



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

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**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**

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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 1, 10 Felix Street,
Brisbane, QLD 4001

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 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 (“**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 2015 ("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

The Responsible Entity

National Storage Financial Services Limited was appointed the Responsible Entity of NSPT on 10 November 2015. Prior to this date the Responsible Entity was The Trust Company (RE Services) Limited. The Directors of National Storage Financial Services Limited in office from 10 November 2015 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

The Directors of The Trust Company (RE Services) Limited, holding the position of The Responsible Entity from the start of the reporting period until 10 November 2015, unless stated, are set out below.

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

REVIEW AND RESULTS OF OPERATIONS

National Storage REIT is the first independent, internally managed and fully integrated owner and operator of self-storage centres to be listed on the ASX.

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 2015, total revenue increased by 30% to \$37,324,000 (2014: \$28,775,000) through a combination of revenue growth achieved via an increase in storage rents charged and the addition of new revenue streams with the completion of the acquisition of new storage centres.

DIRECTORS' REPORT

Total operating expenses increased by 33% to \$22,188,000 (2014: \$16,772,000) due to the additional seventeen storage centres acquired by NSR in the twelve months to 31 December 2015. A lower overall cost of debt offset some of these increases.

Net profit after tax increased by 36% to \$20,620,000 (2014: \$15,243,000) was favourably impacted by fair value adjustments associated with the carrying value of investment properties and the share of profit generated from the Southern Cross joint venture. Underlying earnings¹ increased 35% to \$14.3 million (2014: \$10.6 million) through the contribution from acquisitions and the improved operating performance.

Cash Management

Cash and cash equivalents as at 31 December 2015 were \$10,198,000 (30 June 2015: \$9,494,000). An estimated interim distribution of 4.3 cents per security (\$14,381,626) was declared on 21 December 2015 with an estimated payment date of 26 February 2016. During this half-year period the Consolidated Group implemented a Distribution Reinvestment Plan (DRP) which will enable eligible security holders to receive part or all of their distribution by way of securities rather than cash. For the December 2015 interim distribution approximately 14.3% of eligible security holders (by number of securities) elected to receive their distributions totalling \$2,095,940 by way of securities. The DRP price has been set at \$1.454 which will result in 1,416,740 new securities being issued on the distribution payment date.

Net operating cashflow for the half-year was \$21,193,000 (2014: \$18,897,000).

The Consolidated Group finance facilities are on a "Club" arrangement with a selection of major Australian banks. The Consolidated Group's borrowing capacity is A\$200 million and NZ\$31 million. During the reporting period new facilities totalling NZ\$31 million were entered into to facilitate the acquisition of six storage centres in New Zealand. Additional interest rate hedges were entered into during the reporting period to take advantage of the current low interest rate environment.

Investments

During the period the portfolio expanded following the acquisitions of eleven centres which include entering the New Zealand market. The storage centres (including leasehold) acquired were:

Centre	State	Date
Belfast, Opawa, Ferrymead, Hornby & Redwood	Christchurch (NZ)	August 2015
Pymble, Camperdown & Seven Hills	New South Wales	October 2015
Frankton	Hamilton (NZ)	November 2015
Earlville	Queensland	November 2015
Croydon South	Victoria	December 2015
Dee Why (Portion of freehold of existing centre)	New South Wales	December 2015

The Company 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 select cities around Australia. The fund anticipates 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.

¹ 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

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

No other matter has arisen since 31 December 2015 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 the 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 Class Order 98/0100. The Consolidated Group is an entity to which the class order applies.

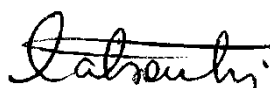
AUDITOR'S INDEPENDENCE DECLARATION

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 8 February 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

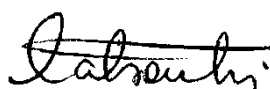


Andrew Catsoulis
Managing Director
National Storage Holdings Limited
Brisbane

This report is made on 8 February 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



Andrew Catsoulis
Director
National Storage Financial Services Limited
Brisbane

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
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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 2015, 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

Mark Hayward
Partner
8 February 2016

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INTERIM STATEMENTS OF PROFIT OR LOSS

