		Secondary capitalisation rate	7% to 12%	8% to 12%
		Sustainable occupancy	75% to 95%	73% to 96%
		Stabilised average EBITDA	\$947,512	\$949,054

Under the income capitalisation method, a property's fair value is estimated based on the stabilised average earnings before interest, tax, depreciation and amortisation ("EBITDA") generated by the

property, which is divided by the capitalisation rate (the investor's required rate of return). The capitalisation rate is derived from recent sales of similar properties.

The primary capitalisation rate is used to discount future cashflows to present value based upon an investment property's current occupancy and EBITDA. The secondary capitalisation rate is used to discount to present value additional cashflows generated at sustainable occupancy and stabilised average EBITDA. The secondary capitalisation rate is typically higher than the primary capitalisation rate to reflect the additional risk associated with these cashflows.

The capitalisation rate adopted reflects the inherent risk associated with the property. For example, if the lease expiry profile of a particular property is short, the capitalisation rate is likely to be higher to reflect additional risk to income. The higher capitalisation rate then reduces the valuation of the property.

The stabilised average EBITDA is derived from a property's revenues less property operating expenses adjusted for items such as average lease up costs, long-term vacancy rates, forecast non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items. Generally, an increase in stabilised average EBITDA will result in an increase in fair value of an investment property. An increase in the vacancy rate will result in a reduction of the stabilised average EBITDA.

Investment properties are valued on a highest and best use basis. The current use of all of the investment properties (self-storage) is considered to be the highest and best use.

The following tables present the sensitivity of the fair values of investment property to changes in input assumptions.

At 30 June 2017:

Unobservable inputs	Leasehold		Freehold	
	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000
Primary capitalisation rate	1% / (1%)	(3,200) / 5,290	1% / (1%)	(107,140) / 139,950
Secondary capitalisation rate	2% / (2%)	(1,220) / 3,320	2% / (2%)	(31,860) / 50,320
Sustainable occupancy	5% / (5%)	9,210 / (5,290)	5% / (5%)	102,400 / (78,350)
Stabilised average EBITDA	5% / (5%)	2,210 / (2,720)	5% / (5%)	46,080 / (46,350)

At 30 June 2016:

Unobservable inputs	Leasehold		Freehold	
	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000
Primary capitalisation rate	1% / (1%)	(3,247) / 4,008	1% / (1%)	(53,627) / 69,302
Secondary capitalisation rate	2% / (2%)	(1,266) / 1,458	2% / (2%)	(15,431) / 23,979
Sustainable occupancy	5% / (5%)	2,606 / (2,498)	5% / (5%)	25,048 / (24,765)
Stabilised average EBITDA	5% / (5%)	1,515 / (1,715)	5% / (5%)	21,965 / (21,765)

## 12. INFORMATION RELATING TO SUBSIDIARIES

### The holding entities

The ultimate holding company of the NSH Group is National Storage Holdings Limited. The holding entity of the NSPT Group is National Storage Property Trust. These two entities are domiciled in Australia and through a stapling agreement are jointly quoted on the ASX.

The consolidated financial statements of the NSH Group as at 30 June 2017 include:

Name of controlled entity	Place of incorporation	Equity interest	
		2017	2016
National Storage (Operations) Pty Ltd	Australia	100%	100%
National Storage Financial Services Limited	Australia	100%	100%
Wine Ark Pty Ltd	Australia	100%	100%
Southern Cross Storage Operations Pty Ltd*	Australia	100%	10%
National Storage Investments Pty Ltd	Australia	100%	100%
National Storage Limited	New Zealand	100%	100%

\*Acquired on 30 August 2016

The consolidated financial statements of the NSPT Group include:

Name of Controlled Entity	Place of domicile	Equity interest	
		2017	2016
National Storage Investment Trust	Australia	100%	100%
National Storage Victorian Property Trust	Australia	100%	100%
National Storage New Zealand Property Trust*	Australia	100%	100%
National Storage Southern Trust	Australia	100%	100%
NS APAC Trust**	Australia	0%	100%

\*NSNZPT is an Australian registered trust which holds investment property in New Zealand

\*\*NS APAC Trust was dissolved on 31 March 2017.

### Joint ventures and associates

The NSH Group holds a 24.9% interest in the Australia Prime Storage Fund (2016: 24.9%).

The NSH Group holds a 25% interest in the Bundall Commercial Trust (2016: nil)

The NSPT Group holds a 25% interest in the Bundall Storage Trust (2016: nil)

## 13. INTEREST IN JOINT VENTURES AND ASSOCIATES

	Consolidated Group		NSPT Group	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Opening balance at 1 July	15,101	6,709	8,441	6,709
Capital contribution / acquisition of shareholding in associate	1,350	-	-	-
Acquisition of shareholding in joint venture	1,980	6,660	913	-
Share of profit from associate and joint ventures	2,110	1,732	1,509	1,732
Return of capital on dissolution of joint venture	(9,950)	-	(9,950)	-
<b>Closing balance at 30 June</b>	<b>10,591</b>	<b>15,101</b>	<b>913</b>	<b>8,441</b>

### Interest in an associate

The Consolidated Group holds a 24.9% holding in the Australia Prime Storage Fund ("APSF"). APSF is a partnership with Universal Self Storage to facilitate the development and ownership of multiple premium



grade self-storage centres in select cities around Australia. During the year the Consolidated Group invested a further \$1.4m in units of APSF as part of a capital raise conducted by the fund to finance further development opportunities. As a result of this investment the Consolidated Group's holding remained at 24.9%.

APSF is in the process of developing multiple storage centres in Australia, the first two of which opened during the financial year ended 30 June 2017. Once open the storage centres operate under the National Storage brand and are managed by National Storage (Operations) Pty Ltd. In the year ended 30 June 2017 National Storage (Operations) Pty Ltd earned fees of \$389,000 from APSF associated with the design, development, financing of the construction process, and ongoing management of centres (see note 18).

The associate had no contingent liabilities or capital commitments at 30 June 2017 or 30 June 2016.

### Investment in joint ventures

As described in note 5, on 30 August 2016, the Consolidated Group purchased the share capital of Southern Cross Storage Operations Pty Ltd and the investment properties of Southern Cross Storage Trust. Prior to completion the Consolidated Group and NSPT Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Storage Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in the joint venture.

