

The logo consists of the words "NATIONAL" and "STORAGE" stacked vertically in a bold, black, sans-serif font. The text is contained within a yellow rectangular box with a black border.

**NATIONAL  
STORAGE**

A blurred photograph of a sign on a glass door. The sign features the words "NATIONAL" and "STORAGE" in a bold, sans-serif font, with "STORAGE" in a larger size. The sign is white with black text. The background is a blurred interior space.

**NATIONAL  
STORAGE**

The text "ANNUAL REPORT" is in a smaller, bold, black font, and "2015/2016" is in a larger, bold, white font. Both are set against a yellow background with a white hexagonal pattern.

**ANNUAL REPORT  
2015/2016**

# IMPORTANT INFORMATION

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 1, 10 Felix 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.

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

HIGHLIGHTS	6
STRATEGY	10
PORTFOLIO	12
CHAIRMAN'S REPORT	16
MANAGING DIRECTOR'S REPORT	18
INVESTMENT PARTNERS	20
THE YEAR IN REVIEW	22
SUSTAINABILITY	26
BOARD OF DIRECTORS	28
SENIOR EXECUTIVES	32
CORPORATE GOVERNANCE	34
DIRECTORS' REPORT	36
FINANCIAL STATEMENTS	61

# OVERVIEW

National Storage is one of Australasia's largest self-storage providers, tailoring self-storage solutions to residential and commercial customers at more than 100 storage centres across Australia and New Zealand.

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



**NATIONAL STORAGE**  
www.nationalstorage.com.au  
**1300 255 611**

**PERSONAL STORAGE**  
**BUSINESS STORAGE**  
**PACKING CARTONS**  
**WINE STORAGE**

# FY16 HIGHLIGHTS

## Financial

↑ **\$44.0m**

A-IFRS profit after tax for FY16

Gearing at  
↓ **38%**

reducing to 34% post August transactions including Southern Cross

↑ **\$666m**

NSR portfolio valuation growing to \$959 million post Southern Cross transaction

↑ **30%**

increase in total assets under management

Underlying earnings for FY16 of

↑ **\$29.2m**

Net Tangible Assets per stapled security at 30 June 2016

↑ **\$1.14**

Debt tenor extended to

↑ **5.0** years

At 30 June 2016:

## Operational

↑ **105**  
centres

↑ **31%**  
increase in total net  
lettable area  
(excluding Southern Cross)

↑ **25%**  
increase in total  
storage units  
(excluding Southern Cross)

↑ **75%**  
portfolio occupancy  
(excluding NZ and developing centres)

↑ **23**  
acquisitions  
(excluding Southern Cross  
and developing centres)

↑ **\$285**  
rate per sqm  
(excluding NZ and  
developing centres)

More than  
↑ **59,000**  
storage units

# FY16 HIGHLIGHTS

## Southern Cross Transaction

Contracted to acquire Southern Cross portfolio of 26 centres for net consideration of \$285 million

Highly complementary to NSR's existing property portfolio and already integrated into the NSR platform

Consistent with NSR's growth strategy

Further potential to unlock value as centres continue to mature, with potential for upside from further expansion / development or redevelopment and portfolio recycling of some assets

Secures ownership of strategically important assets and expands property base, underpinning NSR's strong market position

At 30 June 2016:



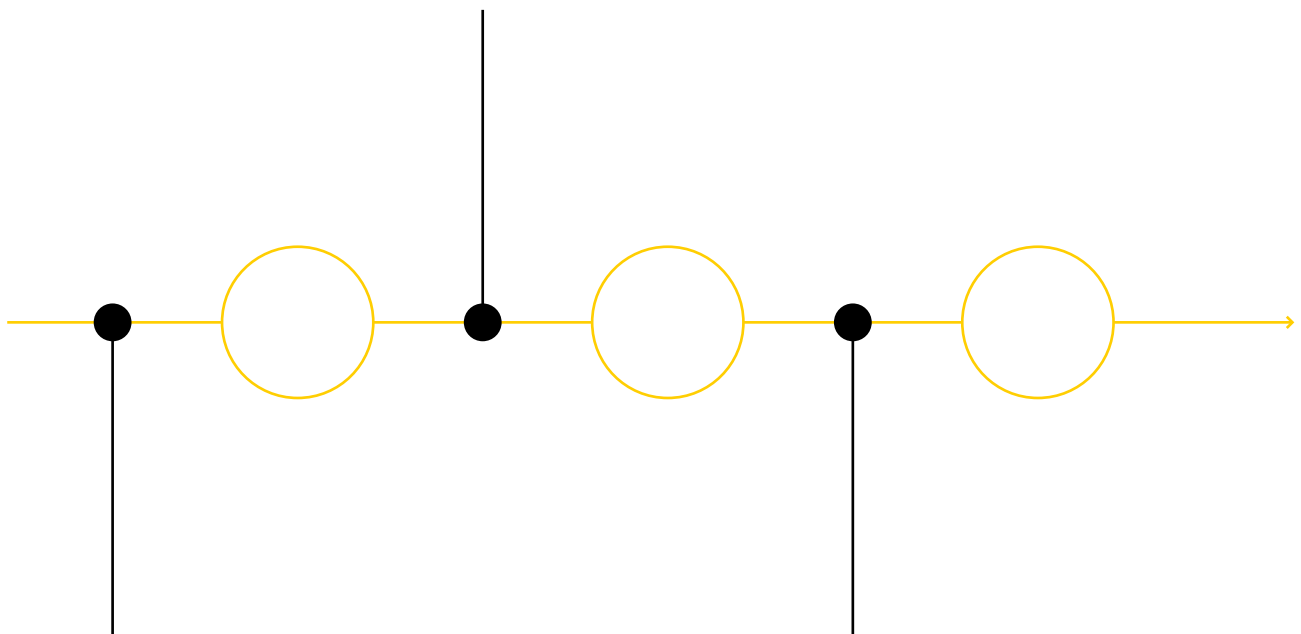


# STRATEGY

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.

## Acquisitions

- execute high quality accretive acquisitions in a fragmented industry



## Asset Management

- achieve organic growth through proactive management of rate and occupancy to drive overall revenue growth
- leverage management platform and economies of scale to extract value
- drive cost efficiencies across the portfolio

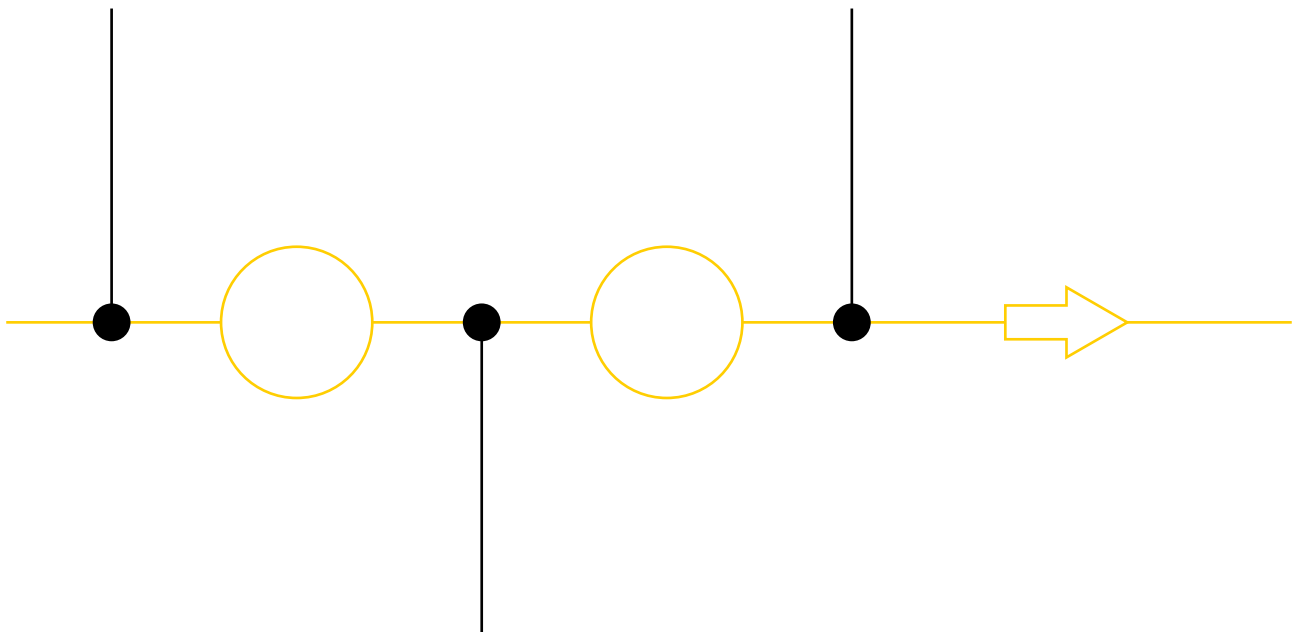
## Portfolio, Development & Centre Management

- focus on development activities in key markets
- align with investment partners to execute development opportunities
- generate fees from site identification, design, development, project management, administration and ongoing management activities
- undertake portfolio recycling opportunities to maximise value

## Product & Innovation

- explore market opportunities for revenue generation
- focus on digital transformation
- drive brand awareness

**Develop multiple revenue streams to maximise returns**



## Capital Management

- maintain an efficient capital structure
- effective risk management including interest rate and refinancing risk

# PORTFOLIO UNDER MANAGEMENT

DARWIN

1  
CENTRE

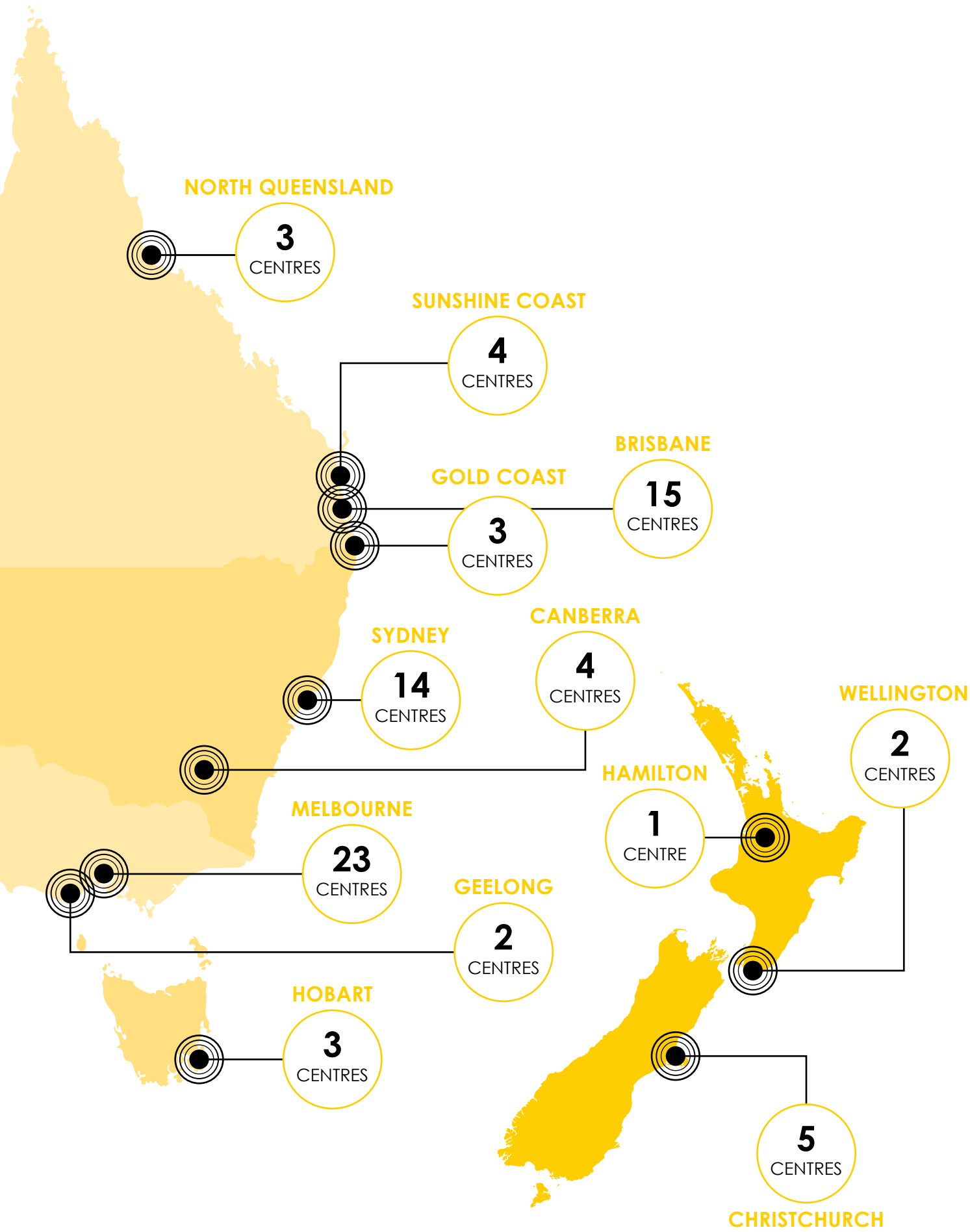
PERTH

19  
CENTRES

ADELAIDE

6  
CENTRES

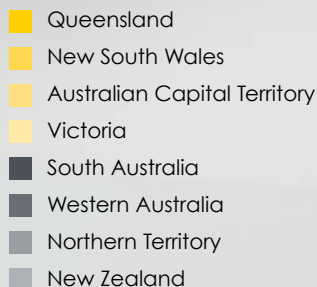
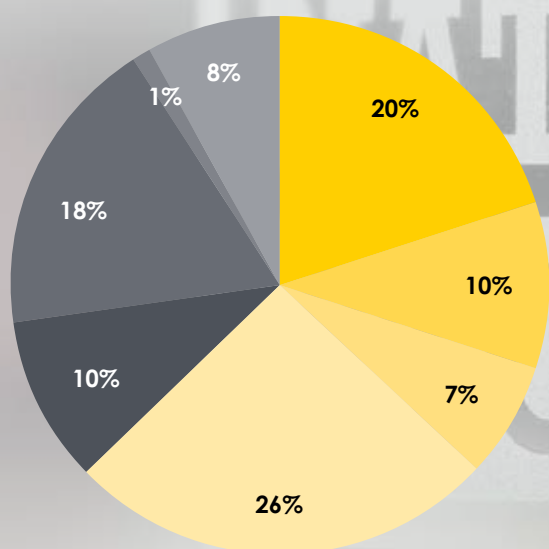
LOCATION	CENTRES	NSR PORTFOLIO NLA (sqm)	TOTAL NLA (sqm)
North Queensland	3	30,200	30,200
Sunshine Coast	4	-	19,300
Gold Coast	3	3,000	16,500
Brisbane	15	48,500	78,000
Sydney	14	48,100	69,800
Canberra	4	27,500	27,500
Melbourne	23	90,400	116,400
Geelong	2	8,600	8,600
Adelaide	6	33,600	33,600
Hobart	3	-	10,200
Perth	19	70,400	94,400
Darwin	1	6,000	6,000
Christchurch	5	17,800	17,800
Hamilton	1	5,300	5,300
Wellington	2	8,100	8,100
<b>TOTAL</b>	<b>105</b>	<b>397,500</b>	<b>541,700</b>



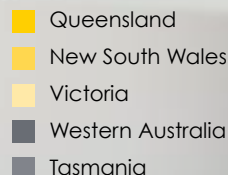
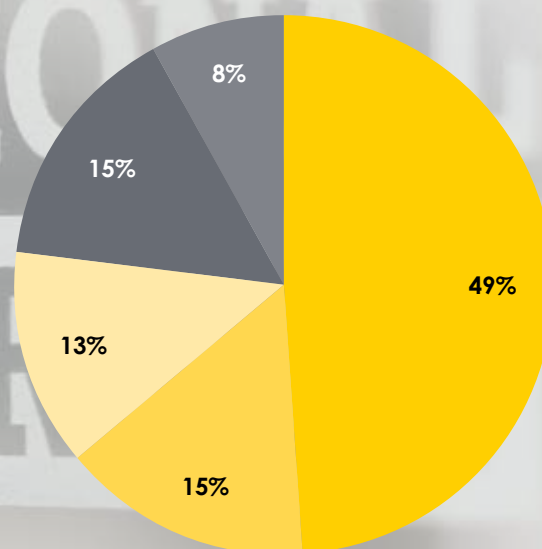
# PORTFOLIO STATISTICS

## PORTFOLIO DIVERSIFICATION

Current NSR by NLA



Southern Cross Portfolio by NLA

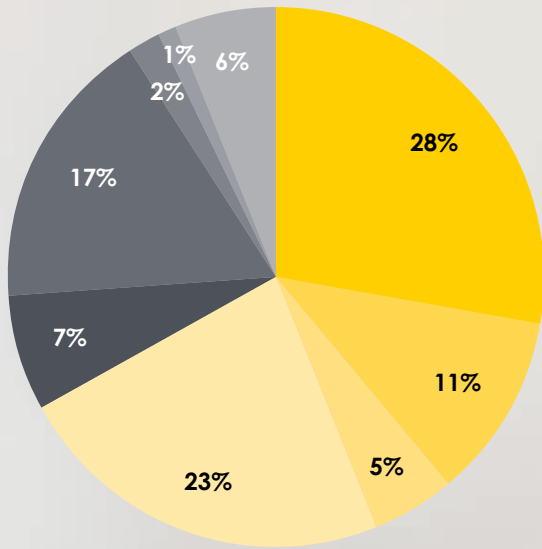


PORTFOLIO COMPOSITION	NUMBER OF CENTRES
NSR Freehold	60
NSR Leasehold	16
Southern Cross	26
Managed for third party owner	3
<b>TOTAL</b>	<b>105</b>

## PORTFOLIO BY VALUATION

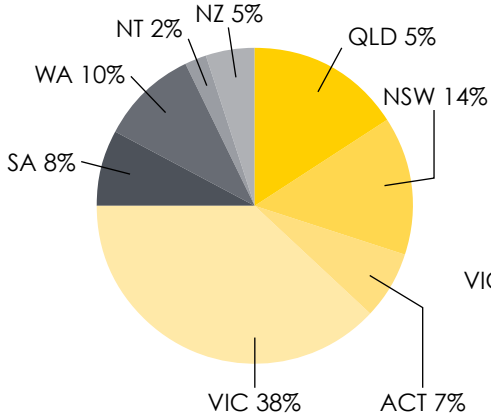
- NSR Portfolio Value \$666 million
- Weighted Average Cap Rate 8.3%
- Pro-forma NSR Portfolio Value post Southern Cross acquisitions \$959 million

**Combined Pro-Forma Portfolio post-settlement by NLA**

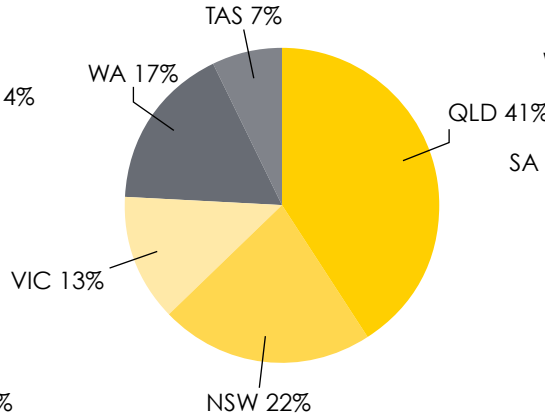


- Queensland
- New South Wales
- Australian Capital Territory
- Victoria
- South Australia
- Western Australia
- Tasmania
- Northern Territory
- New Zealand

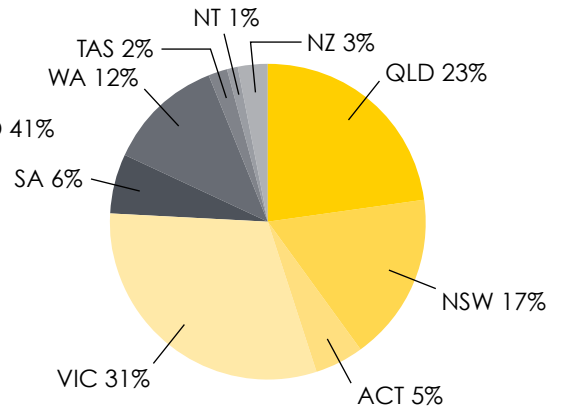
**NSR Portfolio**



**Southern Cross Portfolio**



**Combined Portfolio**



# CHAIRMAN'S REPORT



"Our FY16 results underscore the most active year in our history."