For the six months ended 31 December 2015

	Note	Consolidated Group		NSPT Group	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Revenue from storage rent		33,202	24,336	-	-
Rental revenue		-	-	16,618	12,954
Revenue from sale of goods and services		3,009	2,674	347	54
Other revenue		1,113	1,765	45	132
Total revenue		37,324	28,775	17,010	13,140
Salaries and employee benefits expense		(7,095)	(5,246)	-	-
Management fees - operational		(118)	(75)	(152)	(75)
Property rates and taxes		(2,231)	(1,780)	(130)	(120)
Repairs and maintenance		(563)	(356)	(2)	-
Cost of packaging and other products sold		(460)	(345)	-	-
Depreciation and amortisation		(228)	(206)	-	-
Finance costs		(6,919)	(5,115)	(3,204)	(2,509)
Professional fees		(255)	(310)	(36)	(52)
Other operational expenses		(4,319)	(3,339)	(57)	(1)
Total operational expenses		(22,188)	(16,772)	(3,581)	(2,757)
Gross operating profit		15,136	12,003	13,429	10,383
Fair value adjustments		3,333	3,185	6,305	5,127
Other non-operational expenses		-	(605)	-	(439)
Share of profit of joint venture		1,765	523	1,765	523
Profit before income tax		20,234	15,106	21,499	15,594
Income tax benefit	4	386	137	81	-
Profit after tax		20,620	15,243	21,580	15,594
Profit for the year attributable to:					
Members of National Storage Holdings Limited		(960)	(351)	21,580	15,594
Non-controlling interest (unit holders of NSPT)		21,580	15,594	-	-
		20,620	15,243	21,580	15,594
Basic and diluted earnings per stapled security /unit (cents)	15	6.17	5.56	6.45	5.69

The above Statements of Profit of Loss should be read in conjunction with the accompanying notes and 30 June 2015 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 2015

	Consolidated Group		NSPT Group	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Profit after tax	20,620	15,243	21,580	15,594
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	3	-	7	-
Changes in the fair value of cash flow hedges	(1,837)	(809)	(1,837)	(809)
Total other comprehensive income	(1,834)	(809)	(1,830)	(809)
Total comprehensive income	18,786	14,434	19,750	14,785
Comprehensive income for the year attributable to:				
Members of National Storage Holdings Limited	(964)	(351)	19,750	14,785
Non-controlling interest (unit holders of NSPT)	19,750	14,785	-	-
	18,786	14,434	19,750	14,785

The above Statements of Other Comprehensive Income should be read in conjunction with the accompanying notes and 30 June 2015 Financial Statements of National Storage Holdings Limited and National Storage Property Trust

INTERIM STATEMENTS OF FINANCIAL POSITION

As at 31 December 2015

		Consolidated Group		NSPT Group	
		as at 31 Dec 2015	as at 30 Jun 2015	as at 31 Dec 2015	as at 30 Jun 2015
	Notes	\$'000	\$'000	\$'000	\$'000
ASSETS					
Current assets					
Cash and cash equivalents		10,198	9,494	2,045	7,862
Trade and other receivables		5,028	3,972	17,021	6,954
Inventories		341	300	-	-
Other current assets		3,169	2,814	247	126
Total current assets		18,736	16,580	19,313	14,942
Non-current assets					
Trade and other receivables		220	220	-	-
Property, plant, and equipment		1,514	832	-	-
Investment properties	5	735,778	592,404	520,066	465,293
Investment in joint ventures and associates	6	14,834	6,709	8,474	6,709
Intangible assets	8	14,358	14,170	-	-
Deferred tax asset		-	-	81	-
Total non-current assets		766,704	614,335	528,621	472,002
Total Assets		785,440	630,915	547,934	486,944
LIABILITIES					
Current liabilities					
Trade and other payables		5,725	4,003	3,229	1,542
Finance lease liability		5,220	5,022	-	-
Deferred revenue		6,683	6,400	-	-
Provisions		1,439	1,172	-	-
Other liabilities		14,382	14,047	14,382	14,047
Total current liabilities		33,449	30,644	17,611	15,589
Non-current liabilities					
Trade and other payables		-	1,700	-	1,700
Borrowings	10	196,275	123,012	176,475	123,012
Finance lease liability		161,851	87,439	-	-
Other liabilities	9	3,109	1,272	3,109	1,272
Provisions		589	699	-	-
Deferred tax liability		101	487	-	-
Total non-current liabilities		361,925	214,609	179,584	125,984
Total Liabilities		395,374	245,253	197,195	141,573
Net Assets		390,066	385,662	350,739	345,371
EQUITY					
Non-controlling interest (unit holders of NSPT)		357,745	352,377	-	-
Contributed equity	11	31,419	31,419	297,191	297,191
Other Reserves		(4)	-	(3,102)	(1,272)
Retained earnings		906	1,866	56,650	49,452
Total Equity		390,066	385,662	350,739	345,371