During the year, the NSPT Group acquired a 25% interest in the Bundall Storage Trust, and the NSH Group acquired a 25% interest in the Bundall Commercial Trust. Following this investment, the Bundall Storage Trust and Bundall Commercial Trust purchased land in the Gold Coast, Queensland. The land is proposed to be developed for the construction of a storage centre and upgrade to existing commercial units. Neither the Bundall Storage Trust and Bundall Commercial Trust are listed on any public exchange. These investments have been classified as a joint venture as both trusts are subject to a Securityholders Agreement that has been contractually structured such that the parties to the agreement have equal representation on the advisory board responsible for the overall direction and supervision of each trust.

The Bundall Storage Trust and Bundall Commercial Trust had no contingent liabilities or capital commitments at 30 June 2017.

## 14. CONTRIBUTED EQUITY

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Issued and paid up capital</b>				
Ordinary shares	59,145	31,707	-	-
Units	-	-	543,476	299,760
	<u>59,145</u>	<u>31,707</u>	<u>543,476</u>	<u>299,760</u>

Number of stapled securities on Issue				
	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	No. of stapled securities	No. of stapled securities	No. of units	No. of units
<b>Opening balance at 1 July</b>	336,422,143	334,456,409	336,422,143	334,456,409
Institutional and retail placement	164,557,412	-	164,557,412	-
Distribution reinvestment plan	6,144,051	1,965,734	6,144,051	1,965,734
Scrip issue on investment property acquisition	5,790,308	-	5,790,308	-
<b>Closing balance at 30 June</b>	<u>512,913,914</u>	<u>336,422,143</u>	<u>512,913,914</u>	<u>336,422,143</u>

As at 30 June 2017 and 30 June 2016 the number of stapled securities on issue were equivalent to the number of issued NSH shares and NSPT units. The issued units of NSPT are not owned by NSH and therefore are shown under non-controlling interest in the statement of financial position.

### Capital raise

During the year the Consolidated Group undertook a fully underwritten \$260m equity raising, comprising a \$101m institutional placement and a \$159m pro-rata accelerated non-renounceable entitlement offer of new stapled securities in NSR. This resulted in the issue of 164,557,412 new stapled securities.

### Distribution reinvestment plan

During the year 6,144,051 (2016: 1,965,734) stapled securities were issued to security holders participating in the Consolidated Group's Distribution Reinvestment Plan for consideration of \$9m (2016: \$2.8m). The stapled securities were issued at the volume weighted average market price of the Group's stapled securities over a period of 10 trading days commencing on and including the 15<sup>th</sup> trading day prior to the distribution payment date less a 2% discount.

### Scrip issue on investment property acquisition

During the year 5,790,308 stapled securities were issued as part of the consideration payable for the acquisition of freehold investment property. The amount of consideration that was paid by the way of stapled securities was \$8.4m. The stapled securities were issued at the volume weighted average market price of the Consolidated Group's stapled securities over a period of 10 trading days commencing on 8 June 2017 less a 2.5% discount.

## Terms and conditions of contributed equity

### Stapled securities

A stapled security represents one share in NSH and one unit in NSPT. Stapled securityholders have the right to receive declared dividends from NSH and distributions from NSPT and are entitled to one vote per stapled security at securityholders' meetings. Holders of stapled securities can vote their shares and units in accordance with the Corporations Act 2001, either in person or by proxy, at a meeting of either NSH or NSPT. The stapled securities have no par value.

In the event of the winding up of NSH and NSPT, stapled securityholders have the right to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on stapled securities held. Ordinary stapled securityholders rank after all creditors in repayment of capital.

### Units

Each unit represents a right to an individual unit in NSPT per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the NSPT.

### Security buy-back

There is no current on or off market buy-back.

## 15. OTHER RESERVES

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Foreign currency translation reserve</b>				
Opening balance at 1 July	(22)	-	227	-
Net Investment hedging	-	-	(103)	(724)
Foreign exchange translation differences	33	(22)	108	951
Closing balance at 30 June	11	(22)	232	227
<b>Cash flow hedge reserve</b>				
Opening balance at 1 July	-	-	(6,448)	(1,272)
Revaluation of derivatives	-	-	6,427	(5,250)
Taxation impact on revaluation	-	-	(24)	74
Closing balance at 30 June	-	-	(45)	(6,448)
<b>Other reserves</b>	11	(22)	187	(6,221)

Taxation impact on revaluation applies only to cash flow hedges held in NSNZPT, a sub-trust of NSPT, which is subject to New Zealand tax legislation. Deferred tax does not apply to any other cash flow hedges held in the NSPT Group under current Australian tax legislation.

The hedging reserve is used to record gains or losses on derivatives that are designated as cash flow hedges and recognised in other comprehensive income, as described in note 2(m). Amounts are reclassified to profit or loss in the period when the associated hedged transaction takes place.

The cash flow hedge is included in non-controlling interest in the Consolidated Group and is not classified within other reserves.

## 16. FINANCIAL RISK MANAGEMENT

This note outlines the Consolidated Group's and NSPT Group's exposure to financial risks and how these risks could affect future financial performance.

The Consolidated Group's and the NSPT 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 business. Both Groups use derivative financial instruments such as interest rate swaps to hedge certain market risk exposures.

Risk management for the Consolidated Group and the NSPT Group is carried out by the NSH Board and key management personnel of NSH. The Board of Directors of NSH analyses, on behalf of the Consolidated Group and NSPT Group, interest rate exposure and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts.

## Derivatives

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Consolidated Group and the NSPT Group have the following derivative financial instruments:

		Consolidated Group		NSPT Group	
	Notes	2017	2016	2017	2016
		\$'000	\$'000	\$'000	\$'000
<b>Interest rate swaps designated as cash flow hedges presented in:</b>					
Non-current assets	10.3	3,328	-	3,328	-
Current liabilities	10.6	(166)	-	(166)	-
Non-current liabilities	10.6	(3,259)	(6,522)	(3,259)	(6,522)
Net liability		(97)	(6,522)	(97)	(6,522)

### Classification of derivatives

All derivatives have been designated as cash hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

The Consolidated Group's and NSPT Group's accounting policy for cash flow hedges is set out in note 2(m). For hedged forecast transactions that result in the recognition of a non-financial asset, the Groups have elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

### Fair value measurement

For information about the methods and assumptions used in determining fair values of derivatives refer to note 10.8.

## Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: interest rate risk, currency risk and other price risk, such as equity price and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

The sensitivity analysis in the following sections relate to the position as at 30 June in 2017 and 30 June 2016. The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of debt and derivatives and the proportion of financial instruments in foreign currencies are all constant on the basis of hedge designations in place at 30 June 2017.

The analysis excludes the impact of movements in market variables on provisions and the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating sensitivity analysis:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets held at 30 June 2017 and 30 June 2016 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign subsidiary at 30 June 2017 for the effects of the assumed changes of the underlying risk.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Consolidated Group's and the NSPT Group's exposure to the risk of changes in market interest rates relate primarily to their long-term debt obligations with floating interest rates.

The Consolidated Group and the NSPT Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. To manage this, the Group enter into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2017, after taking into account the effect of interest rate swaps, 55.3% (2016: 41.8%) of the Consolidated Group's and 55.5% (2016: 44.9%) of the NSPT Group's borrowings are at a fixed rate of interest.

### Interest rate sensitivity

The following table demonstrates the sensitivity to a possible change in interest rates on the portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Consolidated Group's and the NSPT Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Consolidated Group		NSPT Group	
	Increase/ decrease in basis points	Effect on profit before tax \$'000	Increase/ decrease in basis points	Effect on profit before tax \$'000
<b>2017</b>				
Australian dollar dominated debt	+50	(992)	+50	(982)
New Zealand dollar dominated debt	+50	(212)	+50	(212)
Australian dollar dominated debt	-50	992	-50	982
New Zealand dollar dominated debt	-50	212	-50	212
<b>2016</b>				
Australian dollar dominated debt	+50	(660)	+50	(561)
New Zealand dollar dominated debt	+50	(180)	+50	(180)
Australian dollar dominated debt	-50	660	-50	561
New Zealand dollar dominated debt	-50	180	-50	180

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

## Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Consolidated Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency), and the Group's net investment in foreign subsidiaries. The NSPT exposure to the risk of changes in foreign exchange rates relates primarily to the Group's net investment in foreign subsidiaries.

The Consolidated Group and the NSPT Group hedges its exposure to fluctuations on the translation into Australian dollars of its foreign operations by holding net borrowings in foreign currencies.

### Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in New Zealand Dollar exchange rate with all other variables held constant. The impact on the Consolidated Group's and the NSPT Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The impact on the Consolidated Group's and the NSPT Group's pre-tax equity is due to net investment hedges.

	Change in NZD rate	Consolidated Group Effect on profit before tax \$'000	Effect on pre-tax equity \$'000	NSPT Group Effect on profit before tax \$'000	Effect on pre-tax equity \$'000
<b>2017</b>	+5%	52	(494)	(7)	(465)
	-5%	(58)	481	8	514
<b>2016</b>	+5%	9	452	27	441
	-5%	(10)	(500)	(30)	(487)

The movement in the pre-tax effect is a result of a change in the fair value of the monetary assets and liabilities denominated in NZD, where the functional currency of the entity is a currency other than NZD.

The movement in pre-tax equity arises from changes in NZD borrowings (net of cash and cash equivalents) in the hedge of net investments in New Zealand operations and cash flow hedges. These movements will offset the translation of New Zealand operations' net assets into AUD.

## Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Consolidated Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and other financial instruments. The NSPT Group has the same risk as the Consolidated Group except that trade receivables predominantly relate to the Consolidated Group entities, National Storage (Operations) Pty Ltd and National Storage Limited.

### Trade receivables

The exposure to credit risk for trade and other receivables is influenced mainly by the individual characteristics of each customer. The Consolidated Group's customer credit risk is managed by requiring customers to pay monthly rentals in advance. The Directors are of the opinion that customer credit risk is reduced through a contractual lien over the contents stored in the rented units. The terms of the storage agreement provide for the auction of the customer's stored contents to recover any unpaid amounts. Outstanding customer receivables are regularly monitored and any credit concerns highlighted to senior management.

At 30 June 2017 and 30 June 2016 the Consolidated Group has no significant concentrations of credit risk with respect to trade receivables, whether through exposure to individual customers, specific industry sectors and/or regions within Australia and New Zealand. As at 30 June 2017 a provision of \$42,000 has been recognised relating to the increased credit risk associated with customer balances acquired via the acquisition of investment properties which were not subject to the same terms and conditions as the Consolidated Group's storage agreement.

The NSPT Group's customer credit risk is managed by renting the majority of properties to the NSH Group entities: National Storage (Operations) Pty Ltd, Southern Cross Storage Operations Pty Ltd, and National Storage Limited. Other non-related parties also have rented facilities at some NSPT investment properties. These rental revenues are not significant compared with related party rental revenues and overall credit risk is considered low.

The Consolidated Group's and the NSPT Group's maximum exposure to credit risk, is the carrying amount of those assets as indicated in the statement of financial position. For a summary of the exposure to credit risk relating to receivables at the end of the financial year refer to note 10.2.



#### Cash and cash equivalents

The Consolidated Group's and the NSPT Group's credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum exposure to credit risk for the components of the statement of financial position at 30 June 2017 and 30 June 2016 is the carrying amounts as indicated in the statement of financial position.

#### Guarantees

Credit risk also arises in relation to financial guarantees given to certain parties (refer to notes 19, 22, and 23). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

#### Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, the group will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions. NSH on behalf of the Consolidated Group and the NSPT Group has established a number of policies and processes for managing liquidity risk. These include:

- Continuously monitoring cash flows on a daily basis as well as forecasting cash flows on a medium and long-term basis.
- Monitoring the maturity profiles of financial assets and liabilities in order to match inflows and outflows.
- Maintaining adequate reserves and support facilities.
- Monitoring liquidity ratios and all constituent elements of working capital.
- Maintaining adequate borrowing and finance facilities.

