



National Storage REIT

Corporate Governance Statement

National Storage Holdings Limited

Dated 30 September 2014

Corporate Governance Statement

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1 Definitions

In this charter:

Constitutions means the NSH Constitution, the Trust Co RE constitution (as amended or replaced from time to time) and the Trust Constitution (as applicable).

Corporations Act means the Corporations Act 2001 (Cwth).

NSH means National Storage Holdings Limited (ACN 166 572 845).

Board means the board of directors of NSH for overseeing activities of NSR.

NSH Constitution means the constitution of NSH dated on or around 1 November 2013 as amended or replaced from time to time).

NS Stapled Entity means NSH and the Trust.

Trust Co RE Board means the board of directors of Trust Co RE.

Stapled Security means a stapled security in the NS Stapled Entity.

Subsidiaries has the meaning given in the Corporations Act.

Trust means National Storage Property Trust.

Trust Co RE means The Trust Company (RE Services) Limited (ACN 003 278 831 and AFSL Number 235150).

Trust Constitution means the constitution of the Trust dated 23 September 2003, as amended or replaced from time to time.

2 NSR

2.1 Formation and Structure

NSR was formed on 19 December 2013 when its securities were first listed on the ASX through an initial public offering (the “IPO”). This was facilitated by the stapling of the shares in NSH to the units in the Trust to form a Stapled Security which are traded on the ASX under the identifier “NSR”.

As part of the IPO, Trust Co RE was appointed the responsible entity for the Trust.

3 NSR’s Approach to Corporate Governance

3.1 Framework and ASX Compliance

NSH and Trust Co RE both have their own boards and their own respective corporate governance and compliance obligations under the Corporations Act and the Australian Securities Exchange (“ASX”) Listing Rules. Each of Trust Co RE and NSH also has its own respective Constitution which sets out the rights and obligations of each respective entity, and the unitholders (in the case of the Trust) and shareholders (in the case of NSH) respectively. If there is any inconsistency between the obligations of either NSH or Trust Co RE under the Cooperation Deed and the Constitution of NSH or Trust Co RE (as relevant), the provisions of the relevant Constitution prevail to the extent of the inconsistency.

NSH and Trust Co RE have entered into a cooperation deed and management agreement. These facilitate common processes and governance for NSH and Trust Co RE relating to NSR and govern the relationship between the entities in relation to NSR Securities. Pursuant to these agreements, the Board is responsible for the governance function of NSR and reports to Trust Co RE on governance matters (other than governance that is solely related to Trust Co RE and not NSR).

The Board recognises the role and importance of good corporate governance and has created a framework for managing NSR including internal controls and a business risk management process.

The corporate governance framework to be adopted by NSR is supported by the highly experienced Board and Trust Co RE Board. Both Boards are integral to the determination of appropriate corporate governance arrangements for NSR and to the continual monitoring of those arrangements.

The corporate governance framework implemented by Board on behalf of NSR is underpinned by the ASX Corporate Governance Councils Corporate Governance Principles and Recommendations (the "ASX Recommendations"). The ASX Listing Rules require listed entities to disclose the extent of their compliance with the ASX Recommendations and to explain why they have not adopted a particular Recommendation if they consider it is inappropriate to do so in their particular circumstances.

The Board considers that the governance practices adopted by the Group during the financial year ended 30 June 2014 and as at the date of this Statement, comply with the ASX Recommendations 2nd edition, with the only area not fully compliant being the audit committee of NSH having 2 directors (this was a function of the small size of the full Board of only 3 directors). The Board has also early adopted the ASX Recommendations 3rd edition as at 30 September 2014. The extent of the Group's compliance with the 3rd edition is set out in NSR Appendix 4G and this Statement, with the only areas of partial compliance relating to committee's comprised of 2 directors (note this issue has been actioned by the Board with 2 additional independent non-executive directors being nominated to the Board at the 2014 Annual General Meeting).

The Group's policies, codes and charters relevant to corporate governance are located on NSR's website at www.nationalstorageinvest.com.au/corporate/governance.

Detail on NSR's compliance with the ASX Recommendations is set out below in this Statement.

This Statement has been adopted by the Board and the Trust Co RE Board as at 30 September 2014.

4 Principle 1 – Lay Solid Foundations for Management and Oversight

4.1 Recommendation 1.1

There must be a minimum of three directors of Board and will consist of a majority of non-executive, independent directors. The Chairperson is elected annually by the directors and must be an independent non-executive director.