The above Statements of Financial Position should be read in conjunction with the accompanying notes and 30 June 2015 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 2015

Attributable to securityholders of the National Storage REIT

	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Non- controlling interest \$'000	Total \$'000
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	-	-	-	(14,382)	(14,382)
Balance at 31 December 2015	31,419	906	(4)	357,745	390,066
Balance at 1 July 2014	17,758	3,201	-	223,368	244,327
(Loss)/profit for the period	-	(351)	-	15,594	15,243
Other comprehensive income/(loss)	-	-	-	(809)	(809)
Total comprehensive income/(loss) for the period	-	(351)	-	14,785	14,434
Issue of stapled units through institutional placement	5,255	-	-	40,663	45,918
Issue of stapled units through share purchase plan	1,316	-	-	10,184	11,500
Issue of stapled units as part of property acquisition	819	-	-	6,333	7,152
Costs associated with issue of units	(161)	-	-	(1,255)	(1,416)
Distributions provided for or paid	-	-	-	(11,825)	(11,825)
Balance at 31 December 2014	24,987	2,850	-	282,253	310,090

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2015 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 2015

Attributable to unitholders of the NSPT Group

	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
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	-	(14,382)	-	-	(14,382)
Balance at 31 December 2015	297,191	56,650	7	(3,109)	350,739
Balance at 1 July 2014	191,499	25,256	-	(393)	216,362
Profit for the period	-	15,594	-	-	15,594
Other comprehensive income	-	-	-	(809)	(809)
Total comprehensive income/(loss) for the period	-	15,594	-	(809)	14,785
Issue of stapled units through institutional placement	40,663	-	-	-	40,663
Issue of stapled units through share purchase plan	10,184	-	-	-	10,184
Issue of stapled units as part of property acquisition	6,333	-	-	-	6,333
Costs associated with issue of units	(1,255)	-	-	-	(1,255)
Distributions provided for or paid	-	(11,825)	-	-	(11,825)
Balance at 31 December 2014	247,424	29,025	-	(1,202)	275,247

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2015 Financial Statements of National Storage Holdings Limited and National Storage Property Trust.

INTERIM STATEMENTS OF CASH FLOWS

For the six months ended 31 December 2015

	Consolidated Group		NSPT Group	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Operating activities				
Receipts from customers	39,741	29,076	7,457	19,576
Payments to suppliers and employees	(18,616)	(10,246)	(1,055)	(334)
Interest received	68	67	30	2
Net cash flows from operating activities	21,193	18,897	6,432	19,244
Investing activities				
Purchase of investment properties	(59,452)	(80,792)	(46,993)	(80,792)
Improvements to investment properties	(2,031)	-	(290)	-
Purchase of property, plant, and equipment	(800)	(989)	-	-
Purchase of intangible assets	(298)	-	-	-
Investment in associate	(6,360)	-	-	-
Net cash flows used in investing activities	(68,941)	(81,781)	(47,283)	(80,792)
Financing activities				
Proceeds from issue of stapled securities	-	57,429	-	50,846
Transaction costs on issue of stapled securities	-	(1,427)	-	(1,255)
Distributions paid to stapled security holders	(14,047)	(8,337)	(14,047)	(8,337)
Repayment of borrowings	-	(44,000)	-	(44,000)
Proceeds from borrowings	72,230	67,834	52,430	67,834
Proceeds from associated entities	-	-	-	7,366
Payment of finance lease liabilities	(6,196)	(4,566)	-	-
Interest and other finance costs paid	(3,480)	(2,775)	(3,312)	(2,904)
Net cash flows from financing activities	48,507	64,158	35,071	69,550
Net increase / (decrease) in cash and cash equivalents	759	1,274	(5,780)	8,002
Net foreign exchange difference	(55)	-	(37)	-
Cash and cash equivalents at 1 July	9,494	8,264	7,862	102
Cash and cash equivalents at 31 December	10,198	9,538	2,045	8,104

The above Statements of Cash Flows should be read in conjunction with the accompanying notes and 30 June 2015 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 six months ended 31 December 2015 was approved on 8 February 2016, 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 2015 was approved on 8 February 2016, 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 2015 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 2015 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 2015 comprises the consolidated Interim Financial Statements of NSPT Group.