On behalf of the Board, I am pleased to present the National Storage REIT 2016 Annual Report.

Our FY16 results underscore the most active year in our history. A disciplined approach to executing our acquisition strategy and our continued focus on proactive asset management has delivered strong growth in what has been a transformational year for NSR.

This growth is illustrated by a 25% increase in total revenue to \$79.8 million, producing underlying earnings of \$29.2 million, in line with guidance. The acquisition of a further 23 centres builds on the success of previous years and strengthens the National Storage operating platform. National Storage now tailors storage solutions to customers occupying over 38,000 storage units at 105 centres across Australia and New Zealand, making NSR the largest owner-operator in Australasia.

In June 2016 we set out to secure ownership of the strategically important Southern Cross portfolio of 26 storage centres operated by National Storage, in which National Storage already holds a 10% interest. The fully underwritten \$260 million equity raising comprised an over-subscribed institutional placement where we welcomed support from new and existing institutional investors, together with an accelerated non-renounceable entitlement offer which was well received by our existing investor base. This transaction strengthens our position as a market leader and will see total assets approach \$1 billion upon settlement, expected in August 2016.

Throughout FY16 we have maintained a balanced approach to driving rate per square metre and occupancy growth, with a focus on overall revenue growth. Rental rates have remained steady as we delivered a 3% increase in occupancy and we will maintain our sharp management focus on occupancy growth into FY17.

We have reinforced our prudential approach to capital management with a significant debt refinancing which delivered longer duration funding and improved covenants. A reduction in gearing to approximately 34% is expected upon settlement of the Southern Cross transaction. Our strong balance sheet provides capacity and flexibility to pursue our active acquisition pipeline and deliver our growth strategy.

Both institutional and retail investors continue to show interest in our sector specific integrated property trust and operating business model.

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 reliable and growing returns for our investors.

I would like to thank the Board, senior executive and all staff for their continued commitment to the success of National Storage. To our customers, thank you for entrusting the National Storage team to provide your storage solution, and to our valued investors we thank you for your continued support.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L Brindle', written in a cursive style.

**Laurence Brindle**  
Chairman





# MANAGING DIRECTOR'S REPORT



FY16 was a transformative year for National Storage REIT as we focused on the delivery of a number of our strategic objectives including:

- Organic growth;
- Growth via acquisition;
- Execution of development opportunities;
- Securing the strategically important Southern Cross Storage portfolio; and
- Risk mitigation via enhanced capital management.

Overall growth in these areas has been positively reflected in our key operating metrics with:

- Total portfolio occupancy growth (excluding developing centres and New Zealand) from 72% to 75%, a strong result given a number of challenging local markets around Australia;
- Total revenue growth of 25% from \$63.7 million to \$79.8 million;
- Underlying earnings growth of 20% from \$24.3 million to \$29.2 million;
- Growth in total assets from \$740 million to \$959 million; and
- Growth in total centres operated from 82 to 105, an increase of 28%.

We have centred our business strategies on enhancing securityholder value, with a strong focus on:

## IMPROVEMENTS IN OCCUPANCY GROWTH

Pleasingly, a strong focus on staff training, the introduction of an advanced new revenue management system and improvements in a number of other key operational and marketing areas have positively impacted on growth in occupancy across NSR.

We have grown occupancy in many centres across various states to levels in excess of 80%, with the previous economic weakness seen in the Perth and Adelaide markets having stabilised, leading to modest recent improvements in these areas. We are fully focused on continuing this growth into FY17.

## ONGOING INDIVIDUAL CENTRE ACQUISITIONS

NSR has experienced its most active year of acquisitions to date, with 23 acquisitions announced in FY16, totalling \$145 million. This equates to approximately one acquisition every two weeks, illustrating the full engagement of our legal, acquisition and integration teams. To their credit all acquisitions have proceeded as planned and the assets have integrated seamlessly into the NSR portfolio.

Our focus into FY17 continues to be on high quality accretive acquisitions in existing capital cities and a limited number of new target markets around Australia and New Zealand. The acquisition of a new purpose built centre in Darwin added a key element to the expansion of our "National" Australian footprint which now sees National Storage centres in every state and territory of Australia. I am pleased to confirm our New Zealand footprint continues to grow with eight centres across Wellington, Christchurch and Hamilton.

## GROWTH IN ANCILLARY REVENUE STREAMS

NSR continues to work with local partners to expand its ancillary revenue streams in areas such as wine storage and management, insurance, packaging sales, trailer hire and mini logistics solutions. Revenue from these areas increased by 27% in FY16 and provides a solid platform for continued future growth.

In addition, the establishment of our Australian Financial Services Licence, via National Storage Financial Services Limited, provides the opportunity to grow ancillary revenue streams from the internalisation of this previously externalised cost and potential for future business expansion.

#### **DEVELOPMENT, PROJECT MANAGEMENT AND MANAGEMENT ACTIVITIES**

The work undertaken to establish two new joint venture arrangements has seen these ventures successfully undertake construction work in respect of multiple new storage centres – including those at Carrara, Albion and Kelvin Grove in Queensland as well as Butler and in the Perth Airport precinct in Western Australia. Once completed these centres will be branded and operated as National Storage centres, with fees also generated from our role in assisting in the design, development, project management and the ongoing operational and financial management of these centres.

NSR has rights to acquire these centres at various times post construction and in some cases once stabilised occupancy has been achieved. The construction and operation of these new centres will add further critical mass to our operations, boosting the already significant economies of scale we enjoy, as well as providing a strong long term pipeline of potential high quality acquisitions.

#### **ACQUISITION OF THE SOUTHERN CROSS STORAGE PORTFOLIO**

The acquisition of the 26 storage assets comprising the Southern Cross Storage portfolio will be transformative for NSR. This acquisition will bring 231,000 square metres of gross land area in key locations to NSR's ownership along with over 13,000 storage units with a combined net lettable area of over 126,000 square metres. The current operating metrics provide accretion in earnings along with considerable opportunity for future growth. The Southern Cross Storage assets have an independent portfolio valuation of \$293 million based on a portfolio capitalisation rate of 8.3%, with a forecast operating yield in FY17 of 6%. This acquisition involves minimal integration cost and limited risk, given these centres already form part of, and are fully integrated into, the NSR operating platform. The Southern Cross acquisition significantly enhances NSR's geographic ownership spread of properties and improves our portfolio diversification as well as providing potential for ongoing value accretion as the portfolio continues to mature. Ownership of these assets affords NSR control of the portfolio which creates opportunities for further development, redevelopment and portfolio recycling.

#### **CAPITAL MANAGEMENT STRATEGY**

In conjunction with the proposed Southern Cross Storage acquisition in June 2016, we announced a successful renegotiation of our debt facilities, increasing limits by circa \$130 million to \$424 million and improving overall covenants, including increasing gearing headroom to 55% (previously 50%). These renegotiated facilities now include a new \$100 million debt facility to assist in funding the Southern Cross Storage acquisition.

In addition, we have doubled the weighted average tenor of debt from 2.5 years to 5.0 years, providing increased certainty on long term funding arrangements. With an expanded target gearing range of 25% to 40% (from 25% to 35%), we have replenished the balance sheet and now have approximately \$120 million of balance sheet acquisition capacity so we can continue to execute our strategy of acquiring high quality, accretive storage centres well into FY17.

#### **BRAND AND CULTURE**

The NSR brand will be viewed more than 70 million times across Australia and New Zealand in 2016, as part of our commitment to driving brand awareness and development. This strategy is designed to generate top-of-mind awareness as our prominent yellow and black branding becomes synonymous with high quality sporting, cultural, corporate and charity brands across Australia and New Zealand. The downstream impact of these activities includes greater brand recognition, and brand loyalty driving enquiry growth and increasing conversion rates.

At every level of our organisation our staff are determined to achieve revenue growth through increasing occupancy and rate per square metre. At an individual centre level, our centre management teams work tirelessly to achieve these goals on a daily basis. I am deeply appreciative of their efforts in this regard.

I am very grateful for the support of our stakeholders, both internal and external, throughout FY16 and as an organisation we remain committed to delivering on the continued successful growth of National Storage REIT in FY17, and well into the future.

Yours sincerely



**Andrew Catsoulis**  
Managing Director



## INVESTMENT PARTNERS

### SOUTHERN CROSS PORTFOLIO

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

In June 2016, NSR announced the acquisition of the Southern Cross portfolio for a net consideration of \$285 million. The transaction is expected to settle in late August 2016.

This transaction secures the ownership of these strategically important assets and will provide NSR the opportunity to unlock further value as the centres continue to mature as well as providing future development, redevelopment and portfolio recycling opportunities.

### 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 branded National Storage and managed day-to-day by Parsons Group under the guidelines of the National Storage operating platform.

In FY16 the partnership delivered centres at Jandakot and Butler, which are currently operating as managed centres.



## AUSTRALIAN PRIME STORAGE FUND

NSR is a cornerstone investor in the Australian Prime Storage Fund (APSF) with an equity interest of 24.9%. APSF was established to facilitate the development and ownership of premium self-storage centres in cities around Australia. APSF focuses its activity in 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.

Three assets are currently under construction at Carrara, Albion and Kelvin Grove in Queensland and are scheduled to open during FY17.

The 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.

# THE YEAR IN REVIEW

## ASSET MANAGEMENT

The National Storage core product offering covers self-storage, business storage, hard stand/vehicle storage and wine storage.

Occupancy across the total portfolio (excluding developing centres and New Zealand) increased to 75%, up from 72% at 30 June 2015. FY16 saw an emphasis on operational focus shift towards occupancy growth, with the implementation of an advanced multiple signal revenue management modelling system to deliver efficiencies and enhance scalability across the operating platform. The total portfolio (excluding developing centres) achieved a rate per square metre of \$285 reflecting new pricing strategies and promotional offers designed to drive occupancy.

A number of asset upgrades were undertaken across the period including office refurbishments and a national signage upgrade project to enhance centre street appeal, a key driver of customer awareness and storage selection.

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 10,000 parcels to National Storage centres in FY16, while U-Haul rented more than 950 trailers at National Storage centres across Australia.

Ancillary income streams including packaging sales, insurance and vehicle/trailer hire increased by 27% across FY16, with new strategies in place to propel growth into FY17.

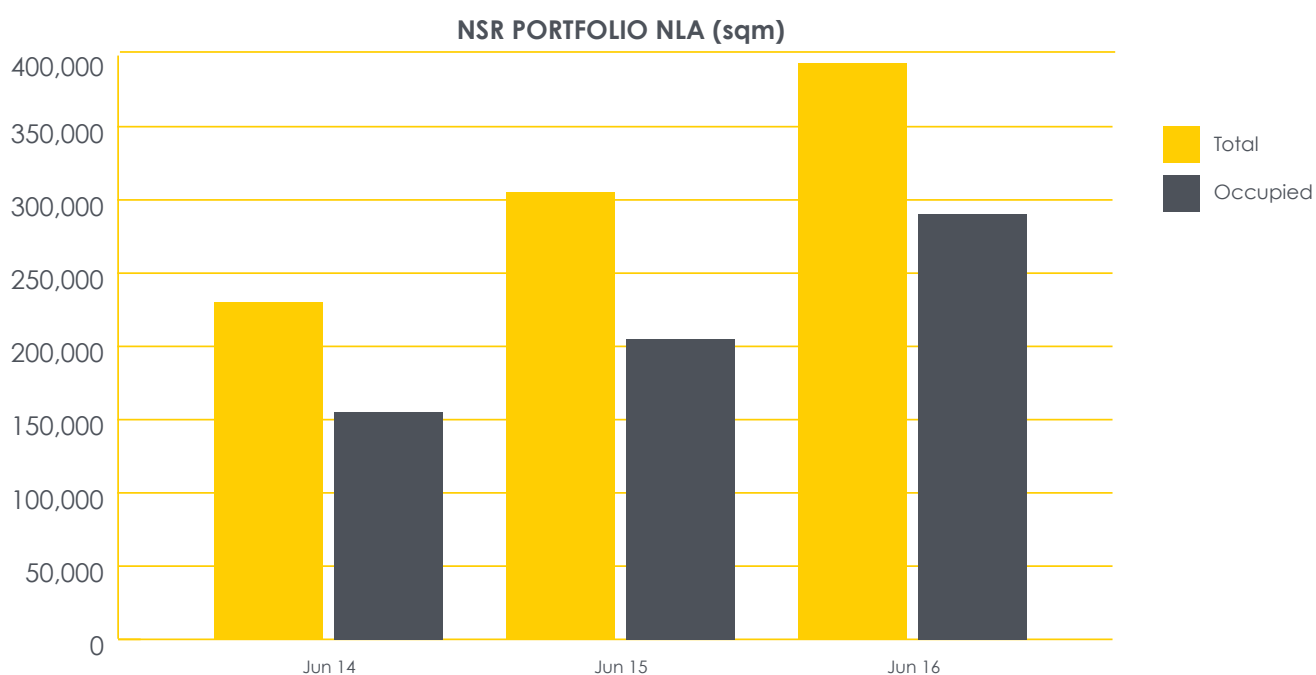


## ACQUISITIONS

FY16 has been the most acquisitive year in NSR's history. National Storage has successfully transacted 23 acquisitions (excluding the Southern Cross portfolio) in FY16 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	ANNOUNCEMENT DATE	NLA (sqm)	STORAGE UNITS	PURCHASE PRICE <sup>3</sup>
H1FY16	Belfast, Opawa, Ferrymead, Hornby & Redwood	Christchurch (NZ)	August 2015	17,000	1,350	\$21.9m (NZ\$23.0m)
	Pymble, Camperdown & Seven Hills	New South Wales	October 2015	13,600	1,400	\$11.1m
	Frankton	Hamilton (NZ)	November 2015	5,400	520	\$7.0m (NZ\$7.4m)
	Earlville	Queensland	November 2015	5,200	550	\$9.9m
	Croydon South	Victoria	December 2015	4,250	390	\$4.7m
	Dee Why	New South Wales	December 2015	4,500	575	\$3.2m
H2FY16	Highbett	Victoria	March 2016	4,600	700	\$17.0m
	Darwin	Northern Territory	April 2016	5,800	600	\$10.8m
	Gosford	New South Wales	April 2016	4,900	400	\$7.2m
	South Wharf	Victoria	May 2016	4,800	725	\$12.5m
	Newtown & Hutt City	Wellington (NZ)	May 2016	8,100	1,450	\$23.8m (NZ\$25.0m)
	Edmonton <sup>1</sup>	Queensland	May 2016	8,500	600	\$7.1m
	Bayswater, Malaga & Welshpool <sup>1</sup>	Western Australia	June 2016	7,300	760	\$9.0m
	Butler (Leasehold) <sup>2</sup>	Western Australia	June 2016	5,100	480	-
<b>Total (since 1 July 2015) - 23 Centres</b>				<b>99,050</b>	<b>10,500</b>	<b>\$145.3m<sup>4</sup></b>
<b>Total (since 1 January 2016) - 11 Centres</b>				<b>49,100</b>	<b>5,715</b>	<b>\$87.4m<sup>4</sup></b>



Footnotes:

1. Edmonton, Bayswater, Malaga & Welshpool formed part of the equity raising acquisitions announced in June 2016. 2. Butler is part of the Perth Development Portfolio, a greenfield development with option to acquire. 3. Excluding transaction costs. 4. Applying a NZD/AUD exchange rate of 1.05.



## WINE ARK

Wine Ark, Australia's largest provider of storage for fine wine, houses over two million bottles across 16 centres for clients located in over 30 countries. There are few other businesses in Australia with more experience when it comes to storing and managing premium wine.

A focus on growing key markets saw Wine Ark acquire a Melbourne wine storage provider in FY16. More than 75,000 bottles were transitioned into an expanded wine storage area at National Storage Brunswick under the care of the Wine Ark cellar management team.

Wine Ark Alexandria launched a bespoke events space in Sydney as part of a broader strategy to grow the premium wine sales and managed cellarage business. The success of the tasting events, masterclasses and broader industry events Wine Ark is championing contributed to a 27% increase in wine sales during FY16.





## MARKETING & CUSTOMER EXPERIENCE

Marketing activities throughout FY16 focused on awareness, engagement and conversion across a range of platforms to deliver growth across the business.

Digital platforms continue to deliver a strong return on investment with visits to the National Storage website increasing by more than 25% over the year. An information architecture upgrade was undertaken to enable National Storage to nurture a digital competitive advantage and capitalise on the shift to digital across the storage landscape. Investment continues into digital channels including search engine optimisation and online advertising platforms to drive brand awareness and deliver conversions.

Sponsorship played a major role in generating cost-effective high level brand awareness for National Storage, engaging fans across Australia and keeping National Storage top-of-mind. In FY16, collectively the National Storage brand was seen by TV audiences of over 35 million, with forecasts for FY17 reaching 70 million, bringing category and brand awareness to a number of capital city markets and sporting codes across the country.

Customer experience remains paramount with referral business generating more than 20% of enquiries for storage. Over 800 reviews on independent review websites are testament to positive customer experiences which currently rank National Storage 8.8 out of 10.



## SUSTAINABILITY

The National Storage Sustainability Project (NSSP) was created to assess and evolve corporate social responsibility impacts and approaches into a comprehensive sustainability framework.

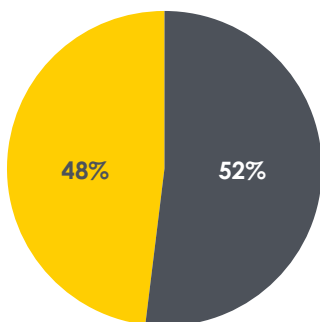
The National Storage values will underpin the framework, with a strong emphasis on engagement and empowerment. The framework development will continue into FY17 with further detail to be provided online as the project progresses.