The directors will determine the size of the Board, subject to the NSH Constitution, which provide that there can be no less than three directors on each Board.

The Board as at the date of this Statement is comprised as follows:

1. Laurence Brindle – independent non-executive Chairman

2. Anthony Keane – independent non-executive director
3. Andrew Catsoulis – Managing director.

Details on the NSH Directors respective experience and qualifications are set out in the 2014 NSR Annual Report at page 49 and the Trust Co RE Directors at page 50.

The role of Board is to provide overall strategic guidance for NSR and effective oversight of management. The Board ensures that the activities of NSH comply with its Constitution, from which the 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 of NSH who undertakes this task in accordance with the strategy, policies and plans approved by the Board. The Managing Director has authority to sub-delegate to the senior management team. Matters delegated to management by the Board are reviewed from time to time to ensure they are appropriate.

The Trust Co RE Board delegates to management of Trust Co RE the management of all matters not reserved for the Trust Co RE Board. Directors and staff of the Trust Co RE are subject to the Perpetual Limited Group's policies and procedures.

The Board has adopted a Board Charter which details the framework for the Board's operation and the functions and responsibilities of the Board. It also details the matters that are reserved for the Board. The Board Charter is located at www.nationalstorageinvest.com.au/corporate/governance.

4.2 Recommendation 1.2

The process of selection and appointment of new directors to Board is that when a vacancy arises or the Board determines that additional directors should be appointed, the Nomination and Remuneration Committee identifies candidates with appropriate skills, experience and expertise. Such candidates that best complement Board's effectiveness and the skill and experience sets of the Board matrix, will be recommended to Board. When the Board considers that a suitable candidate has been found, that person may be appointed by the Board to fill a casual vacancy in accordance with the NSH Constitution, but must stand for election by security holders at the next annual general meeting.

The Board has adopted a Nomination and Remuneration Committee Charter that details appointment of new directors to the Board. The Charter requires the undertaking of appropriate and necessary checks before a person can be appointed to the Board. The Charter is located at www.nationalstorageinvest.com.au/corporate/governance.

As at the date of this Statement, the Board has determined that two (2) additional directors should be appointed to the Board. Two candidates have been identified by the Remuneration and Nomination Committee and have been accepted by the Board as high calibre candidates and will be nominated by the Board for election at the 2014 Annual General Meeting. Details on the nominees skills and experience will be set out in the explanatory notes to the Notice of 2014 Annual General Meeting. A copy of the notice will be available at www.nationalstorageinvest.com.au/announcements.

4.3 Recommendation 1.3

NSH enters into written letters of engagement with its directors that set out the terms of their appointment.

NSH enters into written contracts of employment with its senior executive officers which set out their terms of employment. Further detail on these contracts are available in our Remuneration Report in the 2014 NSR Annual Report at pages 57 - 59.

The Board Charter also provides detail and requirements regarding director engagement.

4.4 Recommendation 1.4

The Company Secretary of NSH is accountable to the Board through the Chairman of the Board on all governance matters and issues relating to the operation, function and responsibilities of the Board.

The Company Secretary meets regularly with the Chairman to discuss Board operations and functions and to plan the Board's schedule throughout the year to ensure efficient and compliant functioning of the Board.

The Board Charter sets out detail of the Company Secretary's role and accountability.

4.5 Recommendation 1.5

The Board and management of NSR is committed to ensuring that the workforce of the Group is comprised of and attracts talented people from a diversity of backgrounds. The Groups approach promotes our commitment to the Groups culture of equality for all including on the basis of gender, race, sexual orientation, religion and age, amongst others.

The Board has adopted a Diversity Policy that is located at www.nationalstorageinvest.com.au/corporate/governance. The Policy sets out NSR's commitment to diversity and its requirements to achieve this, including the requirement to set measureable objectives for achieving gender diversity and an annual assessment of the objectives and its progress in achieving them. The diversity policy establishes a diversity committee. At this time, the Board has determined that the full Board will adopt the responsibilities of the committee given the Boards current small size. The committee will be formerly convened later this calendar year upon the appointment of additional directors.

The initial objectives set by the Board at the IPO were 50% of senior management were to be women and 25% of senior executive roles were to be women. The Board is currently undertaking a detailed assessment of its diversity objectives and initiatives as it considers a broader more holistic set of objectives should be established, with an intention of finalising these by the end of the 2014 calendar year. As at the date of this Statement, at senior management level, 45% of the senior management positions are held by women, 25% of the executive management positions are women and approximately 53% of NHS's total staff are women. The Board currently does not have any female members.

4.6 Recommendation 1.6 and 1.7

The Board Charter and Nomination and Remuneration Committee Charter set out the performance appraisal process for the Board on an annual basis. The Chairman evaluates the other directors performances and the Remuneration Committee evaluates the Chairman's performance and reports to the Board. The Board and Chairman may utilise independent consultants to assist in evaluation or performance criteria.

Senior management are evaluated by the Managing Director and subsequently the Remuneration Committee and the Board. The Managing Director is evaluated by the Remuneration Committee and the Board. Further detail as to review processes are detailed in the Remuneration Report in the 2014 NSR Annual Report at page 57.

Given that NSR was only established in December 2013, no performance evaluation of the Board, Managing Director or senior management has occurred as at the date of this Statement, however, these evaluations have commenced and will be conducted before the end of the calendar year.

The Trust Co RE Board delegates to management of Trust Co RE the management of all matters not reserved for the Trust Co RE Board. Directors and staff of Trust Co RE operate under Perpetual Limited group's policies and procedures.

5 Principle 2 – Structure the Board to Add Value

5.1 Recommendation 2.1

The role and responsibilities of the Nomination and Remuneration Committee is set out in the Nomination and Remuneration Committee Charter that is approved by the Board. The charter is reviewed annually.

The Committee assists and advises the Board on:

- (a) director selection and appointment practices;
- (b) director performance evaluation processes and criteria;
- (c) Board composition; and
- (d) succession planning for the Board and Senior Executives,

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of NSR.

The Committee also assists and advises the Board on remuneration policies and practices for the Board, the Managing Director, other senior executives as determined by the Board from time to time and other persons whose activities, individually or collectively, affect the financial soundness of NSR.

The current composition of the Nomination and Remuneration Committee is:

- (a) Laurence Brindle (Chairman)
- (b) Anthony Keane

Both Mr Keane and Mr Brindle are independent non-executive directors. It is the intention of the Board that the committee be increased in size by at least 1 further director immediately following the 2014 AGM upon the appointment of a further 2 Directors.

The Nomination and Remuneration Committee Charter is located at www.nationalstorageinvest.com.au/corporate/governance. Further details of NSR remuneration, including the number of audit committee meetings held during the reporting period, can be found on pages 51 and 55-61 of the Remuneration Report in the 2104 NSR Annual Report.

5.2 Recommendation 2.2

The Board considers it important that it continues to:

- (a) Maintain a Board of a size that is efficient and effective and has Directors who have an appropriate collective mix of skills, experience, expertise and diversity; and
- (b) Ensure a balance of tenures in its directors between new directors and longer serving directors with experience and knowledge of the operations of NSR.

On a collective basis, the Board has an extensive range of technical and commercial skills and relevant experience. The experience and skill sets present amongst the Board members collectively are:

- (a) Self-storage industry;
- (b) Property, real estate and portfolio acquisition and management;
- (c) Financial and banking;
- (d) Legal;
- (e) Governance and regulation;
- (f) Capital and debt raising;
- (g) Corporate strategy;
- (h) Risk management; and
- (i) Human resources and executive remuneration.

The Board includes at least one member who is a director on another ASX listed entity.

The Board considers that its existing skills and experience are appropriate to discharge its responsibilities and obligations. However, the Board undergoes a continual assessment of its skill set and has determined that it would benefit from the addition of further directors, whom it will nominate at the 2014 AGM. Details of the candidate directors and their qualifications and experience will be included in the explanatory notes to the Notice of Meeting for the AGM.

The Trust Co RE board consists of three executive directors. The RE board meets regularly and considers that the composition and mix of skills of directors is appropriate for the directors to understand the Trust Co RE's business and to discharge their duties. The RE board also ensures that it maintains independent judgement in board decisions. The RE board meets at least quarterly and more frequently as required to consider matters in relation to the Trust.

5.3 Recommendation 2.3

The Board has assessed each of its directors and considers that each of its non-executive directors is independent. Details of the Board's independent Directors and their tenure can be found on page 49 of the 2014 NSR Annual Report.

5.4 Recommendation 2.4 and 2.5

The Board Charter requires that the majority of its Directors be independent and that the Chairman should be an independent Director. The Board assesses the Directors independence status

The RE adds value in terms of the best interests of the Trust's unit holders through being independent of NSH. This independent structure avoids any conflicts of interest between the Trust Co RE and NSH whenever discretionary decisions are required of either entity in their respective capacities.

Additionally, the Trust Co RE board has appointed a Compliance Committee for the Trust that does not contain any board members.

The RE board is provided with regular detailed reports on the financial position, financial performance and business of the Trust to allow the board to effectively fulfil its

responsibilities. The Directors have access to the management, staff and advisers of the RE and Perpetual as necessary if they require additional information.

5.5 Recommendation 2.6

To ensure that Directors are able to discharge their obligations and are well informed and educated to best serve NSR, each Director receives an induction upon their appointment and ongoing education throughout their term. Details of the induction process and on-going education process are set out in the Board Charter.

6 Principle 3 – Act Ethically and Responsibly

6.1 Recommendation 3.1

NSR has a code of conduct for its Directors, senior executives and employees that was in place throughout the reporting period. All new employees of NSH are required to review the Code and confirm their understanding and acceptance of the Code upon their commencement with NSH. The Code is located at www.nationalstorageinvest.com.au/corporate/governance.

The Trust Co RE has an Ethical Framework and a Code of Conduct within which it carries on its business and deals with its stakeholders, as well as a Diversity Policy pursuant to which measurable objectives are being developed. These apply to all directors and employees of Perpetual Limited and the Trust Co RE.

7 Principle 4 – Safeguard Integrity in Corporate Reporting

7.1 Recommendation 4.1

NSR has an Audit Committee which is currently comprised of the 2 independent non-executive Directors. The committee will be expanded by at least 1 additional independent non-executive Director immediately after the 2014 AGM upon the election of 2 additional Directors.

The Audit Committee Charter is located at www.nationalstorageinvest.com.au/corporate/governance. The committee members and the number of times the committee met are set out on page 51 of the 2014 NSR Annual Report and the relevant qualifications and experience of the committee members are set out on page 49 of the 2014 NSR Annual Report.

The Trust Co RE Compliance Committee is comprised of John Richardson, Michelene Collopy and Virginia Malley and meets at least quarterly. The Compliance Committee Charter sets out its role and responsibilities.

The Trust Co RE board has delegated the engagement and monitoring of independent external auditors for the Trust to the NSH board. The Trust Co RE board receives periodic reports from the external auditor in relation to financial reporting and the compliance plan for the Trust.

7.2 Recommendation 4.2

Before the financial Statements of NSR for the year ended 30 June 2014 were approved by the Board, a declaration was received by the Board and Trust Co RE Board from the Chief Financial Officer and Managing Director that the financial Statements and reports are in accordance with the relevant accounting standards, give a true and fair view of the financial position and operating results of NSR and that those opinions were formed on the basis of a

sound system of risk management and internal compliance and control which operate efficiently and effectively for the entire financial year.

7.3 Recommendation 4.3

The auditors of NSR are required to attend the AGM to be available for questions from members relevant to the audit.

8 Principle 5 – Make Timely and Balanced Disclosure

8.1 Recommendation 5.1

The Board has adopted for NSR a Continuous disclosure and Communications Policy. The Continuous Disclosure and Communications Policy is located at www.nationalstorageinvest.com.au/corporate/governance. The Board and Trust Co RE Board are committed to ensuring that its security holders and the marketplace are provided with timely and full information about its operations and to comply with its continuous disclosure obligations contained in the ASX Listing Rules and Corporations Act.

The Board has established a disclosure committee. At the date of adoption of this policy, the members are:

- (a) The Company Secretary;
- (b) The Managing Director of NSH; and
- (c) the Chief Financial Officer of NSH.

9 Principle 6 – Respect the Rights of Security Holders

9.1 Recommendation 6.1

NSR has a website that includes detailed information about NSR and its governance framework. NSR's website is located at www.nationalstorage.com.au.

Information about NSR's governance framework, Board, Management, policies and charters is located at www.nationalstorageinvest.com.au/corporate.

9.2 Recommendation 6.2 and 6.3

NSR is committed to effective and efficient investor relations communications with its members and has an objective of promoting investor confidence and the rights of Stapled Security holders by:

- (a) complying with the continuous disclosure obligations imposed by law;
- (b) ensuring that company announcements are presented in a factual, clear and balanced way;
- (c) ensuring that all Stapled Security holders have equal and timely access to material information concerning the NS Stapled Entity; and
- (d) communicating effectively with Stapled Security holders and making it easy for them to participate in general meetings.

Our members are encouraged to attend the Annual General Meeting and take the opportunity to meet and ask questions of the Board and management.

Our investor relations and communications framework is established in the Continuous Disclosure and Communications Policy.

Further details about NSR investor relations can be found on pages 140-141 of the 2014 NSR Annual Report.

The Trust Co RE is a member of the Financial Ombudsman Service, an independent dispute resolution body, which is available to investors in the event that any complaints cannot be satisfactorily resolved by the Trust Co RE.

9.3 Recommendation 6.4

NSR has given all its members and investors the option to receive communications from and to send to NSR and the registry electronically. Further details can be found on page 140 of the 2014 NSR Annual Report.

10 Principle 7 – Recognise and Manage Risk

10.1 Recommendation 7.1

During the reporting period, NSR had a joint Audit and Risk Committee. The details set out in section 7.1 of this Statement regarding the committee, its membership and the number of meetings held, apply equally to the risk management function of the committee.

As at the date of this Statement, the Board has determined to separate the risk function out into its own separate and dedicated committee. The newly convened Risk Committee is currently comprised of the 2 independent non-executive Directors. The committee will be expanded by at least 1 additional independent non-executive Director immediately after the 2014 AGM upon the election of 2 additional Directors.

The Risk Committee Charter is located at www.nationalstorageinvest.com.au/corporate/governance. The committee members are the same members as the Audit Committee members.

10.2 Recommendation 7.2

The Risk Committee Charter requires the Charter and risk framework be annually assessed by the Board. Given that the framework (previously encapsulated in the Audit and Risk framework) was only adopted in December 2013, it has not been formerly reviewed by the Board as at the date of this Statement.

10.3 Recommendation 7.3

NSR has implemented risk management processes that are designed to minimise and eliminate material risks by identification, mitigation through internal controls and constant monitoring of controls and processes.

Risk Management occurs within a framework that identifies and treats risk in terms of its operational, regulatory, reputation and financial impact to the business.

NSR has an internal audit function which conducts a risk and compliance based program of audits on various operations in the Group. The audits are both planned and impromptu. The internal audit function reports directly through to the Company Secretary who in turn reports to the Audit Committee.

The internal audit function is currently under review including the consideration of bolstering the existing function with the use of external internal audit specialists.

The Trust Co RE values the importance of robust risk management systems and maintains a current risk register as part of its formal risk management program. The Trust Co RE Board is responsible for the oversight of risk management, internal control systems and compliance matters for the Trust Co RE, having regard to Perpetual's policies around breaches and incidents and the Perpetual Complaints Handling Policy.

10.4 Recommendation 7.4

Risks that NSR has identified and its mitigation strategies are set out on page 47 of the 2014 NSR Annual Report.

11 Principle 8 – Remunerate Fairly and Responsibly

11.1 Recommendation 8.1

NSR has a Nomination and Remuneration Committee which is currently comprised of the 2 independent non-executive Directors. The committee will be expanded by at least 1 additional independent non-executive Director immediately after the 2014 AGM upon the election of 2 additional Directors.

The Nomination and Remuneration Committee Charter is located at www.nationalstorageinvest.com.au/corporate/governance. The committee members and the number of times the committee met are set out on page 51 of the 2014 NSR Annual Report and the relevant qualifications and experience of the committee members are set out on page 49 of the 2014 NSR Annual Report.

11.2 Recommendation 8.2

NSR has adopted policies and procedures regarding remuneration of Directors (non-executive and executive) and senior executives that are found in the Board Charter and Nomination and Remuneration Committee Charter.

Details regarding NSR remuneration during the reporting period can be found in the Remuneration Report on pages 55-61 of the 2014 NSR Annual Report.

The fees and expenses which the Trust Co RE is permitted to receive out of the assets of the Trust are set out in the Trust constitution and PDS provided to investors in 2013. Staff involved in the day to day operations of the Trust Co RE are remunerated by Perpetual Limited and not by the Trust.

11.3 Recommendation 8.3

As at the date of this Statement, there is no equity based remuneration of either Directors or senior executives. The Board has adopted a Trading Policy that governs whether a transaction is permitted by the Director or executive. The current policy forbids a number of dealings relating to Stapled Securities including insider trading, trading during closed or "black-out" periods, margin loans for securities, short term or speculative trading in securities and hedging of securities.