The consolidated financial statements for Consolidated Group are prepared on the basis that National Storage Holdings Limited 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 NSH Group and the NSPT Group in these Interim Financial Reports are the same as the 30 June 2015 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 2015 and considered together with any public announcements made by the Consolidated Group during the half-year ended 31 December 2015 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 CO 05/642 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 2015, the Consolidated Group has an excess of current liabilities over current assets of \$14,713,000.

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 \$6,683,000 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 \$32,200,000.

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 2015.

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 IFRS 16. The Group is continuing its assessment and has not yet determined the impact, if any, to either the statement of comprehensive income or the statement of financial position once these accounting standards and interpretations are adopted.

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 Comprehensive Income represent the same segment information as reported to the Board of National Storage Holdings Limited.

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

NOTES TO THE FINANCIAL STATEMENTS

4. 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 31 December 2015 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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current income tax	-	-	-	-
Deferred income tax	(386)	(137)	(81)	-
Income tax benefit	(386)	(137)	(81)	-

5. Investment properties

	Consolidated Group		NSPT Group	
	31 Dec 2015 \$'000	30 Jun 2015 \$'000	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Investment properties at valuation				
Leasehold investment properties	212,053	125,304	-	-
Freehold investment properties	523,725	467,100	520,066	465,293
	735,778	592,404	520,066	465,293
Leasehold properties				
Opening balance at 1 July	125,304	76,051	-	-
Property acquisitions	82,602	42,742	-	-
Items reclassified from property, plant, and equipment	-	190	-	-
Improvements to investment properties	826	335	-	-
Reassessment of lease terms	6,293	10,574	-	-
Finance lease diminution, presented as fair value adjustments	(2,631)	(4,588)	-	-
Other fair value adjustments	(341)	-	-	-
Closing balance at 31 December / 30 June	212,053	125,304	-	-
Freehold properties				
Opening balance at 1 July	467,100	305,250	465,293	305,250
Property acquisitions	47,915	141,294	46,993	141,294
Improvements to investment properties	1,206	1,798	290	715
Property disposals	-	(6,900)	-	(6,900)
Items reclassified from property, plant, and equipment	-	818	-	-
Net gain from fair value adjustments	6,305	24,840	6,305	24,934
Effect of movement in foreign exchange	1,199	-	1,185	-
Closing balance at 31 December / 30 June	523,725	467,100	520,066	465,293

NOTES TO THE FINANCIAL STATEMENTS

6. Investment in joint ventures and associates

	Consolidated Group		NSPT Group	
	31 Dec 2015 \$'000	30 Jun 2015 \$'000	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Opening balance at 1 July	6,709	5,077	6,709	5,077
Acquisition of shareholding in associate	6,360	-	-	-
Share of profit from joint venture	1,765	1,632	1,765	1,632
Closing balance at 31 December / 30 June	14,834	6,709	8,474	6,709

During the period, 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.

7. 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 2015				
Leasehold	-	-	212,053	212,053
Freehold	-	-	523,725	523,725
	-	-	735,778	735,778
At 30 June 2015				
Leasehold	-	-	125,304	125,304
Freehold	-	-	467,100	467,100
	-	-	592,404	592,404
NSPT Group				
At 31 December 2015				
Leasehold	-	-	-	-
Freehold	-	-	520,066	520,066
	-	-	520,066	520,066
At 30 June 2015				
Leasehold	-	-	-	-
Freehold	-	-	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 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 Director valuations. The independent valuations are performed by an accredited independent valuer. Investment properties are

NOTES TO THE FINANCIAL STATEMENTS

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 at 31 December 2015 and 30 June 2015:

	Consolidated Group		NSPT Group	
	External valuation	Internal valuation	External valuation	Internal valuation
	%	%	%	%
Period ended 31 December 2015				
Leasehold	13%	87%	-	-
Freehold	9%	81%	9%	81%
Year ended 30 June 2015				
Leasehold	23%	77%	-	-
Freehold	26%	74%	26%	74%

The Consolidated Group and NSPT Group also obtained external valuations on 8 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 31 December 2015. Including these valuations, 26% of freehold investment properties, and 33% of leasehold properties were subject to external valuations during the six month period.

Valuation inputs and relationship to fair value

The following table presents the significant unobservable inputs in level 3 valuations at 31 December 2015:

Description	Valuation technique	Significant unobservable inputs		Range at 31 December 2015	Range at 30 June 2015
Investment properties - leasehold	Capitalisation method	Capitalisation rate	Primary	9% to 26%	9% to 26%
			Secondary	11% to 28%	12% to 29%
		Sustainable occupancy		80% to 96%	77% to 96%
		Stabilised average EBIT		\$300,708	\$361,019
Investment properties - freehold	Capitalisation method	Capitalisation rate	Primary	8% to 11%	8% to 11%
			Secondary	10% to 13%	11% to 14%
		Sustainable occupancy		73% to 94%	68% to 94%
		Stabilised average EBIT		\$1,000,868	\$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.

NOTES TO THE FINANCIAL STATEMENTS

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

At 31 December 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%)	(3,800) / 11,300	1% / (1%)	(35,100) / 44,800
	Secondary	7% / (7%)	(1,600) / 4,100	2% / (2%)	(12,300) / 17,900
Sustainable occupancy		5% / (5%)	3,100 / (3,000)	5% / (5%)	25,500 / (25,600)
Stabilised average EBIT		5% / (5%)	700 / (700)	5% / (5%)	15,300 / (15,300)

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)

8. Intangibles

	Consolidated Group		NSPT Group	
	31 Dec 2015 \$'000	30 Jun 2015 \$'000	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Goodwill	13,759	13,759	-	-
Other intangibles	599	411	-	-
	<u>14,358</u>	<u>14,170</u>	<u>-</u>	<u>-</u>

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

Impairment testing of goodwill

Goodwill arising on stapling and the acquisition of SSC 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 and NSPT Group and the transfer of the management functions and associated revenues and expenses 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 31 December 2015 NSR had 334,456,409 stapled securities quoted on the Australian Securities Exchange (ASX) at \$1.54 per security providing a market capitalisation of \$515,062,870. 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.

NOTES TO THE FINANCIAL STATEMENTS

9. 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.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated and NSPT Group				
At 31 December 2015				

Financial liabilities

Derivative used for hedging - Interest rate swap	-	3,109	-	3,109
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At 30 June 2015

Financial assets

Financial liabilities

Derivative used for hedging - Interest rate swap	-	1,272	-	1,272
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There were no transfers between levels of fair value hierarchy during the six month period to 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents changes in level 3 financial assets:

	Consolidated Group		NSPT Group	
	31 Dec 2015	30 Jun 2015	31 Dec 2015	30 Jun 2015
	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July	-	1,097	-	1,007
Distribution receivable (clawback)	-	(1,841)	-	(1,684)
Derivative - contingent consideration recognised in profit or loss	-	744	-	677
Closing balance	-	-	-	-

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

The fair value of the contingent consideration has been determined using a discounted cash flow analysis on the expected future cash flows of the Consolidated Group. The valuation includes certain assumptions over unobservable inputs to the model including the assessment of expected future net profits, and setting of an appropriate discount rate. Future cash flows are expected to exceed distribution hurdles and therefore no derivative has been recognised.

10. Borrowings

	Consolidated Group		NSPT Group	
	31 Dec 2015	30 Jun 2015	31 Dec 2015	30 Jun 2015
	\$'000	\$'000	\$'000	\$'000
Non-current borrowings				
Bank finance facility	196,876	123,500	177,076	123,500
Non-amortised borrowing costs	(601)	(488)	(601)	(488)
Total non-current borrowings	196,275	123,012	176,475	123,012

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 2015 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 \$200 million and NZD \$31 million of which AUD \$167.8 million, and NZD \$31 million was drawn at 31 December 2015 with maturity dates ranging from 22 December 2017 to 23 December 2019.
- Both facilities are an interest only facility 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.

Interest Rate Swaps

The Consolidated Group and NSPT Group have AUD \$140 million, and NZD \$10 million 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.