## Our People

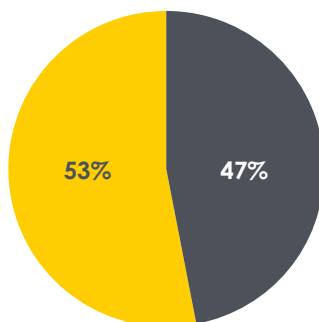
National Storage employs over 350 people across Australia and New Zealand, fostering a family based philosophy and culture centred on core values of teamwork, care and excellence.

A strong focus on learning and development in FY16 delivered a range of new training programs and certificates, mentoring opportunities, leadership development and teambuilding activities across all staff levels. The health and wellness of the National Storage workforce is paramount, so in addition to existing workplace health and safety and employee assistance programs, all staff have been invited to participate in a wellness program designed to help staff be the best version of themselves.

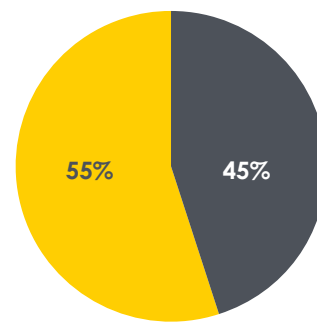
### ALL STAFF



### MANAGEMENT



### SENIOR MANAGEMENT



■ Females ■ Males

## Our Places

A key driver of the establishment of the NSSP was the desire to improve the efficiency of the storage portfolio. Storage assets generally present low environmental impacts with minimal utility use given the nature of the business. National Storage remains committed to creating a sustainable future and minimising its environmental footprint.

In addition to a number of lighting efficiency projects underway, the broader sustainability review will identify opportunities for efficiencies in energy and water consumption across the portfolio. Any efficiency projects undertaken will be assessed on the basis of return on investment for both the environment and our investors.

The centres currently under construction through the Australian Prime Storage Fund feature a number of efficiency measures including solar energy, water recycling and advanced airflow technologies.

All National Storage centres play an active role in recycling, with every centre equipped with recycling bins or skips. The success of the National Storage box-buy-back program is reflected in more than 25,000 branded boxes re-sold and re-used during FY16.

National Storage is committed to building a sustainable supply chain. A number of key suppliers, including a major packaging provider, clearly demonstrate the same commitment and the NSSP will further explore this area.

## Our Community

Each National Storage centre plays an active role in its local community and the broader business is committed to maintaining socially responsible business practices.

National Storage provides more than 1,200 sqm of in-kind storage to local community groups and charities across the country. National Storage is proud to partner with a wide range of not-for-profit groups, from national organisations like Ronald McDonald House Charities Australia and RizeUp Australia through to local Men's Shed groups and sporting clubs.

Each centre has a local community engagement budget which is used to further its presence in the community and support local clubs, groups and businesses. The majority of centres engage with their local community by assisting sporting clubs and schools in local catchment areas.

## Community Spotlight

In May 2016 National Storage Collingwood donated space for "shadow sites" as part of the Next Wave Festival in Melbourne, bringing culture and community together. Examining the relationship between artwork, its documentation and viewing spaces, "shadow sites" explored how art is understood both within and outside the gallery.

What happens to artworks when they are hidden from view, resting in the vaults of an archive? Inside a commercial storage unit, a volcanic rock rests on light sensitive paper, a single fluorescent bulb illuminates a cement sculpture and a cast of a corrugated iron wall is neatly folded in a corner, prudently waiting. Fifteen minutes-walk away in a gallery space at the Centre for Contemporary Photography, the artists' documents and working processes are present, while the artworks themselves inhabit the unusual surrounds of National Storage Collingwood.



Curated by Samantha McCulloch (ZAF/VIC) & Frances Wilkinson (VIC)



## 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. Laurence was appointed as the Non-executive Chairman of Viva Energy REIT in July 2016.

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

### **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 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 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 Nomination and Remuneration Committees.



## Howard Brenchley

Independent Non-executive Director  
BEC

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

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 Generation Healthcare REIT and Industria REIT. He is also a member of the Board of Advisors of the Property Industry Foundation (Victoria) and Chair of the Property Council of Australia's International and Capital Markets Victorian Leaders Group.

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 High 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.





## SENIOR EXECUTIVES

### **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 Australasia, 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.





### **Claire Fidler**

Company Secretary  
LLB (Honours) BBus (Intl Bus)

Claire was appointed as the principal company secretary of National Storage on 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 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.



### **Makala Ffrench Castelli**

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

Makala has ten years' experience in corporate communications, investor relations and marketing communications. She has worked with leading companies in the urban development, 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, business innovation and corporate affairs.

Makala holds a Bachelor of Business (Marketing / E-Business) and a Graduate Diploma in Arts.

# CORPORATE GOVERNANCE

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

## GOVERNANCE FRAMEWORK

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. 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 and the Board to ensure that it reflects changes in the law.

In its ongoing commitment to solid corporate governance, NSR concluded its broad-scoped enterprise risk project during FY16. NSR has commenced rolling out the recommendations from the project and expects this to be completed 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 2016, the NSH Board has convened the following committees as part of its corporate governance framework:

COMMITTEE	CHAIR	MEMBERS
Audit	Anthony Keane	Laurence Brindle, Howard Brenchley
Risk	Anthony Keane	Laurence Brindle, Howard Brenchley
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)

In November 2015, NSFSL became the responsible entity for the NSPT. Each of the directors of NSH also serves as a director of NSFSL. 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 five Directors, being four non-executive Directors (one of whom is the Chairman) and the Managing Director. Detailed information about the Directors is set out on pages 28-30.

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 security holders to periodically review the size of the Board and its skill set to ensure that it remains appropriate for NSR. As and when the opportunity arises, the Board will seek to enhance the gender diversity of the Board (and has been active in identifying a number of potential candidates). At this stage the size, skill set and functionality of the Board is appropriate. The Board will continue to review this decision on an ongoing basis and will consider expanding the size and diversity of the Board at a time when an increase in the size of the board is warranted and considered to be in the best interests of NSR and its security holders.

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 Brenchley and Mr Steven Leigh to be independent.

## COMPANY SECRETARIES

The principal Company Secretary of NSH and NSFSL is Ms Claire Fidler. 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 32-33 on this report.

## RISK MANAGEMENT

NSR's operations expose it to risks. A summary of potential risks is set out on pages 106-111 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

The Directors of NSH jointly with the Directors of the Responsible Entity as responsible entity of the NSPT present their report together with the financial statements of NSR which incorporates NSH and its controlled entities ("NSH Group") and NSPT and its controlled entities ("NSPT Group") for the financial year ended 30 June 2016 (the "Reporting Period") and the Independent Auditor's Report. The Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M of the Corporations Act Cth 2001.

## KEY HIGHLIGHTS

- A-IFRS profit after tax of \$44.0 million (2015: \$48.7 million) and earnings per stapled security ("EPS") of 13.13 cents (2015: 16.56 cents)
- Underlying earnings<sup>1</sup> up 20% to \$29.2 million (2015: \$24.3 million)
- Underlying earnings per stapled security up 6.1 % to 8.7 cents per stapled security (2015: 8.2cps), in line with guidance
- Total Portfolio (excluding developing centres)
  - Occupancy increased to 75.0% (2015: 72.2%)
  - Rate per square metre of \$285/sqm (2015: \$293/sqm)
- Established Portfolio (Assets held for greater than 2 years)
  - Occupancy increased to 71.3% (2015: 70.5%)
  - Rate per square metre at \$281/sqm (2015: \$282/sqm)
- Total Revenue increased by 25% to \$79.8 million (2015: \$63.7 million)
- Distributions of 8.7 cents per stapled security in line with guidance
- Completed 23 acquisitions across Australia and New Zealand (excluding Southern Cross portfolio) totalling \$145.3 million<sup>(2,3)</sup> and added 99,050 sqm in net lettable area
- Total Assets Under Management (AUM) increased by 30% from \$740 million to \$959 million at 30 June 2016
- Increase of 5.2% in the valuation of the 30 June 2015 portfolio from \$500 million to \$526 million. Total portfolio value (including acquisitions) \$666 million
- Entered into arrangements to acquire the remaining 90% interest in the Southern Cross portfolio of 26 storage centres for \$285 million<sup>4</sup>
- Renegotiated existing debt facilities, increasing limits by circa \$130 million to \$424 million while improving overall covenants and increasing weighted average debt tenor to 5 years (previously 2.5 years at 31 December 2015)
- Successfully conducted an institutional placement and accelerated non-renounceable institutional and retail entitlement offer raising \$260 million

## 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 105 self-storage centres under operation or management, tailoring storage solutions to over 35,000 customers across Australia and New Zealand. NSR has grown its portfolio of owned and managed centres by over 69% from 62 centres at the time of the IPO to 105 centres at the date of this Directors' Report. It has grown total storage units by approximately 60% with NSR now managing 59,200 storage units across approximately 542,000 sqm (of which 381,000sqm is occupied) of net lettable area around Australia and New Zealand. AUM has increased to \$959 million as at 30 June 2016.

Of the 105 self-storage properties in the NSR portfolio, ownership is as follows:

- 60 self-storage centres owned by NSPT
- 16 self-storage centres operated as long-term leasehold centres (Leasehold Centres);
- 26 self-storage centres managed for the Southern Cross Storage Group (Southern Cross) and in respect of which NSR recently entered into arrangements to acquire the balance of the Joint Venture; and
- 3 third party managed centres.

Southern Cross is an unlisted investment fund established by National Storage and real estate investment firm Heitman in September 2011 that owns self-storage centres throughout Australia, operated as National Storage branded centres and of which National Storage owns a 10% interest in

<sup>1</sup> A-IFRS profit after tax adjusted for tax benefit (-\$0.25 million), Fair value adjustments (-\$10.02 million) and Net loss from fair value adjustments of Leasehold investment properties (-\$4.55 million)

<sup>2</sup> Excluding transaction costs

<sup>3</sup> Applying a NZD/AUD exchange rate of 1.0515

<sup>4</sup> Net consideration pre transaction costs

this portfolio. National Storage entered into arrangements with Heitman on 28 June 2016 to acquire the remaining 90% of the Southern Cross portfolio. The acquisition of the Southern Cross assets is expected to complete on or about 30 August 2016.

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 minimization 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 on pages 8 – 27 of this 2016 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

A-IFRS Profit after tax for the Reporting Period was \$44.0 million with EPS of 13.13 cents. Underlying earnings, after adjusting (excluding) movements in the fair value of assets and other one-off items, increased by 20% to \$29.2 million. NSR also delivered solid growth of 6.1% in underlying earnings per stapled security to 8.7cps for the 2016 financial year.

Gross trading income rose by 25% to \$79.8 million. Occupancy across the total portfolio (excluding developing centres) increased to 75%, up from 72.2% at 30 June 2015. This is a pleasing result and demonstrates that the continued focus on driving increased occupancy is delivering results.

### CASH MANAGEMENT

Cash and cash equivalents as at 30 June 2016 were \$13.4 million compared to \$9.5 million in 2015. Net operating cashflow for the year increased to \$49.3 million (2015: \$37.6 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 4.3 cents per stapled security (\$14.4 million) was paid on 26 February 2016 with a final distribution of 4.4 cents per stapled security (\$14.8 million) declared on 23 June 2016 with an

estimated payment date of 29 August 2016, delivering a 6.1% increase in the total distribution for the year to 8.7 cents per stapled security.

During the reporting period NSR implemented a 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 2015 interim distribution approximately 19.9% of eligible securityholders (by number of securities) elected to receive their distributions as securities totalling \$2,858,177. The DRP price was set at \$1.454 which resulted in 1,965,734 new securities being issued.

The June 2016 final distribution has seen approximately 23.4% of eligible securityholders (by number of securities) elect to receive their distributions as securities totalling \$3,462,243. The DRP price was set at \$1.5637 which will result in 2,212,617 new securities being issued.

NSR successfully completed a refinance of its debt facilities on 28 June 2016. The new facilities continue to be on a "Club" arrangement with National Australia Bank, Westpac Banking Corporation and Commonwealth Bank of Australia. The new facilities have increased NSR's borrowing capacity to A\$424 million and the weighted average tenor has been extended to 5.0 years, up from 2.5 years as at 31 December 2015. NSR's target gearing range has expanded to 25%-40% (from 25%-35%) to provide flexibility and the ability to act on acquisition opportunities. As at the date of this report the facilities were drawn to A\$185 million.

NSR maintains interest rate hedges in accordance with NSR's hedging policy. 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 date of this report interest rate hedges totalling A\$119 million were in place with an average tenor of 3.9 years.

Subsequent to the Reporting Date the proceeds of the A\$260 million capital raise have been received. These funds have been used to repay A\$111 million of debt with the balance invested and to be used to facilitate the settlement of the Southern Cross acquisition.

## 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 the number of centres in the NSR portfolio grow by 23 centres from 1 July 2015 to the date of this Directors' Report, and has resulted in the value of the NSR property portfolio (including indirect interests) increasing by \$145 million. Further, a revaluation of the 30 June 2015 NSR owned centres as at 30 June 2016 (based on valuations and methodologies from independent valuer (m3 Property)) yielded an increase of 5.2% from \$500 million to \$526 million.

## INVESTMENT IN AUSTRALIAN PRIME STORAGE FUND

NSR also invested \$6.25 million to take a cornerstone 24.9% holding in the Australian Prime Storage Fund (APSF). 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 acquisition, design and development, centre management, debt facilitation and fund support services. The Fund currently has three sites under construction in south-east Queensland, at Kelvin Grove, Albion and Carrara.

## 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 accretive 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 8.7 cents per stapled security for the Reporting Period, comprising:

- An estimated distribution of 4.4 cents per stapled security for the 6 months to 30 June 2016. The distribution is expected to be paid on 29 August 2016 and is expected to contain a tax deferred component.
- A distribution of 4.3 cents per stapled security for the period 1 July 2015 to 31 December 2015 which was paid on 26 February 2016 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. NSR 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's operating activities expose it to a number of potential risks. Overall risk is managed centrally by management to minimise potential adverse effects on the financial performance of NSR and protect securityholder value.

A summary of the potential risks faced by NSR and its mitigation strategies is as follows:

- **Economic Conditions** - 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.
- **General commercial property risks** - 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.
- **Tenure** - 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.
- **Competition** - 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 barriers to entry for new competition, NSR constantly monitors its competitors' activities to ensure pricing and terms remain competitive.
- **Valuations** - 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.
- **Property liquidity** - 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.
- **Leasehold interests** - 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.

- **Future acquisitions and expansions** - 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.
- **Personnel risk** - 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.
- **Interest rate fluctuations and derivative exposure** - 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.
- **Occupational health and safety** - 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.
- **Insurance risk** - 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.
- **Funding** - 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.
- **Environmental issues** - 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 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 Branchley	Non-Executive Director (Appointed 21 November 2014)
Steven Leigh	Non-Executive Director (Appointed 21 November 2014)

### NATIONAL STORAGE FINANCIAL SERVICES LIMITED (NSFSL)

NSFSL was appointed as responsible entity on 10 November 2015. The Directors of NSFSL in office from 10 November 2016 during the Reporting Period 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 Branchley	Non-Executive Director (appointed 8 September 2015)
Steven Leigh	Non-Executive Director (appointed 8 September 2015)

### THE TRUST COMPANY (RE SERVICES) LIMITED

The Trust Company (RE Services) Limited was responsible entity up until 10 November 2015. The Directors of the responsible entity in office from 1 July 2015 until 10 November 2015, unless stated, are set out below.

NAME	POSITION
Andrew Cannane	Director
Christopher Green	Director
Gillian Larkins	Director (resigned 31 July 2015)
Anna O'Sullivan	alternate Director for Andrew Cannane alternate Director for Christopher Green
Glenn Foster	alternate Director for Gillian Larkins (resigned 31 July 2015)
Glenn Foster	Director (appointed 31 July 2015)
Michael Vainauskas	Director

### 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 was appointed as the Non-executive Chairman of Viva Energy REIT on 10 July 2016 which listed on the ASX on 3 August 2016.

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 recently announced acquisition of the Southern Cross portfolio.

**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 nearly 30 years' involvement in the Australian property industry, as an analyst, investor and fund manager. Howard co-founded Property Investment Research Pty Ltd (PIR) in 1989 which during the 1990s was considered a leading researcher of both listed and unlisted property funds. In 1998 Howard was responsible for the establishment of APN Funds Management Limited, part of the 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 Generation Healthcare REIT and Industria REIT. He is also a member of the Board of Advisors of the Property Industry Foundation (Victoria).

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.

#### **Board of The Trust Company (RE Services) Limited**

##### **Andrew Cannane, Director BEcon, MBA**

Andrew Cannane is General Manager, Corporate Client Services and has responsibility for wholesale trustee and custodial services for registered and unregistered funds and our Singapore Corporate Trustee business. Prior to Perpetual's acquisition of The Trust Company, Andrew was the General Manager of Corporate Client Services for The Trust Company where he was responsible for business development and client relationship management. He was also an Executive Director on The Trust Company's RE and Debt Capital Markets Boards. Prior to this, Andrew established The Trust Company's office in Singapore and has led the strategic direction of The Trust Company's international business for the past seven years. Prior to joining The Trust Company, Andrew spent 15 years in wealth management, financial markets and retail banking in Australia, Singapore, and the UK. He holds a MBA (Executive) degree from the Australian Graduate School of Management, a Bachelor of Economics degree from Sydney University and he is a Fellow of the Financial Services Institute of Australasia (FINSIA).

##### **Christopher Green, Director B Com, LLB, MBA**

Christopher joined Perpetual from JPMorgan where he spent ten years with the Institutional Trust Services business firstly in Europe covering the European, Middle Eastern and African markets and then as head of its Australian business. His career began as a solicitor for Corrs Chambers Westgarth. He holds a Masters of Business Administration (London Business School) and a Bachelor of Laws and a Bachelor of Commerce (University of Queensland). Christopher is Deputy Chairman of the Australian Securitisation Forum and a member of the Australian Institute of Company Directors. Christopher is currently completing a BA in Philosophy through the University of London.

##### **Gillian Larkins, Director (resigned 31 July 2015) B Com, GradDip Accounting & Finance MBA CA GAICD**

Ms Gillian Larkins joined Perpetual as Group Executive Transformation Officer in October 2012, and assumed the role of Chief Financial Officer in January 2013. Ms Larkins has approximately 20 years of experience in finance, strategy and management roles across a number of industries. Most recently, she was Chief Financial Officer, Managing Director of Westpac Institutional Bank, responsible for Finance and Strategy, and prior to that, Chief Financial Officer Australia and New Zealand of Citigroup. Ms Larkins has also served on the board of Hastings Fund Management as a non-executive director from 2009 to 2011. As a member of the Executive Leadership Team reporting to the CEO, Ms Larkins heads Perpetual's Finance, IT, and Risk functions, which include Audit, Legal and Company Secretariat. Ms Larkins holds a Master of Business Administration from the Macquarie Graduate School of Management, as well as a Graduate Diploma in Accounting and Finance and a Bachelor's Degree of Commerce, majoring in Economics, both from the University of Otago, New Zealand. She is a member of the NZ Chartered Accountant's Society and a Graduate of the Australian Institute of Company Directors.