#### Financing arrangements

The Consolidated Group and the NSPT Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Floating rate</b>				
Expiring within one year (bank overdraft)	3,000	3,000	3,000	3,000
Expiring within one year (loans)	-	-	-	-
Expiring beyond one year (loans)	61,844	137,920	61,844	137,290
	64,844	140,920	64,844	140,290

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. All other secured bank loans may be drawn at any time and is subject to an annual review. Further details of the bank loans are detailed in note 10.5 and note 17.

#### Maturity of financial liabilities

The tables below summarises the maturity profile of the Consolidated Group and NSPT Group's financial liabilities based on contractual undiscounted payments.

As amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments, these balances will not necessarily agree with the amounts disclosed on the statement of financial position.

	On demand \$'000	Less than 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Consolidated Group</b>						
<b>At 30 June 2017</b>						
<i>Non-derivatives</i>						
Trade and other payables	201	8,577	-	-	-	8,778
Interest bearing loans and borrowings	-	4,339	12,876	357,119	196,932	571,266
Finance leases	-	3,191	9,695	53,240	241,941	308,067
Distribution payable	-	23,594	-	-	-	23,594
<b>Total non-derivatives</b>	201	39,701	22,571	410,359	438,873	911,705
<i>Derivatives</i>						
Inflows	-	-	(70)	(1,445)	(2,215)	(3,730)
Outflows	-	410	937	2,136	344	3,827
<b>Total derivatives</b>	-	410	867	691	(1,871)	97
	201	40,111	23,438	411,050	437,002	911,802
<b>At 30 June 2016</b>						
<i>Non-derivatives</i>						
Trade and other payables	167	5,981	50	-	-	6,198
Interest bearing loans and borrowings	-	2,558	7,592	115,398	212,305	337,853
Finance leases	-	3,427	10,267	57,708	249,973	321,375
Distribution payable	-	14,803	-	-	-	14,803
<b>Total non-derivatives</b>	167	26,769	17,909	173,106	462,278	680,229
<i>Derivatives</i>						
Inflows	-	-	-	-	-	-
Outflows	-	269	590	3,683	1,295	5,837
<b>Total derivatives</b>	-	269	590	3,683	1,295	5,837
	167	27,038	18,499	176,789	463,573	686,066
<b>NSPT Group</b>						
<b>At 30 June 2017</b>						
<i>Non-derivatives</i>						
Trade and other payables	-	642	-	-	-	642
Interest bearing loans and borrowings	-	4,329	12,845	355,742	196,932	569,848
Distribution payable	-	23,594	-	-	-	23,594
<b>Total non-derivatives</b>	-	28,565	12,845	355,742	196,932	594,084
<i>Derivatives</i>						
Inflows	-	-	(70)	(1,445)	(2,215)	(3,730)
Outflows	-	410	937	2,136	344	3,827
<b>Total derivatives</b>	-	410	867	691	(1,871)	97
	-	28,975	13,712	356,433	195,061	594,181

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
At 30 June 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>						
Trade and other payables	-	4,045	50	-	-	<b>4,095</b>
Interest bearing loans and borrowings	-	2,373	7,042	112,452	191,612	<b>313,479</b>
Distribution payable	-	14,803	-	-	-	<b>14,803</b>
<b>Total non-derivatives</b>	-	21,221	7,092	112,452	191,612	<b>332,377</b>
<b>Derivatives</b>						
Inflows	-	-	-	-	-	-
Outflows	-	269	590	3,683	1,295	<b>5,837</b>
<b>Total derivatives</b>	-	269	590	3,683	1,295	<b>5,837</b>
	-	21,490	7,682	116,135	192,907	<b>338,214</b>

## 17. CAPITAL MANAGEMENT

The Consolidated Group's and the NSPT 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 securityholders and to maintain an optimal structure to reduce the cost of capital. The primary objective of the Group's capital management is to maximise value for the securityholder. The Responsible Entity has outsourced capital management for the NSPT Group to NSH under a management agreement.

In order to achieve this objective, the Consolidated Group's and the NSPT Group's capital management strategy aims to ensure that they meet financial covenants attached to interest-bearing loans and borrowings. Breaches in meeting a financial covenant would permit the lender to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

The Consolidated Group and the NSPT Group manage their capital structure and make adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Consolidated Group and the NSPT Group may adjust the distribution payment to securityholders, return capital to securityholders or issue new securities.

The Consolidated Group and the NSPT Group monitor capital using a gearing ratio, represented by net debt divided by total assets less cash and short term deposits and finance lease liabilities. The Consolidated Group's target is to keep the gearing ratio between 25% and 40%. Net debt includes interest bearing loans and borrowings, less cash and short-term deposits.

	Notes	Consolidated Group		NSPT Group	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Interest bearing loans	10.5	484,615	286,073	483,365	266,273
Less: cash and short term deposits	10.1	(23,166)	(13,374)	(8,748)	(9,367)
Net Debt		461,449	272,699	474,617	256,906
Total assets		1,437,322	899,727	1,166,576	648,329
Less cash and short term deposits		(23,166)	(13,374)	(8,748)	(9,367)
Less finance lease liabilities	10.7	(168,355)	(178,248)	-	-
		1,245,801	708,105	1,157,828	638,962
<b>Gearing ratio</b>		37%	39%	41%	40%

### Loan covenants

Financial covenants under the terms of the borrowing agreement requires the Consolidated Group to ensure that the gearing ratio does not exceed 55% and the ratio of operating earnings before interest, tax, depreciation and amortisation to finance costs must exceed a multiple of two. The Consolidated Group has complied with these covenants throughout the reporting period.

### Dividends and distributions

Distributions have been made and declared as noted below.

Unit distributions	NSPT Group	
	2017 \$'000	2016 \$'000
NSPT interim distribution of 4.6 cents per unit paid on 27 February 2017 (2016: 4.3 cents per unit)	23,147	14,381
NSPT final distribution of 4.6 cents per unit payable on 30 August 2017 (2016: 4.4 cents per unit)	23,594	14,803
	46,741	29,184

There are no proposed distributions not recognised as a liability for the year ended 30 June 2017.

The Directors of NSH have not declared an interim or final dividend for the year ending 30 June 2017.