NOTES TO THE FINANCIAL STATEMENTS

11. Contributed equity

Issued and Paid Up Capital

	Consolidated Group		NSPT	
	31 Dec 2015	30 Jun 2015	31 Dec 2015	30 Jun 2015
	\$'000	\$'000	\$'000	\$'000
Ordinary shares	31,419	31,419	-	-
Units	-	-	297,191	297,191
	31,419	31,419	297,191	297,191

Number of Stapled Securities on Issue

	Consolidated Group		NSPT	
	31 Dec 2015	30 Jun 2015	31 Dec 2015	30 Jun 2015
	No. of shares	No. of shares	No. of units	No. of units
Opening balance at 1 July				
Ordinary shares / units	334,456,409	244,897,096	334,456,409	244,897,096
Institutional placement	-	75,559,313	-	75,559,313
Share purchase plan	-	9,200,000	-	9,200,000
Property acquisition	-	4,800,000	-	4,800,000
Closing balance	334,456,409	334,456,409	334,456,409	334,456,409

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 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

12. Related party transactions

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	924,291	-	1,332,439	-
	Comparative period	868,534	-	2,081,086	-
Southern Cross Storage Trust	Current period	-	-	-	-
	Comparative period	-	-	251,498	40,000
The Trust Company (RE Services) Limited and its associates	Current period	-	183,287	-	110,288
	Comparative period	-	217,460	-	-
The Australian Prime Storage Trust	Current period	433,294	-	360,888	-
	Comparative period	-	-	-	-
Australian Storage Developments Pty Ltd	Current period	-	-	-	-
	Comparative period	-	-	-	3,592

Transaction with Related Parties – NSPT

National Storage Holdings Limited	Current period	-	-	20,427,541	-
	Comparative period	-	-	100,182,289	40,170,945
Southern Cross Storage Trust	Current period	-	-	-	-
	Comparative period	-	-	-	40,000
National Storage (Operations Limited)	Current period	15,751,111	-	-	5,429,855
	Comparative period	12,953,798	-	-	87,335,849
National Storage Financial Services Limited	Current period	-	33,333	-	33,333
	Comparative period	-	-	-	-
National Storage Limited	Current period	866,961	-	2,008,027	-
	Comparative period	-	-	-	-
The Trust Company (RE Services) Limited and its associates	Current period	-	183,287	-	110,288
	Comparative period	-	217,460	-	-

The Trust Company (RE Services) is classified a related party of the Consolidated Group and NSPT Group until 10 November 2015.

NOTES TO THE FINANCIAL STATEMENTS

13. Dividends/distributions paid and proposed

Unit distributions

Distributions declared

NSPT	
31 Dec 2015	31 Dec 2014
\$'000	\$'000

NSPT interim distribution of 4.3 cents per unit payable on 26 February 2016 (February 2015: 4.0 cents per unit)

14,382	11,825
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On 26 August 2015 NPST paid a final distribution of 4.2 cents per unit, totalling \$14,047,000 relating to the 2015 financial year (2014 final distribution of 3.8 cents per unit, totalling \$9,306,000).

14. Commitments and contingencies

Capital commitments

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

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

15. Earnings per stapled security

	Consolidated Group		NSPT	
	31 Dec 2015 cents	31 Dec 2014 cents	31 Dec 2015 cents	31 Dec 2014 cents
Basic and diluted earnings per stapled security / unit	6.17	5.56	6.45	5.69
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	20,620	15,243	21,580	15,594
Weighted average number of securities:				
	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	334,456,409	274,247,545	334,456,409	274,247,545

16. Events after reporting period

No other matter has arisen since 31 December 2015 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 the future financial periods.

DIRECTORS DECLARATION

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

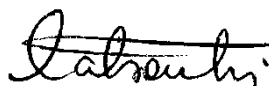
In the opinion of the Directors:

- (a) the financial statements and notes of the NSH Group for the half-year ended 31 December 2015 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 2015 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

8 February 2016
Brisbane

DIRECTORS DECLARATION

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

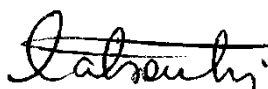
In the opinion of the Responsible Entity:

- (a) the financial statements and notes of the NSPT Group for the half-year ended 31 December 2015 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 2015 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

8 February 2016
Brisbane

INDEPENDENT AUDITOR'S REVIEW REPORT



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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 2015, 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 2015 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.

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INDEPENDENT AUDITOR'S REVIEW 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 2015 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*.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature of 'M J Hayward' in black ink.

Mark Hayward
Partner
Brisbane
8 February 2016

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