##### **Michael Vainauskas, Director (appointed 2 March 2015) MBF**

Michael joined Perpetual Limited as the Chief Risk Officer (CRO) in October 2014. In this role he is responsible for both risk management and internal audit functions across the Group. Prior to this he was the Head of Risk Operations within the International Financial Services (IFS) Division of the Commonwealth Bank of Australia (CBA) where he held this role from March 2012 until Nov 2013. In this role Michael was responsible for managing and supporting all risk management functions (other than large credit approvals) of the IFS businesses which include China, India, Indonesia, Japan and Vietnam. Michael was previously the CRO for PT Commonwealth Bank Indonesia for 1 year, a subsidiary of CBA. In this role Michael was responsible for all risk and legal areas across the subsidiary. Michael's background in finance extends back to 1983 and covers business, operational, compliance, legal and risk related responsibilities, from line-staff positions through to executive management level within a decentralised and centralised framework. Michael previously worked for 15 years at Household Finance Ltd which was subsequently acquired by AVCO Finance and is known as GE Capital today in Australia. Michael holds a Master of Business in Finance.

**Glenn Foster (appointed 31 July 2015)**  
**B Comm, CA, GAICD**

Glenn is responsible for the Perpetual Limited Group Finance function including external, regulatory and statutory reporting, financial operations, corporate tax compliance, and treasury and capital management. He is also responsible for Business Support Services, including Facilities Management. Glenn commenced his career with Coopers and Lybrand (now part of PricewaterhouseCoopers) before entering the financial services industry in 1994. Prior to joining Perpetual in 2003, Glenn worked in a number of senior finance roles with AIDC Ltd., Babcock and Brown, State Street Bank & Trust Company and RAMS.

**Alternate Directors:**

Anna O'Sullivan - LLB

Glenn Foster – B Comm, CA, GAICD (resigned 31 July 2015)

**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
	Generation Healthcare REIT (ASX:GHC)	12/08/2011 - Current
	Industria REIT (ASX:IDR)	03/12/2013 - Current

**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

**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	19 (19)	7 (7)	6 (6)	7 (7)	4 (4)
Anthony Keane	18 (19)	7 (7)	6 (6)	7 (7)	4 (4)
Andrew Catsoulis	19 (19)	-	-	-	-
Howard Brenchley	19 (19)	7 (7)	6 (6)	-	-
Steven Leigh	19 (19)	-	-	7 (7)	4 (4)

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.

## 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)**

Claire was appointed as the principal company secretary of National Storage on 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 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.

**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 at page 34 of this 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 \$153,726.

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 is 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 directors 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)

#### 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 advisers consider a range of factors including the specific responsibilities assumed by KMP. An independent consultant, Crichton Associates, was engaged during the Reporting Period to assess the directors' and senior executives' current remuneration and remuneration structure and to provide a summary on market practice relating to executive remuneration and remuneration structures. The advice did not constitute a remuneration recommendation as defined in the *Corporations Act Cth 2001*. Crichton Associates were paid \$10,109 during the financial year.

The Remuneration Committee comprises three independent non-executive directors and is chaired by Laurence Brindle. The Remuneration committee met seven 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, industry 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 2016-17 TAR for KMP is detailed in the table below.

ROLE	TFR	STI	LTI
MD	58%	21%	21%
COO	58%	21%	21%
CFO	66%	17%	17%
GC/CRO	75%	12.5%	12.5%

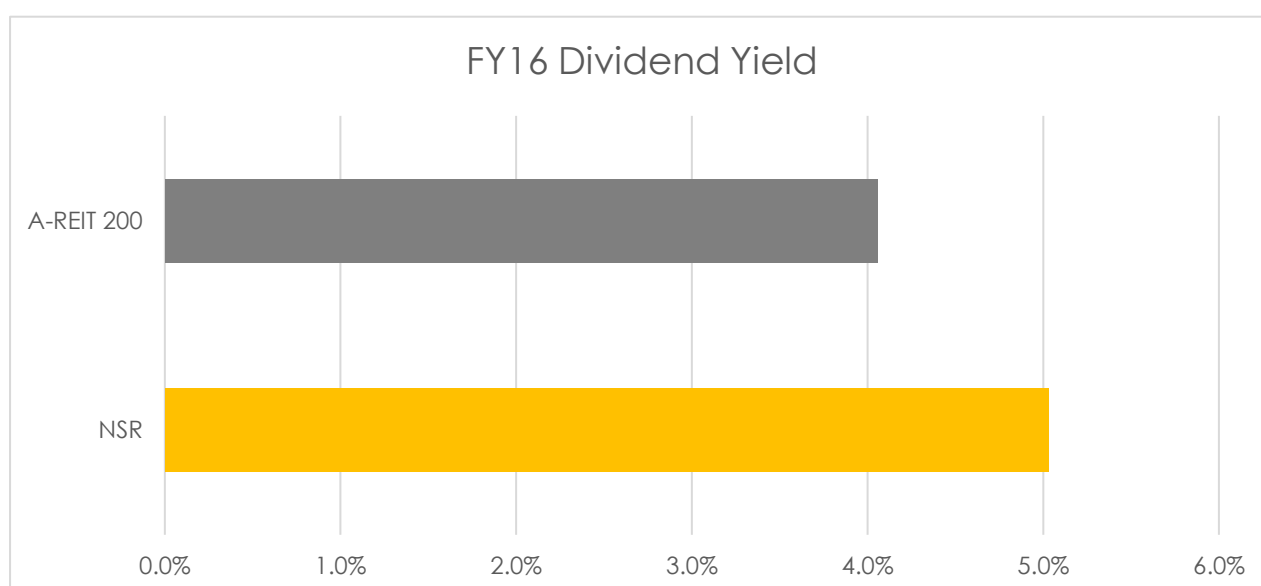
## NSR PERFORMANCE

NSR has delivered its growth objectives over the reporting period including the acquisition of \$145 million in new storage centres and culminating in the execution of a successful \$260 million capital raise in June 2015 associated with finalisation of the 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 growth since listing, increasing underlying earnings per stapled security by 6.1% in the 12 months to 30 June 2016 over the corresponding period to 30 June 2015. 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 to securityholders. During financial year 2016 NSR declared distributions totalling 8.7 cents per stapled security, being at the upper end of the stated policy, delivering DPS yield of 4.9%, some 19% above that of the A-REIT 200 average.

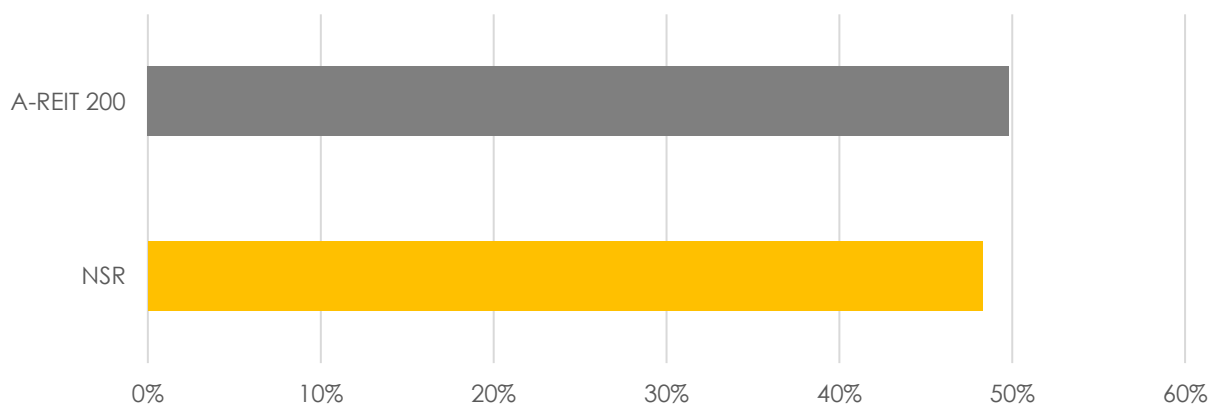


Source: Bloomberg. Market Data as at 1 August 2016.

Total shareholder return, assuming dividends are re-invested in the underlying shares. Calculated daily over 12 months to 30 June 2016.

NSR has delivered Total Shareholder Return "TSR" (a combination of share price growth and distributions received by securityholders) over the past two years to 30 June 2016 of 48%. This result is in line with the A-REIT 200 index average of 50% and ranks NSR 12<sup>th</sup> out of the 27 comparator companies. Performance against the index weakened at the end of the financial year due to the effects of the capital raising undertaken on 28 June 2016.

### Total Shareholder Return



Source: Bloomberg. Market Data as at 17 August 2016.  
 Total shareholder return, assuming dividends are re-invested in the underlying shares. Calculated daily over 12 months to 30 June 2016. NSR calculated daily over the period 1 July 2015 to 30 June 2016.

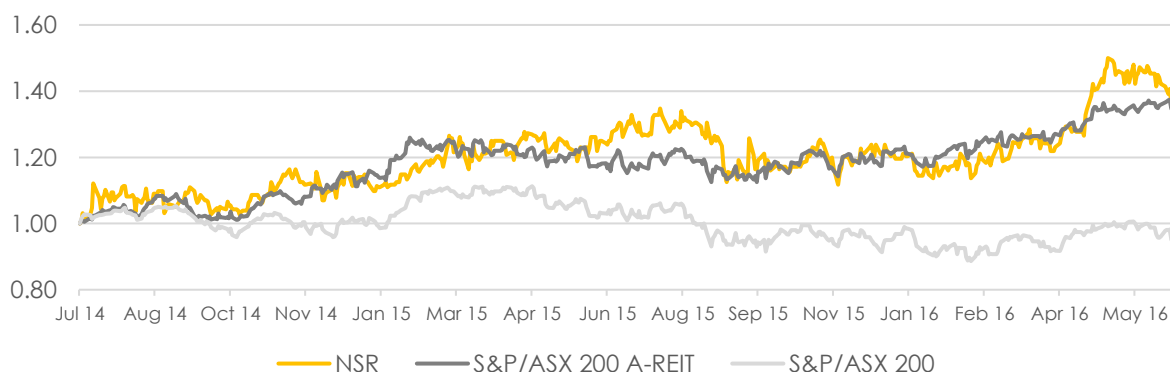
NSR listed in December 2013 with an issue price of \$0.98. From that time to 30 June 2016 the stapled security price has increased by 69% with 30 June 2016 closing price of \$1.66.

### NSR Stapled Security Price



Security price performance over the period 1 July 2014 to 30 June 2016 has shown a 33% increase. This compares to an increase of 38% for the A-REIT 200 index and 3% decline for the broader ASX 200 Index over the same period.

### Relative Performance



## 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 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 45 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 2016 are as follows:

NON-EXECUTIVE DIRECTORS	BASE FEE	AUDIT AND RISK COMMITTEE FEES	REMUNERATION AND NOMINATION COMMITTEE FEES	TOTAL
Laurence Brindle <sup>1</sup>				\$250,000
Anthony Keane <sup>2</sup>	\$100,000	\$20,000	\$5,000	\$125,000
Steven Leigh	\$100,000		\$5,000	\$105,000
Howard Brenchley	\$100,000	\$8,000		\$108,000

1. Chairman and chair of the Remuneration and Nomination Committees and receives a single fee for all roles
2. Chair of the of Risk and Audit 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 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 within the limits set by the *Corporations Act Cth 2001* such that they do not require securityholder approval.

NAME	TERM OF AGREEMENT AND NOTICE PERIOD	BASE SALARY INCLUDING SUPERANNUATION*	TERMINATION PAYMENTS
Andrew Catsoulis	No fixed term 6 months	\$825,000	<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	\$740,000	<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	\$390,000	<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 week of service – capped at 2 months in the event of redundancy</li> </ul>
Patrick Rogers (Effective 1 July 2015)	No fixed term 6 months	\$300,000	<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 week 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 2016. They are reviewed annually by the Remuneration Committee. Actual salaries paid in the year ended 30 June 2016 are shown on page 55.

### Short and long term incentives

KMP senior executives are also entitled to participate in the short and long term incentive 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, industry 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 short and long term incentive plans and has determined that at this point in time payments made under the 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 share price performance and TSR.

An independent consultant was engaged during the 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 2016.

#### 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 as determined by the Board
Financial – Out Performance*	10%	Exceeding Underlying Earnings 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>
<b>Total</b>	<b>100% (Max)</b>	

\* 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 \$725,000 for FY17 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:

- Total Shareholder Return 70% of LTI
- EPS growth 30% of LTI

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). The minimum LTI payable is zero and maximum LTI payable is \$725,000 for FY17 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 2016 in accordance with the incentive program outlined in the 2015 Annual Report. The program was substantially 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 \$1,181,000 for FY16 in aggregate for all KMP.

The STI and LTI hurdles included:

1. Underlying earnings exceeding \$30m
2. TSR over the period from IPO (23 December 2013) to 30 June 2016 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 2016 target 8.9cps)

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, inclusive of statutory Superannuation amounts, for the period 1 July 2015 to 30 June 2016.

<b>INCENTIVE OFFICER</b>	<b>STI</b>	<b>LTI</b>	<b>TOTAL</b>
Andrew Catsoulis (MD)	\$67,500	\$87,500	\$155,000
Peter Greer (COO)	\$47,250	\$78,750	\$126,000
Stuart Owen (CFO)*	\$25,000	-	\$25,000
Patrick Rogers (GC/CRO)	\$9,325	\$10,675	\$20,000
<b>Total</b>	<b>\$149,075</b>	<b>\$176,925</b>	<b>\$326,000</b>

\* The CFO was not entitled to a payment under LTI as the period of service criteria had not been satisfied. The CFO was also paid a \$25,000 discretionary bonus during the year in addition to the payments made under the STI and LTI Incentive plans.

## DETAILS OF REMUNERATION

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

	SHORT TERM INCENTIVES		POST-EMPLOYMENT BENEFITS SUPER-ANNUATION	LONG TERM INCENTIVES		TERMINATION PAYMENTS	TOTAL	PERFORMANCE RELATED
	SALARY & FEES	CASH BONUS		CASH INCENTIVES	LONG SERVICE LEAVE			
<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 Brenchley	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>-</b>	<b>3,033,095</b>	

	SHORT TERM INCENTIVES		POST-EMPLOYMENT BENEFITS SUPER-ANNUATION	LONG TERM INCENTIVES		TERMINATION PAYMENTS	TOTAL	PERFORMANCE RELATED
	SALARY & FEES	CASH BONUS		CASH INCENTIVES	LONG SERVICE LEAVE			
<b>2015</b>	\$	\$	\$	\$	\$	\$	\$	%
<i>Non-executive directors</i>								
Laurence Brindle	149,094	-	14,164	-	-	-	163,258	0%
Anthony Keane	81,862	-	7,777	-	-	-	89,639	0%
Howard Brenchley	55,519	-	-	-	-	-	55,519	0%
Steven Leigh	38,453	-	3,653	-	-	-	42,106	0%
<i>Executive director</i>								
Andrew Catsoulis	431,438	146,956	40,987	76,563	10,138	-	706,082	32%
<i>Senior executives</i>								
Peter Greer	391,152	121,013	37,159	56,000	9,215	-	614,539	29%
Thomas Rice (Resigned 13 February 2015)	137,652	-	19,558	-	3,644	94,982	255,836	0%
Stuart Owen (Appointed 26 October 2014)	150,158	-	14,265	-	3,732	-	168,155	0%
<b>Total</b>	<b>1,435,328</b>	<b>267,969</b>	<b>137,563</b>	<b>132,563</b>	<b>26,729</b>	<b>94,982</b>	<b>2,095,134</b>	

## KMP CLAWBACK AGREEMENT

The Managing Director and Chief Operating Officer have agreed, in relation to the stapled securities issued in the IPO that they hold, to performance hurdles and clawback mechanisms if the performance hurdles are not achieved. The performance hurdles are in place until the earlier of the date the performance hurdles are achieved for two consecutive test dates or five years. If the performance hurdles are not achieved, any distribution from the NSPT or a dividend from NSH (a "Securities Payment") will be clawed back from the relevant officer.

If a dividend/distribution is declared it must be determined if the EPSS of NSR for the relevant period is at least 8.75 cents. The relevant period is the rolling twelve month period ending on the last day of the relevant period, if:

1. the EPSS are less than 8.25 cents then the clawback will be 100% of any distribution or dividend;
2. the EPSS are greater than 8.75 cents then there will be no clawback;
3. the EPSS are greater than 8.25 cents but less than 8.75 cents, the clawback will be calculated using the following formulae:

$$CP = 1 - ((E - 8.25 \text{ cents}) / (8.75 \text{ cents} - 8.25 \text{ cents}))$$

where

CP = the Clawback Proportion

E = the EPS of NSR for the relevant period

### Voluntary Escrow

The Managing Director and Chief Operating Officer have agreed not to transfer any part of their vendor stapled securities whilst the performance hurdles apply and agree to the application of a holding lock on their vendor stapled securities. The exception to this escrow is if a court orders the transfer provided the transferee enters a deed agreeing to be bound by the provisions of this escrow.

As at 30 June 2016 the performance hurdles in relation to the KMP clawback agreement and voluntary escrow have been fully satisfied and these arrangements concluded.

### 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 2015	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	ACQUIRED	BALANCE 30 JUNE 2016
<i>Directors of NSH</i>					
Laurence Brindle	1,032,400	-	-	-	1,032,400
Anthony Keane	114,000	-	-	-	114,000
Andrew Catsoulis	12,559,163	-	-	136,000	12,695,163
Howard Brenchley	-	-	-	50,000	50,000
Steven Leigh	63,000	-	-	-	63,000
<i>Executives of NSH</i>					
Peter Greer	5,586,735	-	-	-	5,586,735
Stuart Owen	-	-	-	-	-
Patrick Rogers	-	-	-	-	-
<b>Total</b>	<b>19,355,298</b>	<b>-</b>	<b>-</b>	<b>186,000</b>	<b>19,541,298</b>

### RELATED PARTY TRANSACTIONS

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



## **SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE**

### **EQUITY RAISING**

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.

Subsequent to the Reporting Date the proceeds of the \$260 million capital raise have been received.

### **ACQUISITION OF STORAGE CENTRES**

As announced on 28 June, NSR entered into an agreement to purchase the Southern Cross portfolio of self-storage assets for a net consideration of \$285 million. The geographically diversified and complementary portfolio comprises 26 storage centres with a combined NLA of 126,000sqm and 13,000 storage units. The agreement was subject to fulfillment of contractual conditions as at 30 June 2016. The transaction is expected to settle on 30 August 2016.

On 7 July 2016 NSR completed the acquisition a self-storage asset in Cairns, Queensland for \$7.1 million.

On 23 August 2016 NSR announced that it has exercised an option to purchase the Butler self-storage asset in Perth for \$8.8 million. Butler is a newly constructed centre which formed part of the Perth Development Portfolio.

On 23 August 2016, NSR also announced that it had entered into agreements to acquire additional self-storage assets in Hobart, Tasmania for \$3.3 million, and Kurnell, Sydney for \$17.5 million. Both transactions remain conditional and should they proceed, settlement is expected in September 2016.

All purchases will be funded via NSR's existing debt facilities.

### **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 60.

### *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	\$87,225
2. Other	\$52,415

### **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 17 to the financial statements.

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

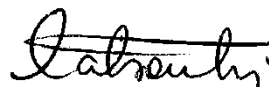
### **INTERESTS IN THE NSPT**

The movement in units on issue by the NSPT during the year is set out in note 13 to the financial statements.

This Directors' Report is made on 23 August 2016 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 23 August 2016 in accordance with a resolution of the Responsible Entity and is signed for and on behalf of the Responsible Entity.



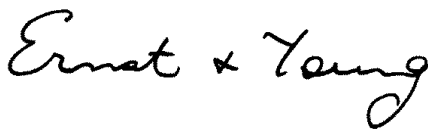
Laurence Brindle  
Director  
National Storage Financial Services Limited  
Brisbane

## 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 2016, 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



Mark Hayward  
Partner  
23 August 2016

FINANCIAL STATEMENTS  
30 JUNE 2016



## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the year ended 30 June 2016

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue from storage rent		69,709	55,141	-	-
Rental revenue		-	-	34,151	28,581
Revenue from sale of goods and services		7,226	5,670	742	345
Other revenue	5	2,815	2,876	147	787
<b>Total revenue</b>		<b>79,750</b>	<b>63,687</b>	<b>35,040</b>	<b>29,713</b>
Salaries and employee benefits expense	6	(15,460)	(11,579)	-	-
Management fees - operational		(215)	(474)	(908)	(474)
Property rates and taxes		(4,391)	(3,651)	-	(229)
Repairs and maintenance		(1,085)	(759)	(15)	(7)
Cost of packaging and other products		(954)	(834)	-	-
Depreciation and amortisation	6	(571)	(277)	-	-
Finance costs	7	(15,787)	(11,121)	(7,011)	(5,677)
Professional fees		(562)	(797)	(39)	(59)
Other operational expenses	6	(8,746)	(6,978)	-	(3)
<b>Total operational expenses</b>		<b>(47,771)</b>	<b>(36,470)</b>	<b>(7,973)</b>	<b>(6,449)</b>
<b>Gross operating profit</b>		<b>31,979</b>	<b>27,217</b>	<b>27,067</b>	<b>23,264</b>
Fair value adjustments	6	10,025	20,996	15,531	25,611
Loss on disposal of property, plant, and equipment		-	(1)	-	-
Other non-operational expenses		-	(851)	-	(439)
Share of profit of joint ventures and associates	12	1,732	1,632	1,732	1,632
<b>Profit before income tax</b>		<b>43,736</b>	<b>48,993</b>	<b>44,330</b>	<b>50,068</b>
Income tax benefit / (expense)	8	250	(260)	(165)	-
<b>Profit after tax</b>		<b>43,986</b>	<b>48,733</b>	<b>44,165</b>	<b>50,068</b>
<b>Profit/(loss) for the year attributable to:</b>					
Members of National Storage Holdings Limited		(179)	(1,335)	-	-
Non-controlling interest (unit holders of NSPT)		44,165	50,068	44,165	50,068
		<b>43,986</b>	<b>48,733</b>	<b>44,165</b>	<b>50,068</b>
<b>Basic and diluted earnings per stapled security / unit (cents)</b>	19	13.13	16.55	13.18	17.01

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 2016

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Profit after tax</b>		<b>43,986</b>	<b>48,733</b>	<b>44,165</b>	<b>50,068</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		205	-	227	-
Net (loss)/gain on cash flow hedges	14	(5,176)	(879)	(5,176)	(879)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>(4,971)</b>	<b>(879)</b>	<b>(4,949)</b>	<b>(879)</b>
<b>Total comprehensive income for the year</b>		<b>39,015</b>	<b>47,854</b>	<b>39,216</b>	<b>49,189</b>
<b>Total comprehensive income for the year attributable to:</b>					
Members of National Storage Holdings Limited		(201)	(1,335)	-	-
Unit holders of National Storage Property Trust		39,216	49,189	39,216	49,189
		<b>39,015</b>	<b>47,854</b>	<b>39,216</b>	<b>49,189</b>

The above Consolidated Statements of Other Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2016

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	9.1	13,374	9,494	9,367	7,862
Trade and other receivables	9.2	7,329	3,972	9,224	6,954
Inventories	10.1	373	300	-	-
Other current assets	9.3	2,743	2,814	206	126
<b>Total current assets</b>		<b>23,819</b>	<b>16,580</b>	<b>18,797</b>	<b>14,942</b>
<b>Non-current assets</b>					
Trade and other receivables	9.2	220	220	-	-
Property, plant and equipment	10.2	1,684	832	-	-
Investment properties	10.3	844,130	592,404	621,030	465,293
Investment in joint ventures and associates	12	15,101	6,709	8,441	6,709
Intangible assets	10.4	14,648	14,170	-	-
Deferred tax assets	8	125	-	61	-
<b>Total non-current assets</b>		<b>875,908</b>	<b>614,335</b>	<b>629,532</b>	<b>472,002</b>
<b>Total Assets</b>		<b>899,727</b>	<b>630,915</b>	<b>648,329</b>	<b>486,944</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	9.4	6,198	4,003	4,095	1,542
Finance lease liability	9.7	4,425	5,022	-	-
Deferred revenue	10.5	7,726	6,400	59	-
Income tax payable		152	-	152	-
Provisions	10.6	1,750	1,172	-	-
Other liabilities	9.6	14,803	14,047	14,803	14,047
<b>Total current liabilities</b>		<b>35,054</b>	<b>30,644</b>	<b>19,109</b>	<b>15,589</b>
<b>Non-current liabilities</b>					
Trade and other payables	9.4	-	1,700	-	1,700
Interest bearing loans and borrowings	9.5	284,526	123,012	264,726	123,012
Finance lease liability	9.7	173,823	87,439	-	-
Other liabilities	9.6	6,522	1,272	6,522	1,272
Provisions	10.6	1,316	699	-	-
Deferred tax liability	8	136	487	-	-
<b>Total non-current liabilities</b>		<b>466,323</b>	<b>214,609</b>	<b>271,248</b>	<b>125,984</b>
<b>Total Liabilities</b>		<b>501,377</b>	<b>245,253</b>	<b>290,357</b>	<b>141,573</b>
<b>Net Assets</b>		<b>398,350</b>	<b>385,662</b>	<b>357,972</b>	<b>345,371</b>
<b>EQUITY</b>					
Non-controlling interest (unit holders of NSPT)		364,978	352,377	-	-
Contributed equity	13	31,707	31,419	299,760	297,191
Other reserves	14	(22)	-	(6,221)	(1,272)
Retained earnings		1,687	1,866	64,433	49,452
<b>Total equity</b>		<b>398,350</b>	<b>385,662</b>	<b>357,972</b>	<b>345,371</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 2016

### Attributable to securityholders of the 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 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)	14	-	-	(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	16	-	-	-	(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>
<b>Balance at 1 July 2014</b>		<b>17,758</b>	<b>3,201</b>	<b>-</b>	<b>223,368</b>	<b>244,327</b>
(Loss)/profit for the year		-	(1,335)	-	50,068	48,733
Other comprehensive income/(loss)	14	-	-	-	(879)	(879)
<b>Total comprehensive income/(loss)</b>		<b>-</b>	<b>(1,335)</b>	<b>-</b>	<b>49,189</b>	<b>47,854</b>
Issue of stapled securities through institutional placement	13	11,832	-	-	91,546	103,378
Issue of stapled securities through share purchase plan	13	1,316	-	-	10,184	11,500
Issue of stapled securities on property acquisition	13	819	-	-	6,333	7,152
Costs associated with issue of securities	13	(306)	-	-	(2,371)	(2,677)
Distributions provided for or paid	16	-	-	-	(25,872)	(25,872)
		<b>13,661</b>	<b>-</b>	<b>-</b>	<b>79,820</b>	<b>93,481</b>
<b>Balance at 30 June 2015</b>		<b>31,419</b>	<b>1,866</b>	<b>-</b>	<b>352,377</b>	<b>385,662</b>

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the year ended 30 June 2016

### 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 2015</b>		<b>297,191</b>	<b>49,452</b>	-	<b>(1,272)</b>	<b>345,371</b>
Profit for the year		-	44,165	-	-	44,165
Other comprehensive income/(loss)	14	-	-	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	16	-	(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>
<b>Balance at 1 July 2014</b>		<b>191,499</b>	<b>25,256</b>	-	<b>(393)</b>	<b>216,362</b>
Profit for the year		-	50,068	-	-	50,068
Other comprehensive income/(loss)	14	-	-	-	(879)	(879)
<b>Total comprehensive income/(loss)</b>		<b>-</b>	<b>50,068</b>	<b>-</b>	<b>(879)</b>	<b>49,189</b>
Issue of units through institutional placement	13	91,546	-	-	-	91,546
Issue of units through share purchase plan	13	10,184	-	-	-	10,184
Issue of units as part of property acquisition	13	6,333	-	-	-	6,333
Costs associated with issue of units	13	(2,371)	-	-	-	(2,371)
Distributions provided for or paid	16	-	(25,872)	-	-	(25,872)
		<b>105,692</b>	<b>(25,872)</b>	<b>-</b>	<b>-</b>	<b>79,820</b>
<b>Balance at 30 June 2015</b>		<b>297,191</b>	<b>49,452</b>	<b>-</b>	<b>(1,272)</b>	<b>345,371</b>

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 30 June 2016

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Operating activities</b>					
Receipts from customers		85,676	70,779	30,613	28,821
Payments to suppliers and employees		(36,546)	(33,353)	(2,083)	(4,182)
Interest received		155	170	79	44
<b>Net cash flows from operating activities</b>	9.1	<b>49,285</b>	<b>37,596</b>	<b>28,609</b>	<b>24,683</b>
<b>Investing activities</b>					
Purchase of investment properties		(145,597)	(153,653)	(132,425)	(133,261)
Improvements to investment properties		(3,801)	(2,133)	(462)	(715)
Purchase of property, plant and equipment		(1,164)	(563)	-	-
Purchase of intangible assets		(739)	(218)	-	-
Proceeds on sale of investment properties		-	7,250	-	7,250
Proceeds on disposal of property, plant, and equipment		-	53	-	-
Investment in associate		(6,660)	-	-	-
<b>Net cash flows used in investing activities</b>		<b>(157,961)</b>	<b>(149,264)</b>	<b>(132,887)</b>	<b>(126,726)</b>
<b>Financing activities</b>					
Proceeds from issue of stapled securities		-	114,878	-	101,730
Transaction costs on issue of stapled securities		-	(2,677)	-	(2,371)
Distributions paid to stapled security holders		(25,572)	(21,131)	(25,860)	(21,131)
Distributions clawed back from former owners of National Storage Pty Ltd		-	1,990	-	1,827
Repayment of borrowings		-	(105,750)	-	(105,750)
Proceeds from borrowings		160,469	141,334	140,669	141,334
Payment of finance lease liabilities		(12,800)	(10,027)	-	-
Interest and other finance costs paid		(9,537)	(5,719)	(9,070)	(5,836)
<b>Net cash flows from financing activities</b>		<b>112,560</b>	<b>112,898</b>	<b>105,739</b>	<b>109,803</b>
Net increase in cash and cash equivalents		3,884	1,230	1,461	7,760
Net foreign exchange difference		(4)	-	44	-
Cash and cash equivalents at 1 July		9,494	8,264	7,862	102
<b>Cash and cash equivalents at 30 June</b>	9.1	<b>13,374</b>	<b>9,494</b>	<b>9,367</b>	<b>7,862</b>

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

## 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 2016 was approved on 23 August 2016, in accordance with a resolution of the Board of Directors of National Storage Holdings Limited.

The financial report of NSPT for the year ended 30 June 2016 was approved on 23 August 2016, 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 an 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 National Storage Holdings Limited and National Storage Property Trust 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 Reports are the same as the 30 June 2015 financial report 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 2016, the Consolidated Group had an excess of current liabilities over current assets of \$11,235,000.

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 \$7,726,000 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 \$137.9m (see note 15).

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 liability obligations.

The NSPT Group has an excess of current liabilities over current assets of \$312,000. The deficiency in net current assets in NSPT Group is largely attributable to the distribution payable of \$14,803,000.

To service the distribution payment, loans receivable from the NSH Group will be called ahead of the planned payment date. On this basis, the Directors of the Responsible Entity believe the deficiency of net current assets does not impact the going concern assumption applied in the preparation of the financial statements of the NSPT Group.

### (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 2015.

Reference	Title	Application date of standard*	Application date for Group*
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality, and Financial Instruments.	1 January 2015	1 July 2015
AASB 2015-3	Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality	1 January 2015	1 July 2015

Adoptions 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 2016 are outlined in the table below.

The Group is currently evaluating the full impact of AASB 9, AASB 15 and AASB 16.

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. The standard includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption.</p> <p>AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses.</p>	1 January 2018	1 July 2018

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
		<p>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>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>The Group is in the process of assessing how its own hedging arrangements would be affected by the new rules.</p>		
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (AASB 1 and AASB 11)	<p>AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.</p> <p>The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations</p>	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	<p>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate.</p>	1 January 2016	1 July 2016
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</p>	1 January 2018	1 July 2018

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
		<p>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 applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p> <p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>The Group is currently evaluating the impact of the new standard.</p>		
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	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.	1 January 2018	1 July 2018
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements.	1 January 2016	1 July 2016
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p><b>Lessee accounting</b></p> <p>(a) Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>(b) A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</p> <p>(c) Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</p>	1 January 2019	1 July 2019

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
		<p>(d) AASB 16 contains disclosure requirements for lessees.</p> <p><b>Lessor accounting</b></p> <p>(a) AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</p> <p>(b) AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</p> <p>AASB 16 supersedes: a) AASB 117 Leases (b) Interpretation 4 Determining whether an Arrangement contains a Lease (c) SIC-15 Operating Leases—Incentives (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>		
2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017



#### (d) Basis of consolidation

The Financial Report of NSR as at 30 June 2016 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

The consolidated financial statements of NSPT as at 30 June 2016 comprises the consolidated financial statements of the NSPT Group.

The financial statements for the Consolidated Group are prepared on the basis that National

Storage Holdings Limited 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 (h)).

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. NSPT has a joint venture that is recognised in both the NSPT Group and the Consolidated Group. Interests in joint ventures 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 statement of profit or loss outside operating profit 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 or 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 of joint ventures and associates' in the 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.

#### **(e) 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 being made. 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 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. 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 statement of profit or loss due to its operating nature.

##### *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. Gains / (losses) on the sale of assets are calculated on the carrying amount in the financial statements at the last full period.

##### *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*

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.

#### **(f) 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 and potential capital gains 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 generally 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 reduced to the extent that it is no longer 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*

National Storage Holdings Limited 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)*

Revenues, expenses and assets 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.

## **(g) 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.

## **(h) Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a subsidiary comprises:

- the fair values of the assets transferred
- liabilities incurred
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets, liabilities, and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the fair value of any previous equity interest in the acquired entity at the date of acquisition, over the fair value of the net identifiable assets acquired is recorded as goodwill. If this is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently

remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from re-measurement are recognised in profit or loss.

### **(i) Leases**

The determination of whether an arrangement is (or contains) 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 10.3). The Consolidated Group also leases various 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 payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The 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 18). 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 the general agreement.

### **(j) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less 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 short term deposits as defined above.

### **(k) 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 9.2 for further information about the Group's accounting for trade receivables and note 15 for a description of the group's impairment policies.)

### **(l) 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 estimated costs of completion and the estimated costs necessary to make the sale.

### **(m) 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.

### **De-recognition**

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.

### **(n) Derivatives and hedging activities**

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 9.8. Movements in the hedging reserve in equity are shown in note 14. 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.

### **(o) 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 - 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(r)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

### **(p) 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 rotation 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 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 de-recognition.

Transfers are made to or from investment property only when there is a change in use. For

a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property 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 interest paid is presented within consolidated statements of cash flows.

### **(q) 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, such as goodwill, with indefinite useful lives are not amortised, but are tested for impairment at each reporting period, either individually or at the cash-generating unit 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 de-recognition 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.

Costs incurred in developing products or systems and acquiring software and licences that will contribute to future economic benefits are capitalised as an intangible asset. Costs capitalised include external direct costs of materials and service, employee costs and an appropriate portion of relevant overheads. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset. IT software is amortised over a period of five years, unless events or changes in circumstances indicate that it might be impaired in which case it is amortised over an appropriate shorter period.

#### **(r) 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 suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### **(s) 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.

#### **(t) 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.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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.

#### **(u) 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.

#### **(v) 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 10.6).

#### **(w) 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.

#### **(x) 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.

#### **(y) 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.

### **(z) 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 in to the nearest thousand dollars, or in certain cases, the nearest dollar.

### **(aa) Parent entity financial information**

The financial information for the parent entities, National Storage Holdings Limited ("NSH") and National Storage Property Trust ("NSPT"), disclosed in note 21 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, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

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

### **(bb) 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 a 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, described as follows, 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 9.8 and 10.7.

### 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 judgement: classification of joint arrangement*

The Consolidated Group and the NSPT Group have a 10% interest in a joint arrangement known as *The Southern Cross Group* which consists of Southern Cross Operations Pty Ltd and Southern Cross Property Trust. The joint venture has been contractually structured whereby the parties to the agreement have agreed to an equal number of director positions with equal votes and participation in decision making. The Southern Cross Group is considered a joint venture as it is a separate vehicle, being the consolidation of Southern Cross Operations

Pty Ltd and Southern Cross Property Trust (see note 12).

##### *Deferred income tax*

Deferred tax assets are recognised by the Consolidated Group and NSPT 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 Groups. 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 rotation 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 10.7.

##### *Impairment of non-financial assets – intangibles*

An impairment exists when the carrying value of an asset or cash-generating unit (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 available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. 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.

#### 4. SEGMENT INFORMATION

The Consolidated Group has identified its operating segments based on the internal management information used by Directors of National Storage Holdings Limited, 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 Board of National Storage Holdings Limited. The Group's financing is managed on a Group basis and not allocated to operating segments.

##### Geographic information

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Revenue from external customers</b>				
Australia	77,002	63,687	33,559	29,713
New Zealand	2,748	-	1,481	-
<b>Total</b>	<b>79,750</b>	<b>63,687</b>	<b>35,040</b>	<b>29,713</b>

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

##### Geographic information

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Non-current operating assets</b>				
Australia	822,801	614,335	578,103	472,002
New Zealand	53,107	-	51,429	-
<b>Total</b>	<b>875,908</b>	<b>614,335</b>	<b>629,532</b>	<b>472,002</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. OTHER REVENUE

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Other revenue</b>					
Interest revenue	7	155	170	79	337
Design and development fees		1,239	1,135	-	-
Other revenue		1,421	1,571	68	450
<b>Total other revenue</b>		<b>2,815</b>	<b>2,876</b>	<b>147</b>	<b>787</b>

## 6. EXPENSES AND OTHER INCOME

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Depreciation and amortisation</b>					
Depreciation of non-current assets	10.2	310	116	-	-
Amortisation of intangible assets	10.4	261	161	-	-
<b>Total depreciation and amortisation</b>		<b>571</b>	<b>277</b>	<b>-</b>	<b>-</b>
<b>Other operational expenses</b>					
Advertising and marketing		1,646	757	-	-
Bank charges		468	468	-	-
Electricity		1,316	1,239	-	-
Insurance		839	923	-	-
Communications costs		946	1,026	-	-
Information technology costs		637	524	-	-
Premises costs		2,163	832	-	-
Other		731	1,209	-	3
<b>Total other operational expenses</b>		<b>8,746</b>	<b>6,978</b>	<b>-</b>	<b>3</b>
<b>Employee benefits expense</b>					
Wages and salaries		11,978	9,148	-	-
Post-employment benefits		1,084	877	-	-
Other employee costs		2,398	1,554	-	-
<b>Total employee benefits expense</b>		<b>15,460</b>	<b>11,579</b>	<b>-</b>	<b>-</b>
<b>Minimum lease payments recognised as an operating lease expense</b>					
		323	323	-	-
<b>Fair value adjustments</b>					
Investment property – net gain		10,025	20,252	15,531	24,934
Contingent consideration at fair value through profit or loss – gain	9.8	-	744	-	677
<b>Total fair value adjustments</b>		<b>10,025</b>	<b>20,996</b>	<b>15,531</b>	<b>25,611</b>

## 7. FINANCE INCOME AND EXPENSES

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Finance income</b>					
Bank interest		155	170	79	44
Interest income from related parties		-	-	-	293
<b>Total finance income</b>	5	<b>155</b>	<b>170</b>	<b>79</b>	<b>337</b>
<b>Finance costs</b>					
Interest on interest bearing loans and borrowings		7,546	5,687	7,011	5,677
Finance charges on finance leases		8,241	5,434	-	-
<b>Total finance costs</b>		<b>15,787</b>	<b>11,121</b>	<b>7,011</b>	<b>5,677</b>

## 8. 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 will have attached Foreign Income Tax Offsets, which when subsequently distributed by NSPT can be claimed by an Australian tax resident, depending on their personal circumstances. There are no foreign income tax offsets attached to either the 31 December 2015 or 30 June 2016 distributions.

The Consolidated Group and NSPT Group calculates the period income tax expense using the tax rate that would be applicable to expected total annual earnings in both Australia and New Zealand, i.e. the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The major components of income tax (benefit)/expense for the years ended 30 June 2016 and 30 June 2015 are:

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Consolidated statement of profit or loss</b>				
Current tax	152	-	152	-
Deferred tax	(402)	260	13	-
Total income tax (benefit) /expense	(250)	260	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 loss on revaluation of cash flow hedges	(74)	-	(74)	-
Deferred tax charged to other comprehensive income	(74)	-	(74)	-
<b>Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2016 and 2015:</b>				
Profit from continuing operations	43,736	48,993	44,330	50,068
Deduct profit before tax from Trusts owning Australian property	(45,579)	(50,068)	(45,579)	(50,068)
Accounting loss before income tax	(1,843)	(1,075)	(1,249)	-
Tax at the Australian tax rate of 30% (2015 – 30%)	(553)	(323)	(375)	-
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>				
Prepayments	-	76	-	-
Adjustments in respect of previous years	(241)	651	-	-
Other non-deductible expenses	514	-	514	-
Origination and reversal of temporary differences	-	(144)	-	-
Effect of lower tax rates in New Zealand	30	-	26	-
<b>Income tax (benefit) / expense</b>	<b>(250)</b>	<b>260</b>	<b>165</b>	<b>-</b>

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Deferred tax expense included in income tax (benefit) / expense comprises:</b>				
Increase in deferred tax assets	(44,680)	(25,391)	(110)	-
Increase in deferred tax liabilities	44,204	25,651	49	-
Movement in deferred tax asset recognised in other comprehensive income	74	-	74	-
<b>Total income tax (benefit) / expense</b>	<b>(402)</b>	<b>260</b>	<b>13</b>	<b>-</b>
<b>Deferred tax assets and liabilities</b>				
<b>Deferred tax assets</b>				
The balance comprises temporary differences attributable to:				
Lease liability	117,536	73,515	-	-
Borrowing costs	29	-	29	-
Employee benefits	623	494	-	-
Accrued expenses	179	190	7	-
Carry forward losses	2,462	2,036	-	-
Formation expenses	177	175	-	-
Make-good provision	70	67	-	-
Unrealised foreign exchange gains	7	-	-	-
Revaluation of cash flow hedges	74	-	74	-
<b>Total deferred tax assets</b>	<b>121,157</b>	<b>76,477</b>	<b>110</b>	<b>-</b>
<b>Deferred tax liabilities</b>				
The balance comprises temporary differences attributable to:				
Prepayments	217	79	-	-
Revaluations of investment properties to fair value	120,664	76,885	42	-
Accelerated depreciation for tax purposes	280	-	-	-
Unrealised foreign exchange losses	7	-	7	-
<b>Total deferred tax liabilities</b>	<b>121,168</b>	<b>76,964</b>	<b>49</b>	<b>-</b>
<b>Net deferred tax (liability) / asset</b>	<b>(11)</b>	<b>(487)</b>	<b>61</b>	<b>-</b>
<b>Reconciliation to statement of financial position</b>				
Deferred tax asset	125	-	61	-
Deferred tax liability	(136)	(487)	-	-
<b>Net deferred tax (liability) / asset</b>	<b>(11)</b>	<b>(487)</b>	<b>61</b>	<b>-</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 tax losses recognised as a deferred tax asset, which arose in Australia, of \$8,041,665 (2015: \$6,786,471) that are available indefinitely for offsetting against future taxable profits of the Consolidated Group. The Consolidated Group has tax losses recognised as a deferred tax asset, which arose in New Zealand, of \$205,276 (2015: nil) that are available indefinitely for offsetting against future taxable profits of the National Storage New Zealand Limited. The NSPT Group has no tax losses that are available indefinitely for offsetting against future taxable profits of the NSPT Group (2015: none).



## 9. 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:

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Financial assets</b>					
<i>At amortised cost</i>					
Cash and cash equivalents	9.1	13,374	9,494	9,367	7,862
Trade and other receivables	9.2	7,549	4,192	9,224	6,954
Other assets *	9.3	970	533	199	119
<b>Total financial assets</b>		<b>21,893</b>	<b>14,219</b>	<b>18,790</b>	<b>14,935</b>
<b>Financial liabilities</b>					
<i>At amortised cost</i>					
Trade and other payables	9.4	6,198	5,703	4,095	3,242
Interest-bearing loans and borrowings	9.5	284,526	123,012	264,726	123,012
Finance leases	9.7	178,248	92,461	-	-
		<b>468,972</b>	<b>221,176</b>	<b>268,821</b>	<b>126,254</b>
Derivatives used for hedging – at fair value through other comprehensive income					
Other liabilities	9.6	6,522	1,272	6,522	1,272
<b>Total financial liabilities</b>		<b>475,494</b>	<b>222,448</b>	<b>275,343</b>	<b>127,526</b>

\*excluding prepayments

Other liabilities for the Consolidated Group and NSPT Group include a distribution payable of \$14,802,574 (2015: \$14,047,169) not included in the table above.

The Consolidated Group and NSPT Group's approach to financial risk management is discussed in note 15. 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.

## 9.1. Cash and cash equivalents

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Current assets</b>				
Cash on hand	30	25	-	-
Cash at bank	13,344	9,469	9,367	7,862
<b>Total cash and cash equivalents</b>	<b>13,374</b>	<b>9,494</b>	<b>9,367</b>	<b>7,862</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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Profit after income tax	43,986	48,733	44,165	50,068
Income tax (benefit) / expense	(250)	260	165	-
Profit before tax	43,736	48,993	44,330	50,068
<i>Adjustments to reconcile profit before tax to net cash flows:</i>				
Depreciation and amortisation	310	116	-	-
Amortisation of intangible assets	261	161	-	-
Fair value adjustment to investment properties	(10,025)	(20,252)	(15,531)	(24,934)
Fair value adjustment of contingent consideration	-	(744)	-	(677)
Loss on disposal of plant and equipment	-	1	-	-
Gain on disposal of investment property	-	(350)	-	(350)
Share of profit of joint venture	(1,732)	(1,632)	(1,732)	(1,632)
Finance income	(155)	(170)	(79)	(337)
Finance costs	15,787	11,121	7,011	5,677
<i>Changes in operating assets and liabilities:</i>				
(Increase)/decrease in receivables	(3,357)	(205)	(7,985)	10,981
(Increase)/decrease in inventories	(73)	(42)	-	-
(Increase)/decrease in other assets	-	(1,910)	-	(223)
Increase/(decrease) in payables	2,614	677	2,457	(13,934)
Increase/(decrease) in deferred revenue	1,326	1,448	59	-
Increase/(decrease) in provisions	438	214	-	-
<b>Cash flows from operating activities</b>	<b>49,130</b>	<b>37,426</b>	<b>28,530</b>	<b>24,639</b>
Interest received	155	170	79	44
<b>Net cash flows from operating activities</b>	<b>49,285</b>	<b>37,596</b>	<b>28,609</b>	<b>24,683</b>

## 9.2. Trade and other receivables

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Current</b>					
Trade receivables		1,517	916	-	-
Provision for doubtful debts		-	-	-	-
		<u>1,517</u>	<u>916</u>	<u>-</u>	<u>-</u>
Other receivables		5,812	2,526	285	756
Receivables from related parties	17	-	530	8,939	6,198
		<u>7,329</u>	<u>3,972</u>	<u>9,224</u>	<u>6,954</u>
<b>Non-current</b>					
Other receivables		<u>220</u>	<u>220</u>	<u>-</u>	<u>-</u>
<b>Total current and non-current</b>		<u>7,549</u>	<u>4,192</u>	<u>9,224</u>	<u>6,954</u>

### 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 impaired due to an inability to collect the remaining rent owing after customers goods have been sold. At 30 June 2016 and 30 June 2015 the Consolidated Group recognised no provision for trade receivables. As at 30 June 2016 and 30 June 2015 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.

	2016 \$'000	2015 \$'000
<b>At 1 July</b>	-	44
Charge for the year	-	-
Utilised	-	(44)
<b>At 30 June</b>	<u>-</u>	<u>-</u>

The age of trade receivables not impaired was as follows:

	2016 \$'000	2015 \$'000
1 to 3 months	1,236	789
3 to 6 months	232	74
Over 6 months	49	53
	<u>1,517</u>	<u>916</u>

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.

### 9.3. Other assets

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Current</b>				
Deposits	970	533	199	119
Prepayments	1,773	2,281	7	7
<b>Total</b>	<b>2,743</b>	<b>2,814</b>	<b>206</b>	<b>126</b>

### 9.4. Trade and other payables

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Current</b>					
Trade payables		403	203	-	-
Other payables and accruals		5,795	3,800	3,710	1,040
Related party payables	17	-	-	385	502
Total current trade and other payables		6,198	4,003	4,095	1,542
<b>Non-current</b>					
Other payables and accruals		-	1,700	-	1,700
<b>Total current and non-current</b>		<b>6,198</b>	<b>5,703</b>	<b>4,095</b>	<b>3,242</b>

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. The fair value of non-current trade and other payables and accruals approximates carrying value.

### 9.5. Interest-bearing loans and borrowings

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Non-current</b>				
Bank finance facility	286,073	123,500	266,273	123,500
Non-amortised borrowing costs	(1,547)	(488)	(1,547)	(488)
<b>Total interest-bearing loans and borrowings</b>	<b>284,526</b>	<b>123,012</b>	<b>264,726</b>	<b>123,012</b>

The Consolidated Group and NSPT Group has non-current borrowing facilities denominated in Australian Dollars ("AUD") and New Zealand Dollars ("NZD"). The facilities in place as of 30 June 2016 are on a "Club" arrangement with National Australia Bank, Westpac Banking Corporation and Commonwealth Bank of Australia.

The major terms of these agreements are as follows:

- The facility limits are AUD \$280m (2015: \$200m) and NZD \$46m (2015: nil) of which AUD \$242.1m (2015: \$123m), and NZD \$46m (2015: nil) was drawn at the year end.
- An additional \$100m AUD facility within the "Club" arrangement was in place as at 30 June 2016, contingent on completion of the Southern Cross Portfolio acquisition (see note 23).
- Maturity dates on the facilities range from 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 2016 and 30 June 2015.

The Consolidated Group and the NSPT Group have complied with the financial covenants of their borrowing facilities during the 2016 and 2015 reporting periods (see note 16).

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 15.

### Interest Rate Swaps

The Consolidated Group and NSPT Group have AUD \$140m (2015: \$110m), and NZD \$23.5m (2015: nil) of current and future interest rate hedges in place as at the end of the reporting period with maturity dates ranging from 23 December 2016 to 23 December 2024 (2015: 23 December 2016 to 23 December 2019).

### Hedge of net investments in foreign operations

Included in interest bearing loans and borrowings at 30 June 2016 was a borrowing of NZD \$13m which has been designated as a hedge of the net investments against the value of investment property held in New Zealand (2015: none). 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 year ended 30 June 2016.

## 9.6. Other liabilities

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Current</b>					
Distribution payable	16	14,803	14,047	14,803	14,047
<b>Non-current</b>					
Financial liabilities (derivatives)	9.8	6,522	1,272	6,522	1,272
<b>Total other liabilities</b>		<b>21,325</b>	<b>15,319</b>	<b>21,325</b>	<b>15,319</b>

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless designated as a cash flow hedge. 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.

At 30 June 2016, the Consolidated Group and the NSPT Group has various current and future interest rate swap agreements in place with notional amounts of AUD \$140m (2015: \$110m), and NZD \$23.5m (2015: nil) whereby the Consolidated Group and the NSPT Group pay a fixed rate of interest of 3.05% (2015: 2.84%) and receive interest at a variable rate equal to BBSY plus a margin on the notional amount. The swap is being 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.

## 9.7. Finance leases

The Consolidated Group has finance leases for investment properties and items of property, plant and equipment. 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:

	2016		2015	
	Minimum payments \$'000	Present value of payments \$'000	Minimum payments \$'000	Present value of payments \$'000
<b>Consolidated Group</b>				
Within one year	13,694	4,425	10,821	5,022
After one year but not more than five years	57,708	23,896	43,902	24,171
More than five years	249,973	149,927	83,561	63,268
Minimum lease payments	321,375	178,248	138,284	92,461
Future finance charges	(143,127)	-	(45,823)	-
<b>Recognised as a liability/present value of minimum lease payments</b>	<b>178,248</b>	<b>178,248</b>	<b>92,461</b>	<b>92,461</b>

The NSPT Group's investment properties are leased to entities within the NSH Group under long-term finance leases (see note 9.8).

## 9.8. 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 9.1 to 9.7. 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
- The fair value of the derivative contingent consideration is calculated using a discounted cash flow analysis using expected future cash flows of the Consolidated Group.

The resulting fair value estimates for interest rate swaps are included in Level 2. The fair value estimates for the derivative contingent consideration is included in level 3 where the fair value has been determined based on present values and the discount rate used was adjusted for counterparty or own credit risk.

	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Consolidated Group and NSPT Group</b>					
<b>At 30 June 2016</b>					
<i>Financial liabilities</i>					
Derivative used for hedging - Interest rate swap	9.6	-	6,522	-	6,522
<b>Consolidated Group and NSPT Group</b>					
<b>At 30 June 2015</b>					
<i>Financial assets</i>					
Derivative – contingent consideration		-	-	-	-
<i>Financial liabilities</i>					
Derivative used for hedging - Interest rate swap	9.6	-	1,272	-	1,272

There were no transfers between levels of fair value hierarchy during the year ended 30 June 2016.

*Fair value measurements using significant unobservable inputs (Level 3)*

The following table presents changes in level 3 financial instruments:

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Opening balance 1 July	-	1,097	-	1,007
Distribution receivable (clawback)	-	(1,841)	-	(1,684)
Derivative - contingent consideration recognised in profit or loss	-	744	-	677
<b>Closing balance 30 June</b>	-	-	-	-

A distribution clawback agreement was entered into as part of the purchase agreement with the previous owners of National Storage Pty Ltd on establishment of the Consolidated Group.

*Contingent consideration*

The Vendor Stapled Securities were subject to voluntary escrow and distribution "claw back" arrangements based on the performance of National Storage REIT for each distribution period:

- if the adjusted earnings per stapled security (EPS) of National Storage REIT for a 12 month period is less than or equal to 8.25 cents then all of the distributions paid in relation to the Vendor Stapled Securities are "clawed back";
- if the adjusted EPS of National Storage REIT is greater than 8.25 cents and is less than or equal to 8.75 cents for a 12 month period then a proportion of the distributions paid in relation to the Vendor Stapled Securities are "clawed back"; and
- if the adjusted EPS of National Storage REIT is greater than 8.75 cents for a 12 month period then no distribution paid in relation to the Vendor Stapled Securities are "clawed back".

The above "claw back" arrangements lapsed on 30 June 2016 following the EPS of National Storage REIT being greater than 8.75 cents for two consecutive testing periods. At the 30 June 2016 none of the final distribution paid to Vendor Stapled Securities was "clawed back" (30 June 2015: 76%).

## 10. 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.

### 10.1. Inventories

	Consolidated Group		NSPT Group	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
<b>Finished goods - at cost</b>	373	300	-	-

Inventories recognised as an expense during the year ended 30 June 2016 amounted to \$954,000 (2015: \$834,000). These were included in *cost of packaging and other products*.

### 10.2. Property, plant and equipment

	Consolidated Group		NSPT Group	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
At cost	2,589	1,439	-	-
Accumulated depreciation	(905)	(607)	-	-
<b>Total property, plant and equipment</b>	<b>1,684</b>	<b>832</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	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
<b>Plant and equipment</b>				
Carrying amount at beginning of the year	832	1,447	-	-
Additions	1,164	563	-	-
Disposals	-	(54)	-	-
Items reclassified as investment property	-	(1,008)	-	-
Depreciation	(310)	(116)	-	-
Effect of movement in foreign exchange	(2)	-	-	-
<b>Carrying amount at end of the year</b>	<b>1,684</b>	<b>832</b>	<b>-</b>	<b>-</b>



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

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Leasehold plant and equipment at cost	51	48	-	-
Accumulated depreciation	(26)	(18)	-	-
Carrying amount	25	30	-	-

### 10.3. Investment properties

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Investment properties at valuation</b>					
Leasehold investment properties	10.7	218,430	125,304	-	-
Freehold investment properties	10.7	625,700	467,100	621,030	465,293
Total investment properties		844,130	592,404	621,030	465,293
<b>Leasehold investment properties</b>					
Opening balance at 1 July		125,304	76,051	-	-
Property acquisitions		83,241	42,742	-	-
Improvements to investment properties		1,431	335	-	-
Items reclassified to freehold investment properties		(5,715)	-	-	-
Items reclassified from property, plant, and equipment		-	190	-	-
Reassessment of lease terms		19,675	10,574	-	-
Finance lease diminution, presented as fair value adjustments		(4,559)	(4,588)	-	-
Other fair value adjustments		(947)	-	-	-
<b>Closing balance at 30 June</b>		218,430	125,304	-	-
<b>Freehold investment properties</b>					
Opening balance at 1 July		467,100	305,250	465,293	305,250
Property acquisitions		132,645	141,294	137,437	141,294
Improvements to investment properties		2,370	1,798	462	715
Property disposals		-	(6,900)	-	(6,900)
Items reclassified from leasehold investment properties		5,715	-	-	-
Items reclassified from property, plant and equipment		-	818	-	-
Net gain from fair value adjustments		15,531	24,840	15,531	24,934
Effect of movement in foreign exchange		2,339	-	2,307	-
<b>Closing balance</b>		625,700	467,100	621,030	465,293
<b>Unrealised gains/(losses) for the period included in profit or loss (recognised in fair value adjustments)</b>					
		10,025	20,252	15,531	24,934

## 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 10.7.

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	
	2016 \$'000	2015 \$'000
Within one year	39,116	31,460
Later than one year but not later than five years	110,032	98,250
Later than five years	126,381	46,196
<b>Total</b>	<b>275,529</b>	<b>175,906</b>

Refer to note 9.5 for information on non-current assets pledged as security.

## 10.4. Intangible assets

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Goodwill</b>					
Opening net book value		13,759	13,542	-	-
Other		-	217	-	-
Closing net book value		13,759	13,759	-	-
<b>Other intangible assets</b>					
Opening net book value		411	354	-	-
Additions		739	218	-	-
Amortisation	6	(261)	(161)	-	-
Closing net book value		889	411	-	-
<b>Total intangible assets</b>		<b>14,648</b>	<b>14,170</b>	<b>-</b>	<b>-</b>

Goodwill is an asset acquired through business combinations, these acquisitions include the purchase of Strategic Storage Consulting Pty Ltd and the stapling of the shares of NSH and the units of NSPT.

### Impairment testing of goodwill

Goodwill arising on stapling and the acquisition of SSC has been allocated to the listed group (NSR). The listed group is considered to be the appropriate cash generating unit against which to allocate these intangible assets owing to the synergies arising from a combined portfolio and transfer of the management functions to the Consolidated 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 2016 NSR had 336,422,143 stapled securities quoted on the Australian Securities Exchange (ASX) at \$1.675 per security providing a market capitalisation of \$563.5m. This amount is in excess of the carrying amount of the Consolidated Group's net assets. Had the security price decreased by 10% the market capitalisation would still have been in excess of the carrying amount.

## 10.5. Deferred revenue

	Consolidated Group		NSPT Group	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
<b>Deferred rent revenue</b>	7,726	6,400	59	-

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.

## 10.6. Provisions

	Consolidated Group		NSPT Group	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Annual leave	1,072	683	-	-
Long service leave	678	489	-	-
	<u>1,750</u>	<u>1,172</u>	-	-
<b>Non-current</b>				
Make good provision	990	223	-	-
Annual leave	-	142	-	-
Long service leave	326	334	-	-
	<u>1,316</u>	<u>699</u>	-	-
<b>Reconciliation of movement in make good provisions</b>				
Opening balance	223	214	-	-
Provisions arising on acquisition of leasehold investment properties	757	-	-	-
Provision raised	10	9	-	-
Amounts utilised	-	-	-	-
<b>Closing balance</b>	<u>990</u>	<u>223</u>	-	-

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.

## 10.7. Non-financial assets fair value measurement

The group has classified its non-financial assets into the three levels prescribed in note 9.8 to provide an indication about the reliability of inputs used to determine fair value.

<i>Investment properties</i>	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Consolidated Group</b>					
<b>At 30 June 2016</b>					
Leasehold	10.3	-	-	218,430	218,430
Freehold	10.3	-	-	625,700	625,700
		-	-	844,130	844,130
<b>At 30 June 2015</b>					
Leasehold	10.3	-	-	125,304	125,304
Freehold	10.3	-	-	467,100	467,100
		-	-	592,404	592,404
<b>NSPT Group</b>					
<b>At 30 June 2016</b>					
Leasehold	10.3	-	-	-	-
Freehold	10.3	-	-	621,030	621,030
		-	-	621,030	621,030
<b>At 30 June 2015</b>					
Leasehold	10.3	-	-	-	-
Freehold	10.3	-	-	465,293	465,293
		-	-	465,293	465,293

### 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. There were no transfers in and out of Level 3.

### 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 rotation 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 NSH Group Board. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

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 2016</b>				
Leasehold	50%	50%	-	-
Freehold	24%	76%	24%	76%
<b>Year ended 30 June 2015</b>				
Leasehold	23%	77%	-	-
Freehold	26%	74%	26%	74%

The Consolidated Group and NSPT Group also obtained external valuations on 17 freehold investment properties and 3 leasehold properties acquired during the reporting period. These external valuations provide the basis of the Directors valuations applied to these properties at 30 June 2016. Including these valuations, 45% of freehold investment properties, and 60% of leasehold properties were subject to external valuations during the year.

### Valuation inputs and relationship to fair value

The following table presents the significant unobservable inputs in level 3 valuations:

Description	Valuation technique	Significant unobservable inputs		Range at 30 June 2016	Range at 30 June 2015
Investment properties - leasehold	Capitalisation method	Capitalisation rate	Primary	9% to 26%	9% to 26%
			Secondary	10% to 28%	12% to 29%
		Sustainable occupancy		73% to 92%	77% to 96%
		Stabilised average EBIT		\$446,015	\$361,019
Investment properties - freehold	Capitalisation method	Capitalisation rate	Primary	7% to 11%	8% to 11%
			Secondary	8% to 12%	11% to 14%
		Sustainable occupancy		73% to 96%	68% to 94%
		Stabilised average EBIT		\$1,000,524	\$991,542

Under the income capitalisation method, a property's fair value is estimated based on the stabilised average earnings before interest and tax (EBIT) 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 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 EBIT 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 EBIT 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 EBIT.

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 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
Capitalisation rate	Primary	5% / (5%)	(3,247) / 4,008	1% / (1%)	(53,627) / 69,302
	Secondary	7% / (7%)	(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 EBIT		5% / (5%)	1,515 / (1,715)	5% / (5%)	21,965 / (21,765)

At 30 June 2015:

Unobservable inputs		Leasehold		Freehold	
		Increase/ (decrease) in input	Increase/ (decrease) In fair value \$'000	Increase/ (decrease) in input	Increase/ (decrease) in fair value \$'000
Capitalisation rate	Primary	5% / (5%)	(1,350) / 2,950	1% / (1%)	(31,350) / 39,650
	Secondary	7% / (7%)	(900) / 2,200	2% / (2%)	(9,700) / 13,500
Sustainable occupancy		5% / (5%)	1,600 / (1,700)	5% / (5%)	22,150 / (22,450)
Stabilised average EBIT		5% / (5%)	300 / (450)	5% / (5%)	12,650 / (12,800)

## 11. 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 2016 include:

Name of Controlled Entity	Place of incorporation	Equity interest	
		2016	2015
National Storage (Operations) Pty Ltd	Australia	100%	100%
National Storage Financial Services Pty Ltd*	Australia	100%	100%
Wine Ark Pty Ltd	Australia	100%	100%
National Storage Limited	New Zealand	100%	100%

\*Registered on 18 July 2014.

The consolidated financial statements of the NSPT Group include:

Name of Controlled Entity	Place of domicile	Equity interest	
		2016	2015
NS APAC Trust	Australia	100%	100%
National Storage Investment Trust	Australia	100%	100%
National Storage Victoria Property Trust	Australia	100%	100%
National Storage New Zealand Property Trust*	Australia	100%	100%

\*National Storage New Zealand Trust ("NSNZPT") is an Australian registered trust which holds investment property in New Zealand and is subject to New Zealand tax legislation (see note 8).

### Joint ventures and associates

The NSPT Group has a 10% interest in Southern Cross Storage Group (2015: 10%).

The NSH Group holds a 24.9% interest in the Australian Prime Development Fund (2015: nil).

## 12. INTEREST IN JOINT VENTURES AND ASSOCIATES

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Opening balance at 1 July	6,709	5,077	6,709	5,077
Acquisition of shareholding in associate	6,660	-	-	-
Share of profit from joint venture	1,732	1,632	1,732	1,632
<b>Closing balance at 30 June</b>	<b>15,101</b>	<b>6,709</b>	<b>8,441</b>	<b>6,709</b>

### Interest in a joint venture

The Consolidated Group and NSPT Group hold a 10% interest in Southern Cross Storage Group which consists of Southern Cross Operations Pty Ltd and Southern Cross Property Trust.

The Southern Cross Storage Group owns storage centres operated under the National Storage brand and is managed by NSH subsidiary National Storage Operations Pty Ltd. Southern Cross Storage Group entities are not listed on any public exchange. The principal place of business of the joint venture is Australia. The Consolidated Group's and the NSPT Group's interest in the Southern Cross Group is accounted for using the equity method in the consolidated financial statements.

The tables below provide summarised financial information for the Southern Cross Group joint venture. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not the Consolidated Group's or the NSPT Group's share of those amounts. Where necessary they have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	2016 \$'000	2015 \$'000
<b>Summarised statement of financial position</b>		
Current assets		
Cash and cash equivalents	122	1,424
Other current assets	949	1,651
Total current assets	1,071	3,075
Non-current assets	275,309	239,790
<b>Total assets</b>	<b>276,380</b>	<b>242,865</b>
Current liabilities		
Financial liabilities (excluding trade payables)	108,219	234
Other current liabilities	15,547	6,324
<b>Total current liabilities</b>	<b>123,766</b>	<b>6,558</b>
Non-current liabilities		
Financial liabilities (excluding trade payables)	-	107,340
Other non-current liabilities	364	4,622
<b>Total non-current liabilities</b>	<b>364</b>	<b>111,962</b>
<b>Total liabilities</b>	<b>124,130</b>	<b>118,520</b>
<b>Net assets</b>	<b>152,250</b>	<b>124,345</b>

<b>Summarised statement of profit or loss</b>	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Revenue	26,341	26,664
Administration expenses	(15,085)	(11,736)
Depreciation and amortisation	-	(4,017)
Interest expense	(7,013)	(6,180)
Accounting policy alignment **	26,680	24,411
Profit before tax	30,923	29,142
Income tax expense	-	-
<b>Profit for the year from continuing operations</b>	30,923	29,142
Less pre-acquisition profit	-	-
<b>Profit attributable to the Consolidated and NSPT Group</b>	<b>30,923</b>	<b>29,142</b>
Consolidated Group's and NSPT Group's share in % *	5.6%	5.6%
<b>Reconciliation to carrying amounts</b>		
Opening investment in joint venture	6,709	5,077
Share of profit for the period	1,732	1,632
<b>Carrying amount</b>	<b>8,441</b>	<b>6,709</b>
Dividends/distributions received from joint venture	-	-

\* Under the terms of the *Southern Cross Investors Agreement* the payment of progressive operating returns are subject to the passing of certain hurdles before NS APAC will receive any payment. At the conclusion of the investment period NS APAC is entitled to returns on a similar basis. The percentage share of profit recognised by the NSPT Group and the Consolidated Group is therefore not directly reflective of the percentage of equity share.

\*\* Southern Cross measures investment properties at historical cost less depreciation and does not apply hedge accounting to financial liabilities. An adjustment has been made to align these accounting policies with those of the Consolidated Group and NSPT Group.

The joint venture had no contingent liabilities or capital commitments as at 30 June 2016 or 30 June 2015.

### Interest in an associate

During the year, the Consolidated Group acquired 24.9% holding in the Australian 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. APSF is a private entity and not listed on any public exchange.

APSF is in the process of constructing multiple storage centres in Australia, the first of which are scheduled to open during the financial year ended 30 June 2017. In the year ended 30 June 2016 NSH subsidiary National Storage Operations Pty Ltd has earned fees of \$444,459 from APSF associated with the design, development, and financing of the construction process (see note 17). Once opened the storage centres will operate under the National Storage brand and be managed by National Storage Operations Pty Ltd.

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



### 13. CONTRIBUTED EQUITY

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Issued and Paid Up Capital</b>				
Ordinary shares	31,707	31,419	-	-
Units	-	-	299,760	297,191
	<u>31,707</u>	<u>31,419</u>	<u>299,760</u>	<u>297,191</u>

	Consolidated Group		NSPT Group	
	2016 No. of shares	2015 No. of shares	2016 No. of units	2015 No. of units
<b>Number of Stapled Securities on Issue</b>				
<b>Opening balance at 1 July</b>	334,456,409	244,897,096	334,456,409	244,897,096
Distribution reinvestment plan	1,965,734	-	1,965,734	-
Institutional placements	-	75,559,313	-	75,559,313
Security purchase plan	-	9,200,000	-	9,200,000
Script issue on property acquisition	-	4,800,000	-	4,800,000
<b>Closing balance at 30 June</b>	<u>336,422,143</u>	<u>334,456,409</u>	<u>336,422,143</u>	<u>334,456,409</u>

As at 30 June 2016 there were 336,422,143 stapled securities on issue equivalent to the number of issued NSH shares and NSPT units (30 June 2015: 334,456,409). The issued units of NSPT are not owned by the Company (NSH) and therefore are shown under non-controlling interest in the statement of financial position.

#### *Distribution reinvestment plan*

During the year 1,965,734 stapled securities were issued to security holders participating in the Group's Distribution Reinvestment Plan for consideration of \$2.8 million (2015: nil). The stapled securities were issued at the volume weighted average market price of the Group's stapled securities over a period of 10 business days commencing on the second business day after the distribution less a 2% 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 share 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.

## 14. OTHER RESERVES

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Foreign currency translation reserve</b>				
Opening balance at 1 July	-	-	-	-
Net Investment hedging	-	-	(724)	-
Foreign exchange translation differences	(22)	-	951	-
Closing balance at 30 June	(22)	-	227	-
<b>Cash flow hedge reserve</b>				
Opening balance at 1 July	-	-	(1,272)	(393)
Revaluation – gross	-	-	(5,250)	(879)
Taxation impact on revaluation	-	-	74	-
Closing balance at 30 June	-	-	(6,448)	(1,272)
<b>Other reserves</b>	(22)	-	(6,221)	(1,272)

Taxation impact on revaluation applies only to cash flow hedges held in National Storage New Zealand Trust, a sub-trust of National Storage Property Trust, which is subject to New Zealand tax legislation. Deferred tax does not apply to all 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(n). 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.

## 15. FINANCIAL RISK MANAGEMENT

This note explains 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, when necessary, 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:

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Non-current liabilities</b>					
Interest rate swap contract – cash flow hedge	9.6	(6,522)	(1,272)	(6,522)	(1,272)

#### *Classification of derivatives*

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as 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(n). 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 9.8.

#### **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 2016 and 2015. The sensitivity analysis have 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 2016.

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 2016 and 30 June 2015 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 2016 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 enters 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 2016, after taking into account the effect of interest rate swaps, 41.8% (2015: 89.1%) of the Consolidated Group's and 44.9% (2015: 89.1%) 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>2016</b>				
Australian dollar	+50	660	+50	561
New Zealand dollar	+50	180	+50	180
Australian dollar	-50	(660)	-50	(561)
New Zealand dollar	-50	(180)	-50	(180)
<b>2015</b>				
Australian dollar	+50	68	+50	68
Australian dollar	-50	(68)	-50	(68)

The Consolidated Group and NSPT Group had no New Zealand Dollar loans at 30 June 2015.

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		NSPT Group	
		Effect on profit before tax \$'000	Effect on pre-tax equity \$'000	Effect on profit before tax \$'000	Effect on pre-tax equity \$'000
<b>2016</b>	+5%	9	452	27	441
	-5%	(10)	(500)	(30)	(487)

The consolidated Group and NSPT Group had no foreign currency sensitivity for the year ended 30 June 2015. 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 New Zealand Dollars, where the functional currency of the entity is a currency other than New Zealand Dollars.

The movement in pre-tax equity arises from changes in New Zealand Dollar 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 transition of New Zealand operations' net assets into Australian dollars.

### **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 2016 and 30 June 2015 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.

The NSPT Group's customer credit risk is managed by renting the majority of properties to the Consolidated Group entities National Storage Operations Pty Ltd and National Storage Limited. Other non-related parties are rented facilities and these rental revenues are not significant compared with related party rental revenues.

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 9.2.

### **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 2016 and 30 June 2015 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 18, 21, and 22). 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Floating rate</b>				
Expiring within one year (bank overdraft)	3,000	3,000	3,000	3,000
Expiring within one year (bank loans)	-	20,000	-	20,000
Expiring beyond one year (bank loans)	137,920	56,500	137,290	56,500
	<u>140,920</u>	<u>79,500</u>	<u>140,920</u>	<u>79,500</u>

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. \$100m of undrawn facilities in place at 30 June 2016, is contingent on completion of the Southern Cross Portfolio acquisition (see note 23). 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 9.5 and note 16.

### 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 2016</b>						
<i>Non-derivatives</i>						
Trade and other payables	167	5,981	50	-	-	<b>6,198</b>
Interest bearing loans and borrowings	-	2,558	7,592	115,398	212,305	<b>337,853</b>
Finance leases	-	3,427	10,267	57,708	249,973	<b>321,375</b>
Distribution payable	-	14,803	-	-	-	<b>14,803</b>
<b>Total non-derivatives</b>	<u>167</u>	<u>26,769</u>	<u>17,909</u>	<u>173,106</u>	<u>462,278</u>	<u><b>680,229</b></u>
<i>Derivatives</i>						
Inflows	-	-	-	-	-	-
Outflows	-	269	590	3,683	1,295	<b>5,837</b>
<b>Total derivatives</b>	<u>-</u>	<u>269</u>	<u>590</u>	<u>3,683</u>	<u>1,295</u>	<u><b>5,837</b></u>
	<u>167</u>	<u>27,038</u>	<u>18,499</u>	<u>176,789</u>	<u>463,573</u>	<u><b>686,066</b></u>

<b>Consolidated Group</b>	<b>On demand \$'000</b>	<b>Less than 3 months \$'000</b>	<b>3 to 12 months \$'000</b>	<b>1 to 5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Total \$'000</b>
<b>At 30 June 2015</b>						
<i>Non-derivatives</i>						
Trade and other payables	-	4,003	-	1,700	-	<b>5,703</b>
Interest bearing loans and borrowings	-	1,142	3,437	132,806	-	<b>137,385</b>
Finance leases	-	2,773	8,048	43,902	83,561	<b>138,284</b>
Distribution payable	-	14,047	-	-	-	<b>14,047</b>
<b>Total non-derivatives</b>	-	<b>21,965</b>	<b>11,485</b>	<b>178,408</b>	<b>83,561</b>	<b>295,419</b>
<i>Derivatives</i>						
Inflows	-	-	-	-	-	-
Outflows	-	202	609	1,361	-	<b>2,172</b>
<b>Total derivatives</b>	-	<b>202</b>	<b>609</b>	<b>1,361</b>	-	<b>2,172</b>
	-	<b>22,167</b>	<b>12,094</b>	<b>179,769</b>	<b>83,561</b>	<b>297,591</b>

<b>NSPT Group</b>	<b>On demand \$'000</b>	<b>Less than 3 months \$'000</b>	<b>3 to 12 months \$'000</b>	<b>1 to 5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Total \$'000</b>
<b>At 30 June 2016</b>						
<i>Non-derivatives</i>						
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>	-	<b>21,221</b>	<b>7,092</b>	<b>112,452</b>	<b>191,612</b>	<b>332,377</b>
<i>Derivatives</i>						
Inflows	-	-	-	-	-	-
Outflows	-	269	590	3,683	1,295	<b>5,837</b>
<b>Total derivatives</b>	-	<b>269</b>	<b>590</b>	<b>3,683</b>	<b>1,295</b>	<b>5,837</b>
	-	<b>21,490</b>	<b>7,682</b>	<b>116,135</b>	<b>192,907</b>	<b>338,214</b>

<b>At 30 June 2015</b>	<b>On demand \$'000</b>	<b>Less than 3 months \$'000</b>	<b>3 to 12 months \$'000</b>	<b>1 to 5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Total \$'000</b>
<i>Non-derivatives</i>						
Trade and other payables	-	1,542	-	1,700	-	<b>3,242</b>
Interest bearing loans and borrowings	-	1,142	3,437	132,806	-	<b>137,385</b>
Distribution payable	-	14,047	-	-	-	<b>14,047</b>
<b>Total non-derivatives</b>	-	<b>16,731</b>	<b>3,437</b>	<b>134,506</b>	-	<b>154,674</b>
<i>Derivatives</i>						
Inflows	-	-	-	-	-	-
Outflows	-	202	609	1,361	-	<b>2,172</b>
<b>Total derivatives</b>	-	<b>202</b>	<b>609</b>	<b>1,361</b>	-	<b>2,172</b>
	-	<b>16,933</b>	<b>4,046</b>	<b>135,867</b>	-	<b>156,846</b>

## 16. 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 and NSPT's policy is to keep the gearing ratio between 25% and 40%. Net debt includes interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Interest bearing loans	9.5	286,073	123,500	266,273	123,500
Less: cash and short term deposits	9.1	(13,374)	(9,494)	(9,367)	(7,862)
Net Debt		272,699	114,006	256,906	115,638
Total assets		899,727	630,915	648,329	486,944
Less cash and short term deposits		(13,374)	(9,494)	(9,367)	(7,862)
Less finance lease liabilities		(178,248)	(92,461)	-	-
		708,105	528,960	638,962	479,082
<b>Gearing ratio</b>		39%	22%	40%	24%

### Loan covenants

Under the terms of the borrowing facilities as a financial covenant the Consolidated Group and the NSPT Group are required to ensure that the gearing ratio must not be more than 55% and the ratio of earnings before interest, tax, depreciation and amortisation to finance costs must exceed a multiple of two. Both the Consolidated Group and the NSPT Group have complied with these covenants throughout the reporting period.



## Dividends and distributions

Distributions have been made and declared as noted below.

<b>Unit distributions</b>	<b>NSPT Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
National Storage Property Trust interim distribution of 4.3 cents per unit paid on 26 February 2016 (2015: 4.0 cents per unit)	14,381	11,825
National Storage Property Trust final distribution of 4.4 cents per unit payable on 29 August 2016 (2015: 4.2 cents per unit)	14,803	14,047
	<u>29,184</u>	<u>25,872</u>

There are no proposed distributions not recognised as a liability for the year ended 30 June 2016.

The Directors of NSH have not declared an interim or final dividend for the year ending 30 June 2016.

## Franking credit balance

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Ordinary share dividends</b>		
<i>Recognised amounts</i>		
Franking credits available for subsequent financial years based on a tax rate of 30% (2015: 30%)	<u>1,376</u>	<u>1,376</u>

The above amounts are calculated from the balance of the NSH franking account at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax after the end of the year.

The NSPT Group does not have franking credits as distributions are paid from National Storage Property Trust which is not liable to pay income tax provided all taxable income is distributed. There are therefore no franking credits to attach.

## 17. 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	2016	2,419,150	-	3,344,606	-
	2015	1,790,020	-	529,508	-
Southern Cross Storage Trust	2016	-	-	-	-
	2015	-	165,000	-	-
The Trust Company (RE Services) Limited and its associates *	2016	-	394,610	-	21,727
	2015	-	448,938	-	220,576
Australian Storage Developments	2016	444,459	-	372,053	-
	2015	-	-	-	-

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	2016	-	-	6,960,507	-
	2015	-	-	-	8,964,575
Southern Cross Storage Trust	2016	-	-	-	-
	2015	-	165,000	-	-
National Storage (Operations Limited)	2016	32,697,698	300,226	-	379,493
	2015	28,563,075	-	15,162,750	281,434
National Storage Financial Services Limited	2016	-	388,821	-	5,611
	2015	-	-	-	-
National Storage Limited	2016	1,434,280	-	1,978,178	-
	2015	-	-	-	-
The Trust Company (RE Services) Limited and its associates	2016	-	394,610	-	21,727
	2015	-	448,938	-	220,576

### 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. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 30 June 2016 and 30 June 2015, the Consolidated Group has not recorded any impairment of receivables relating to amounts owed by related parties.

### Responsible Entity

On 10 November 2015 National Storage Financial Services Limited became the responsible entity of the National Storage Property Trust and sub-trusts. Prior to this date in the year ended 30 June 2016 and for the financial year ended 30 June 2015 these services were provided by the Trust Company (RE Services) Limited. The Trust Company (RE Services) Limited provided custodian services to the National Storage Property Trust and sub-trusts for the years ended 30 June 2016 and 30 June 2015.

### Key management personnel compensation

	Consolidated Group		NSPT Group	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	2,641	1,703	-	-
Post-employment benefits	185	138	-	-
Long-term benefits	207	159	-	-
Termination benefits	-	95	-	-
	<u>3,033</u>	<u>2,095</u>	<u>-</u>	<u>-</u>

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.

## 18. COMMITMENTS AND CONTINGENCIES

### Capital commitments

There was no 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 expiring within five years. The lease has an escalation clause and a right of renewal. 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	
	2016	2015
	\$'000	\$'000
Within one year	334	321
Later than one year but not later than five years	405	739
Later than five years	-	-
	<u>739</u>	<u>1,060</u>

### Finance lease commitments

For details of finance lease commitments see note 9.7.

### Contingent liabilities

#### Guarantees

For information about guarantees given by entities within the group, including the parent entity, see notes 21 and 22.

## 19. EARNINGS PER STAPLED SECURITY (EPS)

Basic earnings 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 share 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	
	2016 cents	2015 cents	2016 cents	2015 cents
<b>Basic and diluted earnings per stapled security / unit</b>	13.13	16.55	13.18	17.01
<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	43,986	48,733	44,165	50,068
	<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	335,129,606	294,318,578	335,129,606	294,318,578

## 20. AUDITOR'S 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	
	2016 \$	2015 \$	2016 \$	2015 \$
An audit or review of the financial report of the entity and any other group entity	325,334	256,289	30,375	27,875
Other services in relation to the entity and any other group entity				
Tax compliance	87,225	73,314	51,663	30,040
Other	52,415	74,994	19,130	45,894
<b>Total auditors' remuneration</b>	<b>464,974</b>	<b>404,597</b>	<b>101,168</b>	<b>103,809</b>

## 21. INFORMATION RELATING TO THE PARENT ENTITIES

### Summary financial information

The individual financial statements for National Storage Holdings Limited and National Storage Property Trust, the parent entities, show the following aggregate amounts:

	NSH		NSPT	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current assets	48,684	65,671	49,907	43,435
Total assets	55,559	72,546	589,221	467,709
Current liabilities	14,393	47,533	19,037	15,765
Total liabilities	34,329	48,020	258,517	141,749
Issued capital	29,953	29,665	299,762	297,192
Cash flow hedge reserve	-	-	(6,264)	(1,272)
Foreign currency translation reserve	-	-	(724)	-
Retained earnings	(8,723)	(5,139)	37,930	30,040
	<u>21,230</u>	<u>24,526</u>	<u>330,704</u>	<u>325,960</u>
Profit /(Loss) after tax	(3,583)	(3,488)	37,074	33,991
Total comprehensive income	(3,583)	(3,488)	31,359	33,112

### 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 \$286,073,000 (2015: \$123,500,000), secured by registered mortgages over the freehold and leasehold investment properties of the subsidiaries.

The Consolidated Groups parent entity has also provided bank guarantees of \$6,527,000 (2015: \$2,137,000) 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 22. 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 2016 or 30 June 2015.

### Contractual commitments

The parent entities of the Consolidated Group and the NSPT Group were contractually committed to the purchase of the Southern Cross Storage Portfolio, and the purchase of one storage centre in Cairns, Queensland at the 30 June 2016, as disclosed in note 23. The Consolidated Group and the NSPT Group did not have any other contractual commitments as at 30 June 2016 or 30 June 2015.

## 22. 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

	2016 \$'000	2015 \$'000
Profit from continuing operations before income tax	(1,403)	(1,026)
Income tax expense	351	(260)
Profit after tax	(1,052)	(1,286)
Retained earnings at the beginning of the year	2,154	3,440
Dividends provided for or paid	-	-
<b>Retained earnings at the end of the year</b>	<b>1,102</b>	<b>2,154</b>

### Consolidated statement of financial position

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
Cash and cash equivalents	3,064	1,265
Trade and other receivables	13,237	44,266
Inventories	351	300
Other current assets	2,524	2,603
Total current assets	19,176	48,434
<b>Non-current assets</b>		
Trade and other receivables	220	220
Property, plant and equipment	1,145	630
Investment properties	402,624	279,808
Investments	7,685	7,685
Intangibles	747	540
Total non-current assets	412,421	288,883
<b>Total assets</b>	<b>431,597</b>	<b>337,317</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	9,444	49,898
Finance Lease Liability	4,376	4,094
Deferred revenue	7,405	6,400
Provisions	1,728	1,172
Total current liabilities	22,953	61,564
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	19,800	-
Finance Lease Liability	354,583	240,993
Provisions	1,316	700
Deferred tax liability	136	487
Total non-current liabilities	375,835	242,180
<b>Total Liabilities</b>	<b>398,788</b>	<b>303,744</b>
<b>Net Assets</b>	<b>32,809</b>	<b>33,573</b>
<b>Equity</b>		
Contributed equity	31,707	31,419
Retained profits	1,102	2,154
<b>Total equity</b>	<b>32,809</b>	<b>33,573</b>

## **23. EVENTS AFTER REPORTING PERIOD**

### **EQUITY RAISING**

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.

Subsequent to the Reporting Date the proceeds of the \$260m capital raise have been received.

### **ACQUISITION OF STORAGE CENTRES**

As announced on 28 June, NSR entered into an agreement to purchase the Southern Cross portfolio of self-storage assets for a net consideration of \$285m. The geographically diversified and complementary portfolio comprises 26 storage centres with a combined NLA of 126,000 sqm and 13,000 storage units. The agreement was subject to fulfillment of contractual conditions as at 30 June 2016. The transaction is expected to settle on 30 August 2016.

On 7 July 2016 NSR completed the acquisition a self-storage asset in Cairns, Queensland for \$7.1m.

On 23 August 2016 NSR announced that it has exercised an option to purchase the Butler self-storage asset in Perth for \$8.8m. Butler is a newly constructed centre which formed part of the Perth Development Portfolio.

On 23 August 2016, NSR also announced that it had entered into agreements to acquire additional self-storage assets in Hobart, Tasmania for \$3.3m, and Kurnell, Sydney for \$17.5m. Both transactions remain conditional and should they proceed, settlement is expected in September 2016.

All purchases will be funded via NSR's existing debt facilities.

## DIRECTORS' DECLARATION

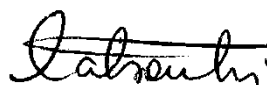
In accordance with a resolution of the Directors of National Storage Holdings Limited, the Directors state that:

1. In the opinion of the Directors:
  - (a) the financial statements and notes of the Consolidated Group for the year ended 30 June 2016 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 2016 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 22 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 2016.

On behalf of the Board,



Laurence Brindle  
Director



Andrew Catsoulis  
Managing Director

23 August 2016  
Brisbane



## DIRECTORS' DECLARATION

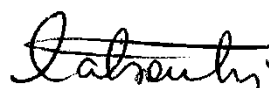
In accordance with a resolution of the Directors of National Storage Financial Services Limited, the Responsible Entity states that:

1. In the opinion of the Responsible Entity:
  - (a) the financial statements and notes of the NSPT Group for the year ended 30 June 2016 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 2016 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 The Trust Company (RE 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 2016.

On behalf of the Responsible Entity,



Laurence Brindle  
Chairman



Andrew Catsoulis  
Managing Director

23 August 2016  
Brisbane

# INDEPENDENT AUDITOR'S REPORT



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

## Independent auditor's report to the members of National Storage REIT

### Report on the financial report

We have audited the accompanying financial report of National Storage REIT comprising National Storage Holdings Limited and National Storage Property Trust and the entities they controlled during the year, which comprises the consolidated statements of financial position as at 30 June 2016, consolidated statements of profit or loss, the consolidated statements of other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declarations of National Storage Holdings Limited and National Storage Property Trust and the entities they controlled at the year's end or from time to time during the financial year.

#### ***Directors' responsibility for the financial report***

The directors of National Storage Holdings Limited and the directors of the Responsible Entity of National Storage Property Trust 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2 (b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### ***Independence***

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the companies a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## **Opinion**

In our opinion:

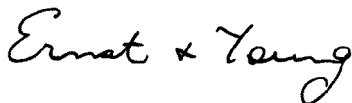
- a. the financial report of National Storage REIT is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of National Storage Holdings Limited and National Storage Property Trust and consolidated entities' financial positions as at 30 June 2016 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2 (b).

## **Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the tabled companies 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.

## **Opinion**

In our opinion, the Remuneration Report of National Storage REIT for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Mark Hayward  
Partner  
Brisbane  
23 August 2016

## 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 2016 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	619
1,001	- 5,000	1,096
5,001	- 10,000	744
10,001	- 100,000	1,298
100,001	- And over	127
Total		<u>3,884</u>

There were 149 holders of less than a marketable parcel of stapled securities, representing 5,468 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	194,866,224	38.90
J P Morgan Nominees Australia Limited	78,952,751	15.76
National Nominees Limited	62,870,628	12.55
Citicorp Nominees Pty Limited	23,106,572	4.61
BNP Paribas Noms Pty Ltd (DRP)	13,565,486	2.71
HSBC Custody Nominees (Australia) Limited – A/C 2	8,943,165	1.79
Leyshon Investments (Australia) Pty Ltd (Bryan Family Investment A/C)	7,448,980	1.49
Storcat Pty Ltd (Andrew Catsoulis Family A/C)	6,673,469	1.33
Palomere Pty Ltd (Peter Edward Greer Family A/C)	5,586,735	1.12
Capital Business Park (Holdings) Pty Ltd	4,520,000	0.90
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	3,743,566	0.75
Stowaway Self Storage Pty Ltd (Catsoulis Development A/C)	3,469,388	0.69
HSBC Custody Nominees (Australia) Limited – GSCO ECA	2,548,006	0.51
CS Fourth Nominees Pty Limited (HSBC Cust Nom AU Ltd)	2,490,707	0.50
RBC Investor Services Australia Nominees Pty Limited (Bkcust A/C)	2,316,684	0.46
Brispot Nominees Pty Ltd (House Head Nominee No 1 A/C)	2,186,759	0.44
BNP Paribas Noms (NZ) Ltd	1,826,496	0.36
Stowaway Self Storage Pty Ltd (Catsoulis Family A/C)	1,811,224	0.36
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	1,787,125	0.36
National Nominees Limited (N A/C)	1,500,000	0.30
	<u>430,213,965</u>	<u>85.89</u>

### Unquoted equity securities

There are no unquoted securities.

### (c) Substantial shareholders

Substantial securityholders, as at 14 July 2016, are set out below:

Name	Number held	Percentage
Colonial First State Global Asset Management Property	79,144,232	16.73
Cohen & Steers Capital Management, Inc	31,845,608	6.73
Avoca Investment Management Pty Ltd	29,601,242	6.26
Vanguard Investments Australia Ltd	25,218,371	5.33
K2 Asset Management Ltd	14,381,194	3.04

### (d) Voting rights

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

### (e) Escrowed securities

The number of ordinary stapled securities that are on issue that were subject to voluntary escrow are as follows:

Holder		Number of Stapled Securities
Leyshon Investments (Australia) Pty Ltd	Leyshon Operations Unit Trust	7,448,980
Storcat Pty Ltd	Andrew Catsoulis Family A/C	6,173,469
Palomere Pty Ltd	Peter Edward Greer Family Ac	5,586,735
Stowaway Self Storage Pty Ltd	Catsoulis Development A/C	3,469,388
Stowaway Self Storage Pty Ltd	Catsoulis Family A/C	1,811,224
Green 9 Pty Ltd	Michael Berry Family A/C	1,020,408

Details of the escrow period for the escrow of Storcat Pty Ltd and Palomere Pty Ltd are set out on page 56 (Storcat Pty Ltd equates to the Managing Director and Palomere Pty Ltd to the Chief Operating Officer). The escrow provisions for the remaining escrowed stapled security holders are the same as for Storcat Pty Ltd and Palomere Pty Ltd other than the period is three years not five years.

As at 30 June 2016 the performance hurdles in relation to the clawback mechanism and escrow arrangements have been fully satisfied and these arrangements concluded.

# 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 the Investor Centre section of the corporate website, [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au), or via the Investor Centre link on the registry's 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")

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 1, 10 Felix Street, Brisbane QLD 4000

## Directors

Laurence Brindle  
Anthony Keane  
Howard Brenchley  
Steven Leigh  
Andrew Catsoulis

## Company Secretaries

Claire Fidler  
Patrick Rogers

## Registered Office

Level 1, 10 Felix Street  
Brisbane QLD 4000

## Principal Place of Business

Level 1, 10 Felix 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 (NSR).

## Auditors

Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000





**MULTI**

WORLD  
CARTON



**NATIONAL  
STORAGE**