### Franking credit balance

	Consolidated Group	
	2017 \$'000	2016 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2016: 30%)	1,376	1,376

The above amounts are calculated from the balance of the NSH franking account at the end of the reporting period.

The NSPT Group does not have franking credits as distributions are paid from NSPT which is not liable to pay income tax provided all taxable income is distributed.

## 18. RELATED PARTY TRANSACTIONS

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial years.

Transactions with Related Parties – Consolidated Group		Revenue from related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		\$	\$	\$	\$
Southern Cross Storage Operations Pty Ltd*	2017	310,536	-	-	-
	2016	2,419,150	-	3,344,606	-
Southern Cross Storage Trust	2017	100,000	-	-	-
	2016	-	-	-	-
Australia Prime Storage Fund	2017	388,941	-	221,115	-
	2016	444,459	-	372,053	-
Bundall Commercial Trust	2017	456,772	-	3,494,272	-
	2016	-	-	-	-
Bundall Storage Trust	2017	398,391	-	2,985,891	-
	2016	-	-	-	-

Transactions with Related Parties – NSPT Group		Revenue from related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		\$	\$	\$	\$
National Storage Holdings Limited	2017	-	-	49,201,085	-
	2016	-	-	6,960,507	-
National Storage (Operations) Pty Ltd	2017	47,050,482	410,435	-	-
	2016	32,697,698	300,226	-	379,493
Southern Cross Storage Operations Pty Ltd*	2017	11,370,000	-	-	-
	2016	-	-	-	-
National Storage Financial Services Limited	2017	-	966,433	109,047	-
	2016	-	388,821	-	5,611
National Storage Limited	2017	3,697,968	-	9,126,721	-
	2016	1,434,280	-	1,978,178	-

\*Southern Cross Storage Operations Pty Ltd is classified as a related party of the Consolidated Group until 30 August 2016 and is a related party for the NSPT Group for the full year ended 30 June 2017.

### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

As at 30 June 2017, National Storage Investments Pty Ltd, a subsidiary of NSH had receivables outstanding of \$3,037,500 with the Bundall Commercial Trust and \$2,587,500 with the Bundall Storage Trust relating to

amounts drawn down under a facility agreement between the entities. The facility agreement has a term of 5 years, and is interest bearing on commercial rates. The receivables have been classed as a current receivable in the statement of financial position as this receivable is expected to be repaid within 12 months of 30 June 2017. As at 30 June 2017 National Storage Investments Pty Ltd also recognised receivables of \$456,772 with the Bundall Commercial Trust and \$398,891 relating to other fees and accrued interest outstanding at the year end.

All other outstanding balances at the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 30 June 2017 and 30 June 2016, the Consolidated Group has not recorded any impairment of receivables relating to amounts owed by related parties.

### Key management personnel compensation

	Consolidated Group		NSPT Group	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	3,342	2,641	-	-
Post-employment benefits	228	185	-	-
Long-term benefits	255	207	-	-
	3,825	3,033	-	-

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period relating to key management personnel. Detailed remuneration disclosures are provided in the remuneration report which is included in the Directors' Report.

## 19. COMMITMENTS AND CONTINGENCIES

### Capital commitments

As at 30 June 2017 the Consolidated Group and the NSPT Group held a commitment to purchase the freehold of an investment property in Perth, Western Australia for \$6.2m. This commitment is subject to the fulfillment of a number of contractual conditions by the property vendor.

As at 30 June 2017 the Consolidated Group and the NSPT Group also held a commitment to purchase a commercial storage facility, currently under construction in Melbourne, Victoria for \$4.4m.

There was no other capital expenditure contracted for at the end of the reporting period but not recognised as liabilities.

### Non-cancellable operating leases

The NSH Group leases offices and other equipment with terms expiring under various time periods. The NSPT Group does not have any operating lease commitments.

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

	Consolidated Group	
	2017	2016
	\$'000	\$'000
Within one year	591	334
Later than one year but not later than five years	1,334	405
Later than five years	121	-
	2,046	739

### Finance lease commitments

For details of finance lease commitments see note 10.7.



## Contingent liabilities

For information about guarantees given by entities within the group, including the parent entity, see notes 22 and 23.

## 20. EARNINGS PER STAPLED SECURITY ("EPS")

Basic earnings per stapled security is calculated as net profit attributable to stapled security holders, adjusted to exclude costs of servicing equity (other than distributions) divided by the weighted average number of stapled securities on issue during the period under review.

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

- The after tax effect of interest and other financing costs associated with dilutive potential stapled securities and;
- The weighted average number of additional stapled securities that would have been outstanding assuming the conversion of all dilutive potential stapled securities.

	Consolidated Group		NSPT Group	
	2017 cents	2016 cents	2017 cents	2016 cents
<b>Basic and diluted earnings per stapled security / unit</b>	20.74	13.06	19.31	13.11
<b>Reconciliation of earnings used in calculating earnings per stapled security / unit</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Net profit attributable to members	103,413	43,986	96,266	44,165
	<b>No. of securities</b>	<b>No. of securities</b>	<b>No. of units</b>	<b>No. of units</b>
Weighted average number of securities for basic and diluted earnings per stapled security	498,524,137	335,129,606	498,524,137	335,129,606

The weighted average number of securities / units for the year ending 30 June 2016 used to calculate basic and diluted earnings per share has been restated for the effect of stapled securities / units issued in the current year ending 30 June 2017 under the institutional and retail placement, distribution reinvestment plan and vendor scrip issue.

## 21. AUDITORS' REMUNERATION

The auditor of the Consolidated Group and NSPT Group is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young Australia for:	Consolidated Group		NSPT Group	
	2017 \$	2016 \$	2017 \$	2016 \$
An audit or review of the financial report of the entity and any other group entity	525,342	385,334	50,000	30,375
Other services in relation to the entity and any other group entity				
Tax compliance	50,350	87,225	28,060	51,663
Assurance related	145,976	-	109,482	-
Other	34,037	52,415	34,037	19,130
<b>Total auditors' remuneration</b>	<b>755,705</b>	<b>524,974</b>	<b>221,579</b>	<b>101,168</b>

## 22. INFORMATION RELATING TO THE PARENT ENTITIES

### Summary financial information

The individual financial statements for NSH and NSPT, the parent entities, show the following aggregate amounts:

	NSH		NSPT	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current assets	99,174	48,757	178,600	36,821
Total assets	106,047	55,626	1,084,372	576,135
Current liabilities	60,203	14,393	37,247	19,037
Total liabilities	64,508	34,329	475,847	258,517
Net assets	41,539	21,297	608,525	317,618
Issued capital	57,400	29,953	543,470	299,762
Cash flow hedge reserve	-	-	76	(6,264)
Foreign currency translation reserve	-	-	(827)	(724)
Retained earnings	(15,861)	(8,656)	65,806	24,844
	41,539	21,297	608,525	317,618
(Loss) / profit after tax	(7,205)	(3,516)	34,726	37,074
Total comprehensive income	(7,205)	(3,516)	87,703	35,589
Distributions provided for or paid	-	-	(46,741)	(29,184)

### Guarantees entered into by the parent entities

The Consolidated Group and NSPT Group's parent entities have provided financial guarantees in respect of bank overdrafts and loans of subsidiaries amounting to \$484.6m (2016: \$286.1m), secured by registered mortgages over the freehold and leasehold investment properties of the subsidiaries.

The Consolidated Group's parent entity has also provided bank guarantees of \$8.1m (2016: \$6.5m) in the event of lease payment default to third party lessors.

In addition, there are cross guarantees given by National Storage Holdings Limited, National Storage (Operations) Pty Ltd and National Storage Pty Ltd as described in note 23. No deficiencies of assets exist in any of these companies.

### Contingent liabilities of the parent entities

The parent entities of the Consolidated Group and the NSPT Group did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

### Contractual commitments

As at 30 June 2017 NSPT held a commitment to purchase the freehold of an investment property in Perth, Western Australia for \$6.2m. This commitment is subject to the fulfillment of a number of contractual conditions by the property vendor.

As at 30 June 2017 NSPT also held a commitment to purchase a commercial storage facility, currently under construction, in Melbourne, Victoria for \$4.4m.

At 30 June 2017, NSH had no contractual commitments not recognised as liabilities in the Statement of Financial Position.

### 23. DEED OF CROSS GUARANTEE

National Storage Holdings Limited, National Storage (Operations) Pty Ltd and National Storage Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Set out below is a consolidated statement of comprehensive income and statement of financial position of the entities that are members of the Closed Group.

### Consolidated statement of comprehensive income

	2017 \$'000	2016 \$'000
Profit / (loss) from continuing operations before income tax	8,203	(1,403)
Income tax (expense) / benefit	(3,747)	351
Profit / (loss) after tax	4,456	(1,052)
Retained earnings at the beginning of the year	1,171	2,154
<b>Retained earnings at the end of the year</b>	<b>5,627</b>	<b>1,102</b>

### Consolidated statement of financial position

	2017 \$'000	2016 \$'000
<b>Current assets</b>		
Cash and cash equivalents	11,433	3,064
Trade and other receivables	20,725	13,310
Inventories	444	351
Other current assets	4,195	2,524
<b>Total current assets</b>	<b>36,797</b>	<b>19,249</b>
<b>Non-current assets</b>		
Trade and other receivables	110	220
Property, plant and equipment	1,154	1,145
Investment properties	426,962	402,624
Investments	78,360	7,685
Intangibles	1,366	747
<b>Total non-current assets</b>	<b>507,952</b>	<b>412,421</b>
<b>Total assets</b>	<b>544,749</b>	<b>431,670</b>

	2017 \$'000	2016 \$'000
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	96,499	9,444
Finance lease liability	4,338	4,376
Deferred revenue	8,175	7,405
Provisions	1,772	1,728
<b>Total current liabilities</b>	<b>110,784</b>	<b>22,953</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	1,250	19,800
Finance lease liability	363,930	354,583
Provisions	947	1,316
Deferred tax liability	3,057	142
<b>Total non-current liabilities</b>	<b>369,184</b>	<b>375,841</b>
<b>Total Liabilities</b>	<b>479,968</b>	<b>398,794</b>
<b>Net Assets</b>	<b>64,781</b>	<b>32,876</b>
<b>Equity</b>		
Contributed equity	59,154	31,707
Retained profits	5,627	1,169
<b>Total equity</b>	<b>64,781</b>	<b>32,876</b>

### 24. EVENTS AFTER REPORTING PERIOD

No subsequent events have occurred since the reporting date and the issue date of the annual report which require disclosure in the financial statements.

## DIRECTORS' DECLARATION

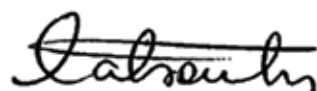
In accordance with a resolution of the Directors of National Storage Holdings Limited, the Directors state that:

1. In the opinion of the Directors:
  - (a) the financial statements and notes of the Consolidated Group for the year ended 30 June 2017 are in accordance with the *Corporations Act 2001*, including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
    - ii. complying with Accounting Standards and the *Corporations Regulations 2001*;
  - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b); and
  - (c) with reference to note 2(a) in the financial statements, there are reasonable grounds to believe that the Consolidated Group will be able to pay its debts as and when they become due and payable.
  - (d) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 23 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.
2. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.

On behalf of the Board,



Laurence Brindle  
Director  
22 August 2017  
Brisbane



Andrew Catsoulis  
Managing Director

## DIRECTORS' DECLARATION

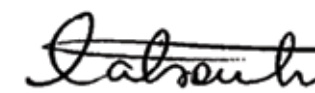
In accordance with a resolution of the Directors of National Storage Financial Services Limited, the Responsible Entity states that:

1. In the opinion of the Responsible Entity:
  - (a) the financial statements and notes of the NSPT Group for the year ended 30 June 2017 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the NSPT Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*;
  - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b); and
  - (c) with reference to note 2(a) in the financial statements, there are reasonable grounds to believe that NSPT will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors of National Storage Financial Services Limited by the Chief Executive Officer and Chief Financial Officer of the NSR Group in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.

On behalf of the Responsible Entity,



Laurence Brindle  
Chairman  
22 August 2017  
Brisbane



Andrew Catsoulis  
Managing Director



## Independent Auditor's Report to the Members of National Storage REIT

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of National Storage REIT comprising National Storage Holdings Limited and National Storage Property Trust and the entities they controlled during the year (collectively National Storage REIT), which comprises:

- the consolidated statements of financial position as at 30 June 2017;
- the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration;

of National Storage Holdings Limited and National Storage Property Trust.

In our opinion, the accompanying financial report of National Storage REIT is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of National Storage Holdings Limited's and National Storage Property Trust's financial positions as at 30 June 2017 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

#### 1. Acquisition of Southern Cross (applicable to both National Storage Holdings Limited and National Storage Property Trust)

Why significant	How our audit addressed the key audit matter
<p>The acquisition of Southern Cross Storage Operations Pty Ltd ('Southern Cross') represented the largest single acquisition of storage centres undertaken by National Storage REIT ('NSR') during the year, resulting in the acquisition of 26 new centres at a total cost of \$293m.</p> <p>For this acquisition, NSR made a purchase price allocation in which the consideration was allocated to the various assets and liabilities of the acquired company. This is outlined in note 5 to the financial report. The audit of the purchase price allocation is a key audit matter given the magnitude of the acquisition amount, as well as given significant judgment is required to determine the allocation of the purchase price to investment properties, deferred tax assets and goodwill.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• We read and assessed the purchase agreements and the Group's position paper on the purchase price allocation and determination of the consideration paid;</li> <li>• We assessed whether the accounting for the acquisition complied with Australian Accounting Standard - AASB 3 <i>Business Combinations</i>;</li> <li>• With respect to our audit procedures on the fair value of the investment properties acquired we refer to key audit matter 2 - "Investment property valuation";</li> <li>• We evaluated the suitability of the valuation methodology and assessed the inputs to calculate the recognition and recoverability of the Group's deferred tax assets with involvement from our taxation specialists;</li> <li>• We assessed the adequacy of the Group's disclosures relating to the acquisition of Southern Cross; and</li> <li>• With respect to our audit procedures on goodwill we refer to key audit matter 3 - "Carrying value of goodwill".</li> </ul>

## 2. Investment property valuation (applicable to both National Storage Holdings Limited and National Storage Property Trust)

Why significant	How our audit addressed the key audit matter
<p>Approximately 96% of the Group's total assets is comprised of investment properties. These assets are carried at fair value, which is assessed by the directors with reference to either external independent property valuations or internal valuations, and based on market conditions existing at reporting date.</p> <p>This is considered a key audit matter due to the number of judgments required in determining fair value. These judgments include assessing the capitalisation rates, discount rates, market rent rates and forecast occupancy levels.</p> <p>Disclosure of investment properties and the related significant judgments are included in notes 2 (o), 11.4 and 11.8 to the financial report.</p>	<p>We obtained and evaluated a sample of both the external independent valuations and the valuations prepared by the Group. We performed the following procedures with involvement from our real estate valuation specialists:</p> <ul style="list-style-type: none"> <li>• We assessed the valuation methodologies, the competence of the valuers, the independence of the external valuers, and the assumptions used in the valuations;</li> <li>• We tested a sample of the source data used in the valuations by agreeing the source data to supporting tenancy schedules;</li> <li>• We performed testing of the clerical accuracy and calculation methodology of the internal valuation model, including assessing key valuation inputs with reference to those applied by the external valuation experts and current period market transactions, as well as performing sensitivity analysis; and</li> <li>• We considered the adequacy of the valuation methods and principles disclosed in Note 2 (o) Investment Properties, Note 11.4 'Investment Properties' and Note 11.8 'Non-financial assets fair value measurement'.</li> </ul>

## 3. Carrying value of goodwill (applicable to National Storage Holdings Limited)

Why significant	How our audit addressed the key audit matter
<p>The goodwill balance of \$44.0 million, relates to the acquisition of portfolios of investment properties purchased in the previous and current periods. The goodwill is tested for impairment by an annual impairment review. No impairment charge has been recorded against these balances in the current financial year as disclosed in Note 11.5. The fair value less cost of disposal assessment used to support the continued carrying amount of goodwill involves the application of subjective judgment about future business performance and the application of valuation methodologies in accordance with Australian Accounting Standards.</p>	<p>In performing our procedures:</p> <ul style="list-style-type: none"> <li>• We obtained and understood the Group's impairment testing and assessed that it was in compliance with the requirements of Australian Accounting Standard - AASB 136 <i>Impairment of Assets</i>;</li> <li>• We assessed the Group's appropriateness in respect of the determination of CGUs to which the goodwill is allocated;</li> <li>• We evaluated the suitability of the valuation methodology and validated the inputs to calculate the fair value less costs of disposal;</li> <li>• We performed a sensitivity analysis over the significant inputs of the valuation model disclosed in note 11.5; and</li> <li>• We considered the adequacy of the disclosures in note 11.5 to the financial report.</li> </ul>

## Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the National Storage REIT 2017 Annual Report, 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, 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 National Storage REIT 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 National Storage REIT's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate National Storage REIT 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 this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.





## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 55 within the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of National Storage REIT for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of National Storage REIT 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.

Ernst & Young

Ric Roach  
Partner  
Brisbane  
22 August 2017



## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 July 2017 unless stated below:

### (a) Distribution of equity securities

Analysis of numbers of ordinary fully paid stapled security holders by size of holding:

Holding	Total holders
1 - 1,000	657
1,001 - 5,000	1,349
5,001 - 10,000	1,013
10,001 - 100,000	1,588
100,001 - And over	119
Total	4,726

There were 194 holders of less than a marketable parcel of stapled securities, representing 11,600 units.

### (b) Equity security holders

Twenty largest quoted equity security holders

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

Name	Stapled Securities	
	Number held	Percentage of issued securities
HSBC Custody Nominees (Australia) Limited	259,257,319	50.55
J P Morgan Nominees Australia Limited	71,213,270	13.88
Citicorp Nominees Pty Limited	20,052,441	3.91
National Nominees Limited	17,567,457	3.43
BNP Paribas Noms Pty Ltd (DRP)	11,128,384	2.17
Leyshon Investments (Australia) Pty Ltd (Bryan Family Investment A/C)	7,448,980	1.45
Storcat Pty Ltd (Andrew Catsoulis Family A/C)	6,673,469	1.30
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	6,376,791	1.24
Mortome Pty Ltd (Hoeksema Property A/C)	5,790,308	1.13
Palomere Pty Ltd (Peter Edward Greer Family A/C)	5,586,735	1.09
Capital Business Park (Holdings) Pty Ltd	4,520,000	0.88
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	4,117,302	0.80
Stowaway Self Storage Pty Ltd (Catsoulis Development A/C)	2,932,388	0.57
Merill Lynch (Australia) Nominees Pty Limited (MLPRO A/C)	2,744,300	0.54
HSBC Custody Nominees (Australia) Limited – GSCO ECA	2,543,289	0.50
BNP Paribas Noms (NZ) Ltd	1,843,881	0.36
Stowaway Self Storage Pty Ltd (Catsoulis Family A/C)	1,811,224	0.35
HSBC Custody Nominees (Australia) Limited – A/C 2	1,715,503	0.33
Brindle Super Pty Ltd (The Brindle Super Fund A/c)	1,342,120	0.26
Green 9 Pty Ltd (Michael Berry Family A/c)	1,020,408	0.20
	435,685,569	84.94

Unquoted equity securities

There are no unquoted securities.

### (c) Substantial shareholders

Substantial securityholders, as at 14 July 2017, are set out below:

Name	Number held	Percentage
Colonial First State Global Asset Management Property	83,263,340	16.23
Cohen & Steers Capital Management, Inc	36,519,455	7.12
Vanguard Investments Australia Ltd	29,573,551	5.77

### (d) Voting rights

The voting rights attached to the ordinary fully paid stapled securities is one vote per stapled security.





# INVESTOR RELATIONS

National Storage REIT is listed on the Australian Securities Exchange under the code NSR.

### NATIONAL STORAGE REIT SECURITIES

A stapled security comprises:

- one share in National Storage Holdings Limited; and
- one unit in the National Storage Property Trust; stapled and traded together as one stapled security.

### CONTACT DETAILS

All changes of name, address, TFN, payment instructions and document requests should be directed to the registry.

### SECURITIES REGISTRY

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne VIC 3001 Australia

Telephone: 1300 850 505 (Australia only)  
International: +61 3 9946 4471  
Facsimile: +61 3 9473 2500  
Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### ELECTRONIC INFORMATION

By becoming an electronic investor and registering your email address, you can receive via email notifications and announcements, distribution statements, taxation statements and annual reports.

### SECURE ACCESS TO YOUR SECURITYHOLDING

You will need to have your securityholder reference number or holder identification number (SRN/HIN) available to access your holding details.

### ONLINE

You can access your securityholding information via link in the Investor Centre section of the corporate website, [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au), or via the Investor Centre link on registry website at [www.computershare.com.au](http://www.computershare.com.au).

To view your securityholding, you will need your SRN/HIN and will be asked to verify your registered postcode (inside Australia) or your country of residence (outside Australia).

### PHONE

You can confirm your holding balance, request forms and access distribution and trading information by phoning: 1300 850 505 (Australia only) or calling +61 3 9946 4471 (outside Australia).

### DISTRIBUTION DETAILS

Distributions are expected to be paid within 8 weeks following the end of each semi-annual distribution period, which occur in June and December each year.

To ensure timely receipt of your distributions, please consider the following:

#### Direct Credit

NSR encourages securityholders to receive distribution payments by direct credit.

If you wish to register for direct credit or update your payment details, log in to your holding online or telephone the registry on 1300 850 505 for assistance.

### TAX FILE NUMBER (TFN)

You are not required by law to provide your TFN, Australian Business Number (ABN) or exemption status. However, if you do not provide your TFN, ABN or exemption, withholding tax at the highest marginal rate for Australian resident members may be deducted from distributions paid to you.

If you wish to update your TFN, ABN or exemption status, log in to your holding online or telephone the registry on 1300 850 505 for assistance.

### UNPRESENTED CHEQUES

If you believe you have unpresented cheques, please contact the registry and request a search to assist in recovering your funds.

If you wish to register for direct credit or update your payment details, log in to your holding online or telephone the registry on 1300 850 505 for assistance.

### ANNUAL TAXATION STATEMENT AND TAX GUIDE

The Annual Taxation Statement and Tax Guide are dispatched to securityholders in August each year. A copy of the Tax Guide is available at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au).

### INVESTOR FEEDBACK

If you have any fund specific queries or feedback please telephone NSR Investor Relations on 1800 683 290. Please direct any complaints in writing to NSR Company Secretary at GPO Box 3239, Brisbane QLD 4001, Australia.

### NSR CALENDAR

FEBRUARY
Half Year Results released
Distribution paid for six months ended 31 December
AUGUST
Full Year Results and Annual Report released
Distribution paid for the six months ended 30 June
Annual tax statements released
OCTOBER
Notice of Annual General Meeting released
NOVEMBER
Annual General Meeting

The dates listed above are indicative only and subject to change.



# CORPORATE DIRECTORY

National Storage Holdings Limited ACN 166 572 845 ("NSH" or the "Company")  
National Storage Property Trust ARSN 101 227 712 ("NSPT")  
together form the stapled entity National Storage REIT ("NSR" or the "Consolidated Group")

## RESPONSIBLE ENTITY OF NSPT

National Storage Financial Services Limited (NSFL)  
ACN 600 787 246 AFSL 475 228  
Level 23, 71 Eagle Street, Brisbane QLD 4000

## DIRECTORS

Laurence Brindle  
Anthony Keane  
Howard Brenchley  
Steven Leigh  
Andrew Catsoulis  
Claire Fidler

## COMPANY SECRETARY

Claire Fidler  
Patrick Rogers

## REGISTERED OFFICE

Level 23, 71 Eagle Street  
Brisbane QLD 4000

## PRINCIPAL PLACE OF BUSINESS

Level 23, 71 Eagle Street  
Brisbane QLD 4000

## SHARE REGISTRY

Computershare Investor Services Pty Limited  
452 Johnston Street  
Abbotsford VIC 3067

Stapled Securities are quoted on the Australian  
Securities Exchange (ASX).

## AUDITORS

Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000





