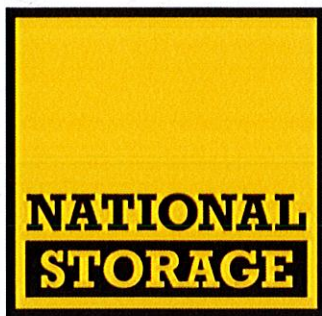




**NATIONAL STORAGE REIT (NSR)
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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 "**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
Claire Fidler

Directors – the Responsible Entity

Laurence Brindle
Andrew Catsoulis
Anthony Keane
Howard Brenchley
Steven Leigh
Claire Fidler

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**.

Auditor

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

DIRECTORS' REPORT

The Directors of NSH jointly with the Directors of National Storage Financial Services Limited as responsible entity of 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 2017 ("**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
Claire Fidler	Executive Director (appointed 18 July 2017)
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
Claire Fidler	Director (appointed 18 July 2017)

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 2017, total revenue increased by 22% to \$66,546,000 (31 December 2016: \$54,359,000) driven by strong storage revenue growth achieved via an increase in centre occupancy, rate per square metre and acquisition of additional centres.

Profit after tax increased by 153% to \$59,813,000 (31 December 2016: \$23,682,000) and was favourably impacted by fair value adjustments associated with the carrying value of investment properties. Underlying earnings¹ increased 11% to \$22.4m (31 December 2016: \$20.1m) through the contribution from acquisitions and improved centre operating performance.

	H1 FY18	H1 FY17
IFRS Profit	\$59.8m	\$23.7m
Plus tax expense/(benefit)	(\$2.8m)	\$0.6m
Plus business combination, restructuring and other non-recurring costs	\$1.2m	\$15.3m
Plus contracted gain in respect of sale of investment property	\$0.8m	\$0.8m
Less fair value adjustment	(\$34.4m)	(\$18.4m)
Less finance lease diminution	(\$2.2m)	(\$1.9m)
Underlying Earnings⁽¹⁾	\$22.4m	\$20.1m

¹ Underlying earnings is a non-IFRS measure (unaudited)

DIRECTORS' REPORT

Capital management

Cash and cash equivalents as at 31 December 2017 were \$15,136,000 (30 June 2017: \$23,166,000). An interim distribution of 4.7 cents per security (\$25,826,266) was declared on 13 December 2017 with a payment date of 26 February 2018. The Group operates a Distribution Reinvestment Plan ("DRP") which enables eligible security holders to receive part or all of their distribution by way of securities rather than cash.

For the 31 December 2017 interim distribution 18% of eligible security holders (by number of securities) elected to receive their distributions by way of securities. The DRP price has been set at \$1.4472 which will result in 3,232,481 new securities being issued on the distribution payment date.

Net operating cashflow for the half-year was \$36,057,000 (31 December 2016: \$21,180,000).

The Group finance facilities are on a "Club" arrangement with a selection of major Australian banks and a major Australian superannuation fund. The Group's borrowing capacity is AUD \$530m and NZD \$96m (AUD \$87.4m). During the period new facilities totalling AUD\$75m with maturities in 2020 and 2022 were entered into to facilitate the acquisition of additional storage centre assets in Australia.

During the period the Group undertook a fully underwritten \$50m equity raising. This resulted in the issue of 33,333,334 new stapled securities. Subsequent to the reporting period, the Group has issued a pro-rata accelerated non-renounceable entitlement offer of new stapled securities in NSR. The security purchase plan ("SPP") raised a total of \$9.5m.

Investments

During the reporting period the property investment portfolio expanded following the acquisition of seven storage centre assets across Australia. The storage centres acquired were:

Centre	State	Date	NLA (sqm)	Purchase Price
Jandakot (freehold)	WA	Oct 2017	5,200	\$6.2m
Perth Airport	WA	Oct 2017	5,800	\$8.9m
Milton (development site)	QLD	Nov 2017	5,300 (Planned)	\$3.4m
Marcoola	QLD	Nov 2017	3,400	\$4.5m
Morisset	NSW	Dec 2017	3,600	\$5.4m
Wyong	NSW	Dec 2017	3,700	\$6.5m
Hope Island	QLD	Dec 2017	5,100	\$9.5m

An agreement to on sell the Milton development site to the Bundall Storage Trust, a joint venture in which NSR holds a 25% interest was entered into during the period. Therefore, this asset has been reclassified as held for sale at 31 December 2017.

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

ACQUISITION OF STORAGE CENTRE ASSETS

On 4 January 2018, NSR completed the acquisition of a storage centre asset in Robina, Queensland for \$26m. As disclosed in note 16, NSR was contractually committed to this purchase at 31 December 2017.

On 18 January 2018, NSR completed the acquisition of a storage centre asset in Geelong, Victoria for \$4.2m.

On 13 February 2018, NSR completed the acquisition of a storage centre asset in Darwin, Northern Territory for \$14m.

On 14 February 2018, NSR completed the acquisition of a storage centre asset in Carrara, Queensland for \$14m. This asset was purchased from the Australian Prime Storage Fund, an associate entity in which NSR has a 24.9% holding.

DIRECTORS' REPORT

SECURITY PURCHASE PLAN

On 13 December 2017, NSR announced a SPP to raise up to \$15m from eligible security holders, in order to execute future acquisition opportunities and strengthen the Group's balance sheet. The SPP raised a total of \$9.5m at an issue price of \$1.4948 resulting in the issue of 6,379,548 new securities.

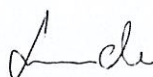
ROUNDING

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 Group is an entity to which the class order applies.

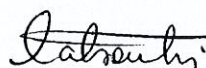
AUDITOR'S INDEPENDENCE DECLARATION

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 22 February 2018 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.

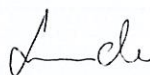


Laurence Brindle
Chairman
National Storage Holdings Limited
Brisbane

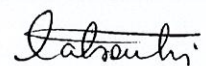


Andrew Catsoulis
Managing Director
National Storage Holdings Limited
Brisbane

This report is made on 22 February 2018 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
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

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

Auditor's Independence Declaration to the Directors of National Storage REIT and its controlled entities

As lead auditor for the review of National Storage REIT and its controlled entities, for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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 and the entities controlled during the financial period.

Ernst & Young

Ric Roach
Partner
22 February 2018

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Liability limited by a scheme approved under Professional Standards Legislation

INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2017

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
Revenue from storage rent		59,565	48,762
Revenue from sale of goods and services		3,485	3,349
Other revenue		3,496	2,238
Total revenue		66,546	54,349
Salaries and employee benefits expense		(12,084)	(11,394)
Premises costs		(7,866)	(6,573)
Cost of packaging and other products sold		(987)	(775)
Advertising and marketing		(2,781)	(1,481)
Other operational expenses		(5,707)	(4,230)
Finance costs		(14,183)	(10,671)
Share of profit of joint ventures and associates		811	1,925
Fair value adjustments		34,431	18,406
Business combination costs		-	(13,688)
Restructuring and other non-recurring costs		(1,164)	(1,615)
Profit before income tax		57,016	24,253
Income tax benefit / (expense)	5	2,797	(571)
Profit after tax		59,813	23,682
Profit / (loss) for the period attributable to:			
Members of National Storage Holdings Limited		(6,439)	(1,085)
Non-controlling interest (unit holders of NSPT)		66,252	24,767
		59,813	23,682
Basic and diluted earnings per stapled security (cents)	17	11.56	4.81

The above Interim Statement of Profit of Loss should be read in conjunction with the accompanying notes and 30 June 2017 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2017

	Consolidated Group	
	2017	2016
	\$'000	\$'000
Profit after tax	59,813	23,682
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	(322)	48
Net (loss) / gain on cash flow hedges	(925)	7,065
Total other comprehensive (loss) / income, net of tax	(1,247)	7,113
Total comprehensive income	58,566	30,795
Comprehensive income for the year attributable to:		
Members of National Storage Holdings Limited	(6,404)	(1,084)
Non-controlling interest (unit holders of NSPT)	64,970	31,879
	58,566	30,795

The above Interim Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes and 30 June 2017 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		Consolidated Group	
		as at 31 Dec 2017	as at 30 Jun 2017
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		15,136	23,166
Trade and other receivables		13,009	11,340
Inventories		613	600
Assets held for sale	8	10,113	5,713
Other current assets		5,123	4,309
Total current assets		43,994	45,128
Non-current assets			
Trade and other receivables		364	110
Property, plant and equipment		1,136	1,229
Investment properties	6	1,414,417	1,330,878
Investment in joint ventures and associates	7	13,454	10,591
Intangible assets	10	45,707	45,536
Deferred tax asset		832	525
Other non-current assets	12	2,421	3,328
Total non-current assets		1,478,331	1,392,197
Total Assets		1,522,325	1,437,325
LIABILITIES			
Current liabilities			
Trade and other payables		10,695	8,778
Finance lease liability		4,598	4,504
Deferred revenue		11,705	11,585
Income tax payable		314	314
Provisions		2,049	2,188
Distribution payable	15	25,826	23,594
Other liabilities	12	24	166
Total current liabilities		55,211	51,129
Non-current liabilities			
Borrowings	11	476,708	481,770
Finance lease liability		166,169	163,851
Income tax payable		183	-
Provisions		1,141	1,331
Deferred tax liability		464	3,368
Other liabilities	12	3,523	3,259
Total non-current liabilities		648,188	653,579
Total Liabilities		703,399	704,708
Net Assets		818,926	732,617
EQUITY			
Non-controlling interest (unit holders of NSPT)		751,686	664,627
Contributed equity	13	64,799	59,145
Other reserves		46	11
Retained earnings		2,395	8,834
Total Equity		818,926	732,617

The above Interim Statement of Financial Position should be read in conjunction with the accompanying notes and 30 June 2017 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017

Attributable to securityholders of National Storage REIT

	Notes	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Non- controlling interest \$'000	Total \$'000
Balance at 1 July 2017		59,145	8,834	11	664,627	732,617
(Loss) / profit for the period		-	(6,439)	-	66,252	59,813
Other comprehensive income / (loss)		-	-	35	(1,282)	(1,247)
Total comprehensive income / (loss) for the period		-	(6,439)	35	64,970	58,566
Issue of stapled units through institutional and retail placement	13	5,118	-	-	44,882	50,000
Issue of stapled units through distribution reinvestment plan		502	-	-	4,400	4,902
Costs associated with issue of units		(156)	-	-	(1,367)	(1,523)
Deferred tax on cost of units		190	-	-	-	190
Distributions provided for or paid	15	-	-	-	(25,826)	(25,826)
		5,654	-	-	22,089	27,743
Balance at 31 December 2017		64,799	2,395	46	751,686	818,926
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

The above Interim Statement of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2017 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2017

	Notes	Consolidated Group	
		2017 \$'000	2016 \$'000
Operating activities			
Receipts from customers		71,083	57,306
Payments to suppliers and employees		(35,165)	(36,697)
Interest received		139	571
Net cash flows from operating activities		36,057	21,180
Investing activities			
Purchase of investment properties		(49,410)	(54,081)
Acquisition of subsidiary and property portfolio, net of cash acquired		-	(302,932)
Distribution received from joint venture	7	-	9,950
Improvements to investment properties		(3,695)	(2,999)
Purchase of property, plant and equipment		(149)	(580)
Purchase of intangible assets		(280)	(163)
Investment in associate		(2,052)	(1,312)
Net cash flows used in investing activities		(55,586)	(352,117)
Financing activities			
Proceeds from issue of stapled securities	13	50,000	260,000
Transaction costs on issue of stapled securities		(1,373)	(6,188)
Distributions paid to stapled security holders		(18,692)	(11,342)
Repayment of borrowings		(48,720)	(210,580)
Proceeds from borrowings		46,570	311,950
Payment of finance lease liabilities		(6,422)	(6,151)
Interest and other finance costs paid		(9,815)	(7,558)
Net cash flows from financing activities		11,548	330,131
Net decrease in cash and cash equivalents		(7,981)	(806)
Net foreign exchange difference		(49)	3
Cash and cash equivalents at 1 July		23,166	13,374
Cash and cash equivalents at 31 December		15,136	12,571

The above Interim Statement of Cash Flows should be read in conjunction with the accompanying notes and 30 June 2017 Financial Statements of National Storage REIT.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

National Storage REIT ("the 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 2017 was approved on 22 February 2018, in accordance with resolutions from the Board of Directors of National Storage Holdings Limited and the Board of Directors of National Storage Financial Services Limited as the Responsible Entity of National Storage Property Trust.

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

2. Basis of preparation and changes to the Group's accounting policies

Basis of preparation

This Interim Financial Report for the half-year ended 31 December 2017 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 2017 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

The consolidated financial statements for the 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 in this Interim Financial Report are the same as the 30 June 2017 financial report for NSH and NSPT except for the accounting policies impacted by the new or amended Accounting Standards detailed in this note.

From 1 July 2017 the Group has elected to present only financial information relating to NSR within this financial report. In previous periods the Group has presented the NSPT Group results alongside those of NSR. A separate financial report for the NSPT Group has also been prepared for the half-year ended 31 December 2017, this is available at www.nationalstorageinvest.com.au

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 2017 and considered together with any public announcements made by the Group during the half-year ended 31 December 2017 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.

Deficiency of net current assets

As at 31 December 2017, the Group has an excess of current liabilities over current assets of \$11,217,000.

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

NOTES TO THE FINANCIAL STATEMENTS

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 \$11,705,000 associated with prepaid storage rentals which are not expected to result in a significant cash outflow. The Group also has available funding facilities beyond a year of \$107.9m.

The financial report has been prepared on a going concern basis as the Directors of NSH believe the 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 Group's annual consolidated financial statements for the year ended 30 June 2017.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its 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 Group. The Group continues to evaluate the full impact of AASB 9, AASB 15, and AASB 16. For a summary of the Group's preliminary assessment see note 2c of the 30 June 2017 Financial Statements of National Storage REIT.

3. Segment information

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

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

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

4. Business Combinations

Business combination in the prior period

On 30 August 2016, National Storage (Operations) Pty Ltd, a subsidiary of the Group acquired 100% of the share capital of Southern Cross Storage Operations Pty Ltd. National Storage Property Trust and National Storage Southern Trust, subsidiaries of the 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 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 Group's pre-existing property portfolio and already integrated into the Group's operating platform.

Prior to completion the 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 (see note 7).

NOTES TO THE FINANCIAL STATEMENTS

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:

	\$'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	(2,681)
Provisions	(364)
	<u>(9,684)</u>
Total identifiable net assets at fair value	<u>260,310</u>
Goodwill arising on acquisition	30,195
Purchase consideration transferred	<u>290,505</u>

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

From the date of acquisition to 30 June 2017 Southern Cross Storage Operations Pty Ltd contributed \$23.1m of revenue and \$2.2m of profit before tax to the Group. From the date of acquisition National Storage Property Trust and National Storage Southern Trust received \$11.4m of rental income from Southern Cross Storage Operations Pty Ltd which contributed to revenue and profit before tax of the Group.

If the combination had taken place at the beginning of the prior period, and NSR had wholly owned the Southern Cross Storage Group for the full year, NSR revenue for the financial year ended 30 June 2017 would have been \$122m. Due to the terms and conditions agreed at inception of the venture, on wind up the Group achieved a management performance fee equal to the profit of Southern Cross for the period 1 July 2016 to the date of acquisition. Therefore, profit before tax for the Group, in the prior year would have been unchanged.

Purchase consideration	\$'000
Cash and cash equivalents	290,505
Total consideration	<u>290,505</u>

Analysis of cash flows on acquisition:

Transaction costs of the acquisition (included in cash flows from investing activities)	13,837
Net cash acquired with the subsidiary (included in cash flows from investing activities)	(1,261)
Acquisition of subsidiary and property portfolio, net of cash acquired per statement of cashflows	<u>303,081</u>

The acquisition had no elements of contingent consideration.

The Group incurred transaction costs of \$13.8m which were expensed and are included within business combination and costs in the income statement for the year end 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

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 may 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 the 31 December 2017 interim distribution.

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

The major components of income tax (benefit) / expense in the interim statement of profit or loss are:

For the six months ended 31 December

	2017 \$'000	2016 \$'000
Consolidated statement of profit or loss		
Current income tax	(299)	352
Deferred income tax	(2,498)	219
Income tax (benefit) / expenses	(2,797)	571
Consolidated statement of other comprehensive income		
<i>Deferred tax relating to items recognised in other comprehensive income during the period</i>		
Cost of issuing share capital	(190)	-
Net (loss) / gain on revaluation of cash flow hedges	(36)	48
Deferred tax (credited) / charged to other comprehensive income	(226)	48

NOTES TO THE FINANCIAL STATEMENTS

6. Investment properties

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Investment properties at valuation		
Leasehold investment properties	215,965	226,955
Freehold investment properties	1,195,360	1,101,860
Freehold investment property under construction	3,092	2,063
Total investment properties	1,414,417	1,330,878
Leasehold properties		
Opening balance at 1 July	226,955	218,430
Property acquired through business combinations*	-	10,809
Other property acquisitions	-	8,317
Improvements to investment properties	404	497
Items reclassified from freehold investment properties	-	1,200
Items reclassified to freehold investment properties	(2,000)	(4,303)
Reassessment of lease terms	4,560	(10,823)
Finance lease diminution, presented as fair value adjustments	(2,148)	(3,586)
Other fair value adjustments	(11,806)	6,414
Closing balance at 31 December / 30 June	215,965	226,955
Freehold properties		
Opening balance at 1 July	1,101,860	625,700
Property acquired through business combinations	-	260,900
Other property acquisitions	47,634	140,497
Property disposals	-	(1,600)
Improvements to investment properties	3,113	4,736
Items reclassified to leasehold investment properties	-	(1,200)
Items reclassified from leasehold investment properties	2,000	4,303
Items reclassified from property, plant and equipment	-	464
Items reclassified to assets held for sale	(4,400)	(5,713)
Net gain from fair value adjustments	48,385	73,975
Effect of movement in foreign exchange	(3,232)	(202)
Closing balance at 31 December / 30 June	1,195,360	1,101,860
Freehold investment property under construction at cost		
Opening balance at 1 July	2,063	-
Property acquisitions	-	2,063
Development costs	1,029	-
Closing balance at 31 December / 30 June	3,092	2,063

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

In the period ended 31 December 2017, included within net gain from fair value adjustments for freehold investment properties is an unrealised gain of \$760,000 (30 June 2017: realised gain of \$750,000 and 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

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Opening balance at 1 July	10,591	15,101
Capital contribution / acquisition of shareholding in associates	2,048	1,350
Acquisition of shareholding in joint venture	4	1,980
Share of profit from associate and joint ventures*	811	2,110
Return of capital on dissolution of joint venture	-	(9,950)
Closing balance at 31 December / 30 June	13,454	10,591

*Included within share of profit from associates and joint ventures is \$979,000 representing NSR's share of fair value gains related to investment properties held by joint ventures and associates (30 June 2017: \$746,000).

Investment in associates

The Group has 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.

APSF is in the process of developing multiple storage centres in Australia, with its third centre opening during the six months ended 31 December 2017. Once open, the storage centres operate under the National Storage brand and are managed by National Storage (Operations) Pty Ltd. In the six months ended 31 December 2017, National Storage (Operations) Pty Ltd earned fees of \$552,243 (31 December 2016: \$222,927) from APSF associated with the design, development, financing of the construction process and ongoing management of centres.

During the period, the Group acquired a 25.8% holding in Spacer Marketplaces Pty Ltd ("Spacer"). Spacer operate online peer-to-peer marketplaces for self-storage and parking.

Investment in joint ventures

As described in note 4, on 30 August 2016, the 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 Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Storage Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in the joint venture.

During the prior year ended 30 June 2017, the Group acquired a 25% interest in the Bundall Storage Trust and a 25% interest in the Bundall Commercial Trust. Following this investment, the Bundall Storage Trust and Bundall Commercial Trust purchased land in the Gold Coast, Queensland. These investments have been classified as a joint venture as both trusts are subject to a Securityholders Agreement that has been contractually structured such that the parties to the agreement have equal representation on the advisory board responsible for the overall direction and supervision of each trust.

NOTES TO THE FINANCIAL STATEMENTS

8. Assets held for sale

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Current assets		
Opening balance at 1 July	5,713	-
Items reclassified from freehold investment property	4,400	5,713
Closing balance at 31 December / 30 June	10,113	5,713

On 21 December 2017, the Group entered into an agreement for the sale of the land and development rights of an investment property in Brisbane, Queensland to the Bundall Storage Trust. The Bundall Storage Trust is a related party (see note 7 and 14). This has resulted in an unrealised gain of \$0.8m on the asset's carrying value within freehold investment property at 31 December 2017. This has been included within fair value adjustments in the statement of profit or loss. The transaction is expected to settle in March 2018.

On 19 October 2016 in the prior period, the Group entered into a contractual agreement for the sale of the land and buildings of the Croydon self-storage centre for \$5.8m. This has resulted in an unrealised gain of \$0.8m from the asset's carrying value within freehold investment property at 30 June 2016. This was included within fair value adjustments in the statement of profit or loss in the prior period. Completion of this transaction has been delayed and it is now expected to settle between September and December 2018.

As a result of the above transactions the assets have been reclassified from investment property to current assets held for sale.

9. Non-financial assets fair value measurement

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2017				
Assets held for sale	-	10,113	-	10,113
Leasehold investment properties	-	-	215,965	215,965
Freehold investment properties	-	-	1,195,360	1,195,360
	-	10,113	1,411,325	1,421,438
At 30 June 2017				
Assets held for sale	-	5,713	-	5,713
Leasehold investment properties	-	-	226,955	226,955
Freehold investment properties	-	-	1,101,860	1,101,860
	-	5,713	1,328,815	1,334,528

Recognised fair value measurements

The 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. During the period ended 31 December 2017, the Group transferred \$4.4m from level 3 to level 2 following the reclassification of an asset from freehold investment properties to assets held for sale as detailed in note 8, (30 June 2017: \$5.7m).

Fair value measurements using significant observable inputs (level 2)

The fair value of assets held for sale is determined using valuation techniques which maximise the use of observable market data. For the periods ended 31 December 2017 and 30 June 2017, the Group has assets classified at held for sale at contractually agreed sales price less estimated cost of sale.

NOTES TO THE FINANCIAL STATEMENTS

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 centres, 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 rotational basis every three years unless the underlying financing requires a more frequent valuation cycle. For properties subject to an independent valuation report the Directors verify all major inputs to the valuation and review the results with the independent valuer. The Directors' valuations are completed by the NSH Group Board. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

As in the previous financial year, the Group has elected to obtain the majority of its 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. As at 31 December 2017, external valuations were obtained for a small proportion of the investment property portfolio, to meet the requirements of the Group's financing agreements.

The table below details the percentage of the number of investment properties subject to internal and external valuation during the current and comparable reporting periods (excluding acquired properties).

	External valuation %	Internal valuation %
As at 31 December 2017		
Leasehold	13%	87%
Freehold	3%	97%
As at 30 June 2017		
Leasehold	15%	85%
Freehold	38%	62%

The Group also obtained external valuations on 6 freehold investment properties acquired during the reporting period. These external valuations provide the basis of the Directors' valuations applied to these properties at 31 December 2017. Including these valuations, 9% of freehold investment properties, and 13% of leasehold properties were subject to external valuations during the period.

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

Valuation inputs and relationship to fair value

Description	Valuation technique	Significant unobservable inputs		Range at 31 December 2017	Range at 30 June 2017
Investment properties - leasehold	Capitalisation method	Capitalisation rate	Primary	8.0% to 40.5%	9.3% to 26%
			Secondary	8.8% to 41%	9.3% to 26%
		Sustainable occupancy		83% to 95%	76% to 93%
		Stabilised average EBIT		\$370,710	\$383,476
Investment properties - freehold	Capitalisation method	Capitalisation rate	Primary	6.5% to 8.5%	6.8% to 10.5%
			Secondary	6.5% to 10%	7% to 12%
		Sustainable occupancy		75% to 95%	75% to 95%
		Stabilised average EBITDA		\$908,649	\$910,463

Under the income capitalisation method, a property's fair value is estimated based on the stabilised average earnings before interest, tax, depreciation and amortisation ("EBITDA") generated by the property, which is divided by the capitalisation rate (the investor's required rate of return). The capitalisation rate is derived from recent sales of similar properties.

NOTES TO THE FINANCIAL STATEMENTS

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

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

The stabilised average EBITDA is derived from a property's revenues less 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 EBITDA will result in an increase in fair value of an investment property. An increase in the vacancy rate will result in a reduction of the stabilised average EBITDA. Investment properties are valued on a highest and best use basis. The current use of all of the investment properties (self-storage) is considered to be the highest and best use.

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

At 31 December 2017:

		Leasehold		Freehold	
		Increase/ (decrease) in input	Increase/(decrease) In fair value \$'000	Increase/ (decrease) in input	Increase/(decrease) in fair value \$'000
Unobservable inputs					
Capitalisation rate	Primary	1% / (1%)	(3,502) / 4,343	1% / (1%)	(114,869) / 154,074
	Secondary	2% / (2%)	(2,381) / 3,922	2% / (2%)	(33,210) / 53,988
Sustainable occupancy		5% / (5%)	11,487 / (8,265)	5% / (5%)	98,152 / (77,102)
Stabilised average EBITDA		5% / (5%)	2,241 / (1,961)	5% / (5%)	48,772 / (42,739)

At 30 June 2017:

		Leasehold		Freehold	
		Increase/ (decrease) in input	Increase/(decrease) In fair value \$'000	Increase/ (decrease) in input	Increase/(decrease) in fair value \$'000
Unobservable inputs					
Capitalisation rate	Primary	1% / (1%)	(3,200) / 5,290	1% / (1%)	(107,140) / 139,950
	Secondary	2% / (2%)	(1,220) / 3,320	2% / (2%)	(31,860) / 50,320
Sustainable occupancy		5% / (5%)	8,600 / (5,160)	5% / (5%)	95,620 / (74,870)
Stabilised average EBITDA		5% / (5%)	2,210 / (2,720)	5% / (5%)	46,080 / (46,350)

NOTES TO THE FINANCIAL STATEMENTS

10. Intangibles

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Goodwill	43,954	43,954
Other intangibles	1,753	1,582
Total intangible assets	45,707	45,536

Goodwill is an asset acquired through business combinations. As described in note 4, during the prior year the Group recognised \$30,195,000 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, which is considered one operating segment (see note 3), 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 2017 NSR had 549,495,013 stapled securities quoted on the ASX at \$1.54 per security providing a market capitalisation of \$846,222,320. This amount is in excess of the carrying amount of the Group's net assets. Had the security price decreased by 3% the market capitalisation would still have been in excess of the carrying amount. The Directors have not identified any indicators of impairment of goodwill as at the date of this report.

11. Borrowings

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Non-current borrowings		
Bank finance facility	479,451	484,615
Non-amortised borrowing costs	(2,743)	(2,845)
Total non-current borrowings	476,708	481,770

The Group has non-current borrowing facilities denominated in Australian Dollars ("AUD") and New Zealand Dollars ("NZD"). The facilities in place as of 31 December 2017 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:

- At both 31 December and 30 June 2017, maturity dates on these facilities range 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 Group's owned and leased storage centre properties.
- Drawn amounts and facility limits are as follows:

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Bank finance facilities (AUD)		
Drawn amount	415,300	417,500
Facility limit	530,000	455,000
Bank finance facilities (NZD)		
Drawn amount	70,500	70,500
Facility limit	96,000	96,000
AUD equivalent of NZD facilities shown above		
Drawn amount	64,151	67,115
Facility limit	87,354	91,500

NOTES TO THE FINANCIAL STATEMENTS

The Group has a bank overdraft facility with a limit of AUD \$3m that was undrawn at the 31 December and the 30 June 2017.

The Group has complied with the financial covenants of their borrowing facilities during both the current and prior reporting periods. The fair value of interest bearing loans and borrowings approximates carrying value.

Interest rate swaps

The Group has AUD \$370m (30 Jun 2017: \$410m), and NZD \$53.5m (AUD \$48.7m) (30 Jun 2017: NZD \$53.5m (AUD \$50.1m)) of current and future interest rate hedges in place as at the end of the reporting period with maturity dates ranging from September 2018 to September 2026.

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2017				
<i>Derivative used for hedging - interest rate swaps</i>				
Current financial assets	-	78	-	78
Non-current financial assets	-	2,421	-	2,421
Current financial liabilities	-	(24)	-	(24)
Non-current financial liabilities	-	(3,523)	-	(3,523)
	-	(1,048)	-	(1,048)
At 30 June 2017				
<i>Derivative used for hedging - interest rate swaps</i>				
Non-current financial assets	-	3,328	-	3,328
Current financial liabilities	-	(166)	-	(166)
Non-current financial liabilities	-	(3,259)	-	(3,259)
	-	(97)	-	(97)

There were no transfers between levels of fair value hierarchy during the half-year period to 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

Changes in liabilities arising from financing activities

	1 July 2017 \$'000	Cash flows \$'000	Foreign exchange movement \$'000	Changes in fair value \$'000	Other \$'000	31 Dec 2017 \$'000
<i>Derivative used for hedging - interest rate swap</i>						
Current financial liabilities	166	-	-	(142)	-	24
Non-current financial liabilities	3,259	-	10	254	-	3,523
Distributions payable	23,594	(18,692)	-	-	20,924	25,826
Non-current interest-bearing loans and borrowings	481,770	(2,422)	(3,006)	-	366	476,708
<i>Finance lease liabilities</i>						
Current finance lease liabilities	4,504	(2,148)	-	-	2,242	4,598
Non-current finance lease liabilities	163,851	-	-	-	2,318	166,169
Total liabilities from financing activities	677,144	(23,262)	(2,996)	112	25,850	676,848

13. Contributed equity

Issued and paid up capital	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Stapled securities	64,799	59,145
Number of stapled securities on issue	31 Dec 2017 No.	30 Jun 2017 No.
Opening balance at 1 July	512,913,914	336,422,143
Institutional and retail placement	33,333,334	164,557,412
Distribution reinvestment plan	3,247,765	6,144,051
Scrip issue on investment property acquisition	-	5,790,308
Closing balance	549,495,013	512,913,914

Capital raise

During the period, the Group undertook a fully underwritten \$50m equity raising. This resulted in the issue of 33,333,334 new stapled securities. Subsequent to the reporting period, the Group has issued a \$15m pro-rata accelerated non-renounceable entitlement offer of new stapled securities in NSR. See note 18 for details.

Distribution reinvestment plan

During the period 3,247,765 stapled securities were issued to security holders participating in the Group's DRP for consideration of \$4.9m (year ended 30 June 2017: 6,144,051 stapled securities issued under the DRP for consideration of \$9m). 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 9 August 2017, 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.

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 2017 and 2016, as well as balances with related parties as at 31 December 2017 and 30 June 2017.

Transaction with related parties

		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	-	-	-	-
	Comparative period	310,536	-	-	-
Southern Cross Storage Trust	Current period	-	-	-	-
	Comparative period	100,000	-	-	-
Australia Prime Storage Fund	Current period	552,243	-	527,047	-
	Comparative period	222,927	-	221,115	-
Bundall Commercial Trust	Current period	199,246	-	3,665,556	-
	Comparative period	-	-	3,494,272	-
Bundall Storage Trust	Current period	569,728	-	3,522,510	-
	Comparative period	-	-	2,985,891	-

As at 31 December 2017, National Storage Investments Pty Ltd, a subsidiary of NSH, had receivables outstanding of \$3,037,500 with the Bundall Commercial Trust and \$2,587,500 with the Bundall Storage Trust relating to amounts drawn down under a facility agreement between the entities. These are included in the table above. The facility agreement has a term of 5 years, and is interest bearing on commercial rates. The receivables have been classed as a current receivable in the statement of financial position as this receivable is expected to be repaid within 12 months of 31 December 2017.

During the period ending 31 December 2017, the Group entered into a contractual agreement for the sale of the land and development rights of an investment property in Brisbane, Queensland to the Bundall Storage Trust. This has resulted in an unrealised gain of \$0.8m on the asset's carrying value at 31 December 2017. This has been included within fair value adjustments in the statement of profit or loss. The transaction is expected to settle in March 2018 (see note 8).

All other outstanding balances at period end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the periods ended 31 December 2017 and 30 June 2017, the Consolidated Group has not recorded any impairment of receivables relating to amounts owed by related parties.

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

15. Distributions paid and proposed

Unit distributions

Distributions declared

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
NSPT interim distribution of 4.7 cents per unit payable on 26 February 2018 (26 February 2017: 4.6 cents per unit)	25,826	23,147

NOTES TO THE FINANCIAL STATEMENTS

16. Commitments and contingencies

Capital commitments

As at 31 December 2017, the Group held a commitment to purchase a freehold investment property in Robina, Queensland for \$26m. This purchase was subsequently completed on the 4 January 2018 (see note 18).

As at 31 December 2017, the Group held a commitment with a third party, to supply and install solar panels on a significant number of NSR storage centres for an estimated total cