



**NATIONAL STORAGE REIT (NSR)
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

**National Storage Holdings Limited ACN 166572845
National Storage Financial Services Limited ACN 600787246 AFSL 475228
as responsible entity for
National Storage Property Trust ARSN 101227712**

CONTENTS

CORPORATE INFORMATION	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	7
INTERIM STATEMENTS OF PROFIT OR LOSS	8
INTERIM STATEMENTS OF OTHER COMPREHENSIVE INCOME	9
INTERIM STATEMENTS OF FINANCIAL POSITION	10
INTERIM STATEMENTS OF CHANGES IN EQUITY	11
INTERIM STATEMENTS OF CASH FLOWS	13
NOTES TO THE FINANCIAL STATEMENTS	14
DIRECTORS' DECLARATIONS	28
INDEPENDENT AUDITOR'S REVIEW REPORT	30

CORPORATE INFORMATION

National Storage Holdings Limited ACN 166 572 845 (“**NSH**” or the “**Company**”) and 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 (“**The Responsible Entity**”), a wholly owned subsidiary of National Storage Holdings Limited
ACN 600 787 246
AFSL 475 228
Level 23, 71 Eagle Street
Brisbane QLD 4000

Directors – NSH

Laurence Brindle (Chairman)
Andrew Catsoulis
Anthony Keane
Howard Brenchley
Steven Leigh

Directors – The Responsible Entity

Laurence Brindle
Andrew Catsoulis
Anthony Keane
Howard Brenchley
Steven Leigh

Company Secretary – NSH

Claire Fidler and Patrick Rogers

Company Secretary – The Responsible Entity

Claire Fidler and Patrick Rogers

Registered Office

Level 23, 71 Eagle Street
Brisbane QLD 4000

Principal Place of Business

Level 23, 71 Eagle Street
Brisbane QLD 4000

Share Registry

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Stapled Securities are quoted on the Australian Securities Exchange (“**ASX**”) – trading code **ASX:NSR**.

Auditors

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

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 half-year ended 31 December 2016 (“Reporting Period”).

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.

Laurence Brindle	Independent Non-Executive Chairman
Andrew Catsoulis	Managing Director
Anthony Keane	Independent Non-Executive Director
Howard Brenchley	Independent Non-Executive Director
Steven Leigh	Independent Non-Executive Director

National Storage Financial Services Limited, “The Responsible Entity”

The Directors of the Responsible Entity in office during the Reporting Period and continuing as at the date of this Directors' Report are set out below.

Laurence Brindle	Director
Andrew Catsoulis	Director
Anthony Keane	Director
Howard Brenchley	Director
Steven Leigh	Director

REVIEW AND RESULTS OF OPERATIONS

The Financial Statements are prepared in compliance with Australian accounting standards. Users of the financial information should familiarise themselves with the “Corporate Information” and “Basis of Preparation” in Notes 1 and 2 in the Financial Statements.

Operating results

For the half-year ended 31 December 2016, total revenue increased by 46% to \$54,359,000 (2015: \$37,324,000) through a combination of revenue growth achieved via an increase in centre occupancy and the addition of new revenue streams with the completion of the acquisition of the Southern Cross Storage Group and additional new storage centres.

Profit after tax increased by 15% to \$23,682,000 (2015: \$20,620,000) and was favourably impacted by fair value adjustments associated with the carrying value of investment properties and acquisition of the Southern Cross joint venture assets in August 2016. Underlying earnings¹ increased 40% to \$20.1 million (2015: \$14.3 million) through the contribution from acquisitions and improved centre operating performance.

Cash Management

Cash and cash equivalents as at 31 December 2016 were \$12,571,000 (30 June 2016: \$13,374,000). An estimated interim distribution of 4.6 cents per security (\$23,146,840) was declared on 20 December 2016 with an estimated payment date of 27 February 2017. The Consolidated Group operates a Distribution Reinvestment Plan (“DRP”) which enables eligible security holders to receive part or all of their distribution by

¹ 31 December 2016: A-IFRS profit after tax adding back tax expense (\$0.6 million), business combination and restructuring costs (\$15.3 million) and contracted gain in respect of sale of investment property (\$0.8 million) presented within fair value adjustments, less fair value adjustments (\$18.4 million) and finance lease diminution (\$1.9 million).

31 December 2015: A-IFRS profit after tax less tax benefit (\$0.4 million), fair value adjustments (\$3.3 million) and finance lease diminution, presented as fair value adjustments (\$2.6 million).

DIRECTORS' REPORT

way of securities rather than cash. For the December 2016 interim distribution approximately 24% of eligible security holders (by number of securities) elected to receive their distributions totalling \$5,543,047 by way of securities. The DRP price has been set at \$1.4099 which will result in 3,931,434 new securities being issued on the distribution payment date.

Net operating cashflow for the half-year was \$21,180,000 (2015: \$21,193,000).

The Consolidated Group finance facilities are on a "Club" arrangement with a selection of major Australian banks and a major Australian superannuation fund. The Consolidated Group's borrowing capacity is AUD \$480 million and NZD \$96million (AUD \$92.35 million). During the period new facilities totalling NZ\$50 million (AUD \$48.1 million) with maturities in 2021 were entered into to facilitate the acquisition of additional storage centres in New Zealand. Additional interest rate hedges were entered into during the period to take advantage of the current low interest rate environment.

Investments

During the reporting period the portfolio expanded following the acquisitions of four centres and the completion of the Southern Cross acquisition. Through the Southern Cross acquisition NSR secured 100% ownership of 26 centres previously held under joint venture arrangements. The storage centres acquired (excluding Southern Cross centres) were:

Centre	State	Date	NLA (Sqm)	Units	Purchase Price
Butler	Western Australia	August 2016	5,100	480	\$8.8m
Kurnell	New South Wales	August 2016	12,400	750	\$17.5m
Moonah Central	Tasmania	September 2016	2,400	200	\$3.3m
Artarmon Central	New South Wales	December 2016	3,400	560	\$10.8m

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

ACQUISITION OF STORAGE CENTRES

On 18 January 2017, NSR announced that it had entered into arrangements to acquire a third freehold self-storage centre in Wellington, New Zealand for NZD \$9.75 million (AUD: \$9.4 million). The transaction settled on 1 February 2017.

On 30 January 2017, NSR announced that it had acquired the freehold interests of two existing self-storage assets at Guildford and Rockingham in Perth, Western Australia. The transaction also involved the acquisition of two freehold land parcels adjacent to the Rockingham centre. Total consideration for the transaction is \$30 million. As part of the overall transaction, NSR also negotiated improved lease terms for the Subiaco centre, securing the underlying business and long term leasehold interest.

INCREASE TO CLUB DEBT FACILITY

On 18 January 2017, the Consolidated Group and NSPT Group increased its club banking facilities by NZD \$50 million (AUD: \$48.1 million) to facilitate the Wellington acquisition and further strategic opportunities.

No other matter has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Consolidated Group's operations, the results of those operations, or the Consolidated Group's state of affairs in future financial periods.

ROUNDING

The amounts contained in this 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 class order applies.

DIRECTORS' REPORT

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made on 21 February 2017 in accordance with a resolution of the Board of Directors of National Storage Holdings Limited and is signed for and on behalf of the Directors.



Laurence Brindle
Chairman
National Storage Holdings Limited
Brisbane



Andrew Catsoulis
Managing Director
National Storage Holdings Limited
Brisbane

This report is made on 21 February 2017 in accordance with a resolution of the Responsible Entity and is signed for and on behalf of the Responsible Entity.



Laurence Brindle
Director
National Storage Financial Services Limited
Brisbane



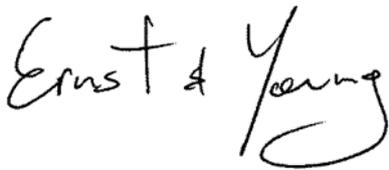
Andrew Catsoulis
Director
National Storage Financial Services Limited
Brisbane

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

As lead auditor for the review of National Storage REIT, for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of National Storage REIT, a stapled entity comprised of National Storage Holdings Limited and National Storage Property Trust and the entities controlled during the financial period.



Ernst & Young



Ric Roach
Partner
21 February 2017

INTERIM STATEMENTS OF PROFIT OR LOSS

For the six months ended 31 December 2016

	Note	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue from storage rent		47,818	33,202	-	-
Rental revenue		-	-	23,736	16,618
Revenue from sale of goods and services		4,293	3,009	761	347
Other revenue		2,248	1,113	789	45
Total revenue		54,359	37,324	25,286	17,010
Salaries and employee benefits expense		(11,394)	(7,095)	-	-
Management fees - operational		(18)	(118)	(1,364)	(152)
Property rates and taxes		(3,839)	(2,231)	-	(130)
Repairs and maintenance		(748)	(563)	-	(2)
Cost of packaging and other products sold		(775)	(460)	-	-
Depreciation and amortisation		(287)	(228)	-	-
Professional fees		(724)	(255)	(142)	(36)
Other operational expenses		(6,678)	(4,319)	-	(57)
Finance costs		(10,671)	(6,919)	(6,258)	(3,204)
Share of profit of joint venture and associate		1,925	1,765	1,509	1,765
Fair value adjustments		18,406	3,333	19,707	6,305
Business combination and restructuring costs		(15,303)	-	(13,612)	-
Profit before income tax		24,253	20,234	25,126	21,499
Income tax (expense) / benefit	5	(571)	386	(359)	81
Profit after tax		23,682	20,620	24,767	21,580
Profit for the year attributable to:					
Members of National Storage Holdings Limited		(1,085)	(960)	24,767	21,580
Non-controlling interest (unit holders of NSPT)		24,767	21,580	-	-
		23,682	20,620	24,767	21,580
Basic and diluted earnings per stapled security /unit (cents)	17	4.82	6.13	5.04	6.42

The above Statements of Profit of Loss should be read in conjunction with the accompanying notes and 30 June 2016 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

INTERIM STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Profit after tax	23,682	20,620	24,767	21,580
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	48	3	47	7
Changes in the fair value of cash flow hedges	7,065	(1,837)	7,065	(1,837)
Total other comprehensive income, net of tax	7,113	(1,834)	7,112	(1,830)
Total comprehensive income	30,795	18,786	31,879	19,750
Comprehensive income for the year attributable to:				
Members of National Storage Holdings Limited	(1,084)	(964)	31,879	19,750
Non-controlling interest (unit holders of NSPT)	31,879	19,750	-	-
	30,795	18,786	31,879	19,750

The above Statements of Other Comprehensive Income should be read in conjunction with the accompanying notes and 30 June 2016 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

INTERIM STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Notes	Consolidated Group		NSPT Group	
		as at 31 Dec 2016 \$'000	as at 30 Jun 2016 \$'000	as at 31 Dec 2016 \$'000	as at 30 Jun 2016 \$'000
ASSETS					
Current assets					
Cash and cash equivalents		12,571	13,374	4,002	9,367
Trade and other receivables		4,875	7,329	45,538	9,224
Inventories		567	373	-	-
Other current assets		6,737	2,743	23	206
Total current assets		24,750	23,819	49,563	18,797
Non-current assets					
Trade and other receivables		220	220	-	-
Property, plant and equipment		1,480	1,684	-	-
Investment properties	6	1,179,134	844,130	950,228	621,030
Investment in joint ventures and associates	7	8,388	15,101	-	8,441
Assets held for sale	8	5,713	-	5,713	-
Intangible assets	10	44,583	14,648	-	-
Deferred tax asset		768	125	6	61
Other non-current assets	11	3,949	-	3,949	-
Total non-current assets		1,244,235	875,908	959,896	629,532
Total Assets		1,268,985	899,727	1,009,459	648,329
LIABILITIES					
Current liabilities					
Trade and other payables		5,242	6,198	709	4,095
Finance lease liability		4,331	4,425	-	-
Deferred revenue		10,605	7,726	106	59
Income tax payable		152	152	152	152
Provisions		2,452	1,750	-	-
Other liabilities		23,442	14,803	23,442	14,803
Total current liabilities		46,224	35,054	24,409	19,109
Non-current liabilities					
Borrowings	12	384,972	284,526	383,729	264,726
Finance lease liability		169,243	173,823	-	-
Income tax payable		352	-	352	-
Provisions		1,860	1,316	-	-
Deferred tax liability		-	136	-	-
Other liabilities	11	3,064	6,522	3,064	6,522
Total non-current liabilities		559,491	466,323	387,145	271,248
Total Liabilities		605,715	501,377	411,554	290,357
Net Assets		663,270	398,350	597,905	357,972
EQUITY					
Non-controlling interest (unit holders of NSPT)		604,911	364,978	-	-
Contributed equity	13	57,778	31,707	530,961	299,760
Other reserves		(21)	(22)	891	(6,221)
Retained earnings		602	1,687	66,053	64,433
Total Equity		663,270	398,350	597,905	357,972

The above Statements of Financial Position should be read in conjunction with the accompanying notes and 30 June 2016 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 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 \$'000
Balance at 1 July 2016		31,707	1,687	(22)	364,978	398,350
(Loss)/profit for the period		-	(1,085)	-	24,767	23,682
Other comprehensive income		-	-	1	7,112	7,113
Total comprehensive income/(loss) for the period		-	(1,085)	1	31,879	30,795
Issue of stapled units through institutional and retail placement	13	26,354	-	-	233,646	260,000
Issue of stapled units through distribution reinvestment plan		351	-	-	3,109	3,460
Costs associated with issue of units		(634)	-	-	(5,554)	(6,188)
Distributions provided for or paid	15	-	-	-	(23,147)	(23,147)
		26,071	-	-	208,054	234,125
Balance at 31 December 2016		57,778	602	(21)	604,911	663,270
Balance at 1 July 2015		31,419	1,866	-	352,377	385,662
(Loss)/profit for the period		-	(960)	-	21,580	20,620
Other comprehensive income/(loss)		-	-	(4)	(1,830)	(1,834)
Total comprehensive income/(loss) for the period		-	(960)	(4)	19,750	18,786
Distributions provided for or paid	15	-	-	-	(14,382)	(14,382)
Balance at 31 December 2015		31,419	906	(4)	357,745	390,066

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2016 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 2016

Attributable to unitholders of the NSPT Group

Notes	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
Balance at 1 July 2016	299,760	64,433	227	(6,448)	357,972
Profit for the period	-	24,767	-	-	24,767
Other comprehensive income	-	-	47	7,065	7,112
Total comprehensive income for the period	-	24,767	47	7,065	31,879
Issue of stapled units through institutional and retail placement	233,646	-	-	-	233,646
Issue of stapled units through distribution reinvestment plan	3,109	-	-	-	3,109
Costs associated with issue of units	(5,554)	-	-	-	(5,554)
Distributions provided for or paid	15	(23,147)	-	-	(23,147)
	231,201	(23,147)	-	-	208,054
Balance at 31 December 2016	530,961	66,053	274	617	597,905
Balance at 1 July 2015	297,191	49,452	-	(1,272)	345,371
Profit for the period	-	21,580	-	-	21,580
Other comprehensive income	-	-	7	(1,837)	(1,830)
Total comprehensive income/(loss) for the period	-	21,580	7	(1,837)	19,750
Distributions provided for or paid	15	(14,382)	-	-	(14,382)
Balance at 31 December 2015	297,191	56,650	7	(3,109)	350,739

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2016 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

INTERIM STATEMENTS OF CASH FLOWS

For the six months ended 31 December 2016

	Notes	Consolidated Group		NSPT Group	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Operating activities					
Receipts from customers		57,306	39,741	21,032	7,457
Payments to suppliers and employees		(36,697)	(18,616)	(6,804)	(1,055)
Interest received		571	68	23	30
Net cash flows from operating activities		21,180	21,193	14,251	6,432
Investing activities					
Purchase of investment properties		(54,081)	(59,452)	(46,610)	(46,993)
Acquisition of subsidiary and property portfolio, net of cash acquired	4	(302,932)	-	(280,708)	-
Distribution received from joint venture	7	9,950	-	9,950	-
Improvements to investment properties		(2,999)	(2,031)	(251)	(290)
Purchase of property, plant and equipment		(580)	(800)	-	-
Purchase of intangible assets		(163)	(298)	-	-
Investment in associate		(1,312)	(6,360)	-	-
Net cash flows used in investing activities		(352,117)	(68,941)	(317,619)	(47,283)
Financing activities					
Proceeds from issue of stapled securities	13	260,000	-	233,646	-
Transaction costs on issue of stapled securities		(6,188)	-	(5,554)	-
Distributions paid to stapled security holders		(11,342)	(14,047)	(11,342)	(14,047)
Repayment of borrowings		(210,580)	-	(190,780)	-
Proceeds from borrowings		311,950	72,230	310,700	52,430
Financing provided to related party		-	-	(31,254)	-
Payment of finance lease liabilities		(6,151)	(6,196)	-	-
Interest and other finance costs paid		(7,558)	(3,480)	(7,430)	(3,312)
Net cash flows from financing activities		330,131	48,507	297,986	35,071
Net (decrease) / increase in cash and cash equivalents		(806)	759	(5,382)	(5,780)
Net foreign exchange difference		3	(55)	17	(37)
Cash and cash equivalents at 1 July		13,374	9,494	9,367	7,862
Cash and cash equivalents at 31 December		12,571	10,198	4,002	2,045

The above Statements of Cash Flows should be read in conjunction with the accompanying notes and 30 June 2016 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

NOTES TO THE FINANCIAL STATEMENTS

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 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 either entity terminates the stapling arrangements.

The financial report of NSR for the half-year ended 31 December 2016 was approved on 21 February 2017, in accordance with a resolution of the Board of Directors of National Storage Holdings Limited.

The financial report of NSPT for the half-year ended 31 December 2016 was approved on 21 February 2017, in accordance with a resolution of the Board of Directors 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. Basis of preparation and changes to the Consolidated Group's accounting policies

Basis of preparation

This Interim Financial Report for the half-year ended 31 December 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The Interim Financial Report of NSR as at and for the half-year ended 31 December 2016 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

The interim consolidated financial statements of NSPT as at and for the half-year ended 31 December 2016 comprises the consolidated Interim Financial Statements of NSPT Group.

The consolidated financial statements for the Consolidated Group are prepared on the basis that NSH was the acquirer of the 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.

The accounting policies applied by the NSH Group and the NSPT Group in these Interim Financial Reports are the same as the 30 June 2016 financial report for NSH and NSPT except for the accounting policies impacted by the new or amended Accounting Standards detailed in this note.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements. It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2016 and considered together with any public announcements made by the Consolidated Group during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations of the *ASX listing rules*.

These financial statements have been prepared on the basis of historical cost, except for selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. The financial statements are presented in Australian dollars (“**AUD**”) and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

In these notes reference to 'the Group' or 'Group' is used to refer to the Consolidated Group and the NSPT Group, unless otherwise indicated.

The Consolidated Group has elected to utilise ASIC Corporations (Stapled Group Reports) Instruments 2015/838 and present the NSPT Group within the financial statements of NSR. For the purposes of interpretation of the financial results, the self-storage industry is not regarded as seasonal.

Deficiency of Net Current Assets

As at 31 December 2016, the Consolidated Group has an excess of current liabilities over current assets of \$21,474,000.

Accounting standard AASB 140 *Investment Property* requires the finance lease liability to be split between current and non-current while the corresponding asset is classed as non-current. The Directors believe the excess of the total investment property over the finance lease liability reflects the positive position in both the immediate and long-term and sufficient cash inflows from operations will occur to enable all liabilities to be paid when due. Current liabilities also include deferred revenue of \$10,605,000 associated with prepaid storage rentals which are not expected to result in a significant cash outflow. The Consolidated Group also has available funding facilities of \$36,500,000.

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 in the ordinary course of business.

Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Consolidated Group's and NSPT Group's annual consolidated financial statements for the year ended 30 June 2016.

The Consolidated Group and the NSPT Group have adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to their operations and effective for the current half-year.

The adoption of new and revised standards did not result in any material changes to the interim financial statements.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Group or NSPT Group. The Group is currently evaluating the full impact of AASB 9, AASB 15, and AASB 16.

3. Segment information

The Consolidated Group has identified its operating segments based on the internal management information used by the Consolidated Group's chief decision makers, being the Executive Management and Directors of NSH.

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 and Loss represent the same segment information as reported to the Board of NSH.

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

4. Business Combinations

Business combination and acquisition of Southern Cross Storage Group

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

NOTES TO THE FINANCIAL STATEMENTS

National Storage Southern Trust, subsidiaries of both the Consolidated Group and NSPT Group, acquired the investment property of Southern Cross Storage Trust.

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

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

Prior to completion the Consolidated Group and NSPT Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in the joint venture (see note 7).

Assets acquired and liabilities assumed

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

	Consolidated Group \$'000
Assets	
Investment properties	267,096
Cash and cash equivalents	1,261
Trade and other receivables	219
Inventories	138
Deferred tax asset	1,039
Other current assets	241
	<u>269,994</u>
Liabilities	
Trade and other payables	(6,639)
Deferred revenue	(2,387)
Provisions	(364)
	<u>(9,390)</u>
	<u>260,604</u>
Total identifiable net assets at fair value	260,604
Goodwill arising on acquisition	29,901
Purchase consideration transferred	290,505

The goodwill of \$29,901,000 represents the premium attached to a portfolio purchase of investment properties and the expected synergies arising from the acquisition.

From the date of acquisition Southern Cross Storage Operations Pty Ltd contributed \$9,000,000 of revenue and \$806,000 of profit before tax to the Consolidated Group. From the date of acquisition National Storage Property Trust and National Storage Southern Trust received \$4,548,000 of rental income from Southern Cross Storage Operations Pty Ltd which contributed to revenue and profit before tax of the Consolidated Group and NSPT Group.

If the combination had taken place at the beginning of the period, revenue for the Consolidated Group would have been \$58,544,000. Due to the terms and conditions of the transaction NSR was entitled to 100% of Southern Cross Group earnings from 1 July 2016 up to the date of acquisition. Therefore, profit before tax for the Consolidated Group would have been unchanged.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Group \$'000
Purchase consideration	
Cash and cash equivalents	290,505
Total consideration	<u>290,505</u>
 <i>Analysis of cash flows on acquisition:</i>	
Transaction costs of the acquisition (included in cash flows from investing activities)	13,688
Net cash acquired with the subsidiary (included in cash flows from investing activities)	<u>(1,261)</u>
Net cash flow on acquisition	<u>12,427</u>
Acquisition of subsidiary and property portfolio, net of cash acquired per statement of cashflows	<u>302,932</u>

The acquisition has no elements of contingent consideration.

The Consolidated Group incurred transaction costs of \$13,688,000 which were expensed and are included within business combination and restructuring costs.

5. Income tax

Under current Australian tax legislation, NSPT is not liable to pay income tax provided its net income is 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 31 December 2016 interim distribution.

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 expense / (benefit) in the interim statement of profit or loss are:

For the six months ended 31 December	Consolidated Group		NSPT Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Consolidated statement of profit or loss				
Current income tax	352	-	352	-
Deferred income tax	219	(386)	7	(81)
Income tax expense / (benefit)	<u>571</u>	<u>(386)</u>	<u>359</u>	<u>(81)</u>
Consolidated statement of other comprehensive income				
<i>Deferred tax relating to items recognised in other comprehensive income during the period</i>				
Net gain on revaluation of cash flow hedges	48	-	48	-
Deferred tax charged to other comprehensive income	<u>48</u>	<u>-</u>	<u>48</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Investment properties

	Consolidated Group		NSPT Group	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Investment properties at valuation				
Leasehold investment properties	220,153	218,430	-	-
Freehold investment properties	958,981	625,700	950,228	621,030
Total investment properties	1,179,134	844,130	950,228	621,030
Leasehold properties				
Opening balance at 1 July	218,430	125,304	-	-
Property acquired through business combinations*	10,795	-	-	-
Other property acquisitions	-	83,241	-	-
Improvements to investment properties	337	1,431	-	-
Items reclassified to freehold investment properties	-	(5,715)	-	-
Reassessment of lease terms	(7,328)	19,675	-	-
Finance lease diminution, presented as fair value adjustments	(1,866)	(4,559)	-	-
Other fair value adjustments	(215)	(947)	-	-
Closing balance at 31 December / 30 June	220,153	218,430	-	-
Freehold properties				
Opening balance at 1 July	625,700	467,100	621,030	465,293
Property acquired through business combinations	260,900	-	260,900	-
Other property acquisitions	54,259	132,645	52,995	137,437
Improvements to investment properties	2,662	2,370	251	462
Items reclassified from leasehold investment properties	-	5,715	-	-
Items reclassified from property, plant and equipment	402	-	-	-
Items reclassified to assets held for sale	(5,713)	-	(5,713)	-
Net gain from fair value adjustments	20,486	15,531	20,486	15,531
Effect of movement in foreign exchange	285	2,339	279	2,307
Closing balance at 31 December / 30 June	958,981	625,700	950,228	621,030

*Represents acquisition of leasehold investment property of \$6,196,000 plus net gross up of \$4,599,000 relating to the adoption of investment property accounting under AASB 140.

Included within net gain from fair value adjustment for freehold investment properties is an unrealised gain of \$779,000 relating to the contracted divestment of a self-storage centre during the period. This property has been reclassified to assets held for sale and is recorded at fair value (see note 8).

NOTES TO THE FINANCIAL STATEMENTS

7. Investment in joint ventures and associates

	Consolidated Group		NSPT Group	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Opening balance at 1 July	15,101	6,709	8,441	6,709
Capital contribution in associate	1,312	6,660	-	-
Share of profit from joint venture and associate	1,925	1,732	1,509	1,732
Disposal of shareholding in joint venture	(9,950)	-	(9,950)	-
Closing balance at 31 December / 30 June	8,388	15,101	-	8,441

Investment in joint venture

As described in note 4, on 30 August 2016, the Consolidated Group purchased the share capital of Southern Cross Storage Operations Pty Ltd and the investment properties of Southern Cross Storage Trust. Prior to completion the Consolidated Group and NSPT Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Storage Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in the joint venture.

Investment in an associate

The Consolidated Group holds a 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. During the period the Consolidated Group invested a further \$1.3 million in units of APSF as part of a capital raise conducted by the fund to finance further development opportunities. As a result of this investment the Consolidated Group's holding remained at 24.9%.

8. Assets held for sale

	Consolidated Group		NSPT Group	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Non-current assets				
Opening balance at 1 July	-	-	-	-
Items reclassified from freehold investment property	5,713	-	5,713	-
Closing balance at 31 December / 30 June	5,713	-	5,713	-

On 19 October 2016, the Consolidated Group and NSPT Group entered into a contractual agreement for the sale of the land and buildings of the Croydon self-storage centre for \$5.8 million. This has resulted in an unrealised gain of \$0.8 million from the assets' carrying value within freehold investment property at 30 June 2016. This has been included within fair value adjustments in the statement of profit or loss. The transaction is expected to settle in February 2018.

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

NOTES TO THE FINANCIAL STATEMENTS

9. Non-financial assets fair value measurement

<i>Investment properties</i>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated Group				
At 31 December 2016				
Leasehold	-	-	220,153	220,153
Freehold	-	-	958,981	958,981
	-	-	1,179,134	1,179,134
At 30 June 2016				
Leasehold	-	-	218,430	218,430
Freehold	-	-	625,700	625,700
	-	-	844,130	844,130
NSPT Group				
At 31 December 2016				
Leasehold	-	-	-	-
Freehold	-	-	950,228	950,228
	-	-	950,228	950,228
At 30 June 2016				
Leasehold	-	-	-	-
Freehold	-	-	621,030	621,030
	-	-	621,030	621,030

Recognised fair value measurements

The Consolidated Group's and the NSPT Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers between Levels 1 and 2 for recurring fair value measurements during the six month period. 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 Directors' 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 Directors' valuations are completed by the NSH Group Board, and are determined using the same techniques and similar estimates to those applied by the independent valuer.

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

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

NOTES TO THE FINANCIAL STATEMENTS

Valuation inputs and relationship to fair value

The following table presents the significant unobservable inputs in Level 3 valuations at 31 December 2016:

Description	Valuation technique	Significant unobservable inputs		Range at 31 December 2016	Range at 30 June 2016
Investment properties - leasehold	Capitalisation method	Capitalisation rate	Primary	9% to 26%	9% to 26%
			Secondary	11% to 28%	10% to 28%
		Sustainable occupancy		80% to 93%	73% to 92%
		Stabilised average EBIT		\$528,266	\$446,015
Investment properties - freehold	Capitalisation method	Capitalisation rate	Primary	7% to 12%	7% to 11%
			Secondary	8% to 12%	8% to 12%
		Sustainable occupancy		73% to 95%	73% to 96%
		Stabilised average EBIT		\$1,021,597	\$1,000,524

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 its 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 investment property fair values to changes in input assumptions.

At 31 December 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%)	(3,900) / 4,100	1% / (1%)	(79,200) / 104,200
	Secondary	7% / (7%)	(1,100) / 1,300	2% / (2%)	(21,900) / 32,800
Sustainable occupancy		5% / (5%)	7,300 / (2,900)	5% / (5%)	73,700 / (51,600)
Stabilised average EBIT		5% / (5%)	1,400 / (2,000)	5% / (5%)	30,800 / (30,200)

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)

NOTES TO THE FINANCIAL STATEMENTS

10. Intangibles

	Consolidated Group		NSPT Group	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Goodwill	43,660	13,759	-	-
Other intangibles	923	889	-	-
Total intangible assets	44,583	14,648	-	-

Goodwill is an asset acquired through business combinations. As described in note 4, during the period the Consolidated Group recognised \$29,901,000 of goodwill on the acquisition of Southern Cross.

Impairment testing of goodwill

Goodwill has been allocated to the listed group (NSR). Management have determined that the listed group is the appropriate cash generating unit against which to allocate these intangible assets owing to the synergies arising from combining the portfolios of the NSH Group, NSPT Group, and Southern Cross Storage Group.

The recoverable amount of the listed group has been determined based on the fair value less costs of disposal method using the fair value quoted on an active market. As at 31 December 2016 NSR had 503,192,172 stapled securities quoted on the ASX at \$1.495 per security providing a market capitalisation of \$752,272,297. 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.

11. 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. 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 TO THE FINANCIAL STATEMENTS

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated and NSPT Group				
At 31 December 2016				
<i>Financial assets (non-current)</i>				
Derivative used for hedging - interest rate swap	-	3,949	-	3,949
<i>Financial liabilities (current)</i>				
Derivative used for hedging - interest rate swap	-	(296)	-	(296)
<i>Financial liabilities (non-current)</i>				
Derivative used for hedging - interest rate swap	-	(3,064)	-	(3,064)
Total financial liabilities	-	(3,360)	-	(3,360)
At 30 June 2016				
<i>Financial liabilities</i>				
Derivative used for hedging - interest rate swap	-	(6,522)	-	(6,522)

There were no transfers between levels of fair value hierarchy during the half-year period to 31 December 2016.

12. Borrowings

	Consolidated Group		NSPT Group	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Non-current borrowings				
Bank finance facility	387,699	286,073	386,449	266,273
Non-amortised borrowing costs	(2,727)	(1,547)	(2,720)	(1,547)
Total non-current borrowings	384,972	284,526	383,729	264,726

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 31 December 2016 are on a “Club” arrangement with National Australia Bank, Westpac Banking Corporation, Australian Super and Commonwealth Bank of Australia.

The major terms of these agreements are as follows:

- The facility limits are AUD \$380 million and NZD \$46 million (AUD \$44.25 million) of which AUD \$343.5 million, and NZD \$46 million (AUD \$44.25 million) was drawn at 31 December 2016 with maturity dates ranging from 23 December 2019 to 23 December 2026.
- All facilities are interest only with any drawn balance 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 AUD \$3 million that was undrawn at the balance date.

During the period the Consolidated Group and NSPT Group refinanced part of the existing debt portfolio via an institutional term loan with Australian Super. Australian Super has provided two \$50 million tranches of debt with tenors of eight and ten years.

NOTES TO THE FINANCIAL STATEMENTS

Following the period end, on 18 January 2017, the Consolidated Group and NSPT Group increased its club banking facilities by NZD \$50 million (AUD \$48.1 million) (see note 18).

Interest Rate Swaps

The Consolidated Group and NSPT Group have AUD \$190 million, and NZD \$23.5 million (AUD \$22.6 million) of current and future interest rate hedges in place as at the end of the reporting period with maturity dates ranging from December 2017 to September 2026.

13. Contributed equity

Issued and Paid Up Capital	Consolidated Group		NSPT	
	31 Dec 2016	30 Jun 2016	31 Dec 2016	30 Jun 2016
	\$'000	\$'000	\$'000	\$'000
Ordinary shares	57,778	31,707	-	-
Units	-	-	530,961	299,760
	<u>57,778</u>	<u>31,707</u>	<u>530,961</u>	<u>299,760</u>

Number of Stapled Securities on Issue

	Consolidated Group		NSPT	
	31 Dec 2016	30 Jun 2016	31 Dec 2016	30 Jun 2016
	No. of shares	No. of shares	No. of units	No. of units
Opening balance at 1 July	336,422,143	334,456,409	336,422,143	334,456,409
Institutional and retail placement	164,557,412	-	164,557,412	-
Distribution reinvestment plan	2,212,617	1,965,734	2,212,617	1,965,734
Closing balance	<u>503,192,172</u>	<u>336,422,143</u>	<u>503,192,172</u>	<u>336,422,143</u>

Capital Raise

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

Distribution reinvestment plan

During the period 2,212,617 stapled securities were issued to security holders participating in the Group's DRP for consideration of \$3.45 million (2016: 1,965,734 stapled securities issued under the DRP for consideration of \$2.85 million). The stapled securities were issued at the volume weighted average market price of NSR's stapled securities over a period of 10 business days commencing on and including 8 August 2016, 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 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

14. Related party transactions

The following tables provide the total amount of transactions that have been entered into with related parties for the six months ended 31 December 2016 and 2015, as well as balances with related parties as at 31 December 2016 and 30 June 2016.

Transaction 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	Current period	310,536	-	-	-
	Comparative period	924,291	-	3,344,606	-
Southern Cross Storage Trust	Current period	100,000	-	-	-
	Comparative period	-	-	-	-
The Trust Company Limited and its associates	Current period	-	125,380	-	67,943
	Comparative period	-	183,287	-	21,727
Australia Prime Storage Fund	Current period	222,927	-	102,147	-
	Comparative period	207,812	-	166,220	-

Transaction with Related Parties – NSPT

National Storage Holdings Limited	Current period	-	-	41,617,378	-
	Comparative period	-	-	6,960,507	-
National Storage (Operations) Pty Ltd	Current period	17,382,932	67,546	-	-
	Comparative period	15,751,111	-	-	379,493
Southern Cross Storage Operations Pty Ltd	Current period	4,548,000	-	-	-
	Comparative period	-	-	-	-
National Storage Financial Services Limited	Current period	-	462,981	-	82,249
	Comparative period	-	33,333	-	5,611
National Storage Limited	Current period	1,792,876	-	3,625,299	-
	Comparative period	866,961	-	1,978,178	-
The Trust Company Limited and its associates	Current period	-	125,830	-	67,943
	Comparative period	-	183,287	-	21,727

Southern Cross Storage Operations Pty Ltd is classified as a related party of the Consolidated Group and NSPT Group until 30 August 2016.

NOTES TO THE FINANCIAL STATEMENTS

15. Distributions paid and proposed

Unit distributions

Distributions declared

NSPT	
31 Dec 2016	31 Dec 2015
\$'000	\$'000

NSPT interim distribution of 4.6 cents per unit payable on 27 February 2017 (26 February 2016: 4.3 cents per unit)

23,147	14,382
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On 29 August 2016 NPST paid a final distribution of 4.4 cents per unit, totalling \$14,803,000 relating to the 2016 financial year (2015 final distribution of 4.2 cents per unit, totalling \$14,047,000). Distributions proposed at the period end date are classified as current and included within current liabilities in the statement of financial position.

16. Commitments and contingencies

Capital commitments

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

There are no contingent assets or liabilities for the Consolidated or NSPT Group.

17. Earnings per stapled security

	Consolidated Group		NSPT	
	31 Dec 2016 cents	31 Dec 2015 cents (adjusted)	31 Dec 2016 cents	31 Dec 2015 cents (adjusted)
Basic and diluted earnings per stapled security / unit	4.82	6.13	5.04	6.42
Reconciliation of earnings used in calculating earnings per stapled security / unit				
<i>Basic and diluted earnings per security</i>	\$'000	\$'000	\$'000	\$'000
Net profit attributable to members	23,682	20,620	24,767	21,580
	No. of securities	No. of securities	No. of units	No. of units
Weighted average number of securities for basic and diluted earnings per stapled security / unit	491,135,524	336,306,325	491,135,524	336,306,325

The weighted average number of securities for the period ending 31 December 2015 used to calculate basic and diluted earnings per share has been restated for the effect of stapled securities / units issued in the current period ending 31 December 2016 under the institutional and retail placement and distribution reinvestment plan.

NOTES TO THE FINANCIAL STATEMENTS

18. Events after reporting period

ACQUISITION OF STORAGE CENTRES

On 18 January 2017, NSR announced that it had entered into arrangements to acquire a third freehold self-storage centre in Wellington, New Zealand for NZD \$9.75 million (AUD \$9.4 million). The transaction settled on 1 February 2017.

On 30 January 2017, NSR announced that it had acquired the freehold interests of two existing self-storage assets at Guildford and Rockingham in Perth, Western Australia. The transaction also involved the acquisition of two freehold land parcels adjacent to the Rockingham centre. Total consideration for the transaction is \$30 million. As part of the overall transaction, NSR also negotiated improved lease terms for the Subiaco centre, securing the underlying business and long term leasehold interest.

INCREASE TO CLUB DEBT FACILITY

On 18 January 2017, the Consolidated Group and NSPT Group increased its club banking facilities by NZD \$50 million (AUD \$48.1 million) to facilitate the Wellington acquisition and potential further strategic opportunities.

No other matter has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Consolidated Group's operations, the results of those operations, or the Consolidated Group's state of affairs in future financial periods.

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- (a) the financial statements and notes of the NSH Group for the half-year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
 - b. complying with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) with reference to Note 2 in the financial statements, there are reasonable grounds to believe that the NSH Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



Laurence Brindle
Chairman



Andrew Catsoulis
Managing Director

21 February 2017
Brisbane

DIRECTORS' DECLARATION

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

In the opinion of the Responsible Entity:

- (a) the financial statements and notes of the NSPT Group for the half-year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the NSPT Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
 - b. complying with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the NSPT Group will be able to pay its debts as and when they become due and payable.

On behalf of the Responsible Entity



Laurence Brindle
Director



Andrew Catsoulis
Director

21 February 2017
Brisbane

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of National Storage REIT

Report on the half-year Financial Report

We have reviewed the accompanying half-year financial report of National Storage REIT comprising National Storage Holdings Limited and National Storage Property Trust and the entities they controlled during the half-year, which comprises the interim statements of financial position as at 31 December 2016, interim statements of profit or loss, interim statements of other comprehensive income, the interim statements of changes in equity and the interim statements of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' Responsibility for the half-year 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 half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of National Storage REIT and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

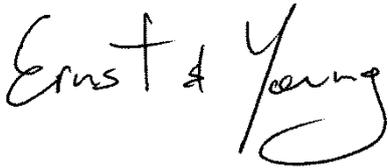
Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of National Storage REIT is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Ric Roach
Partner
Brisbane
21 February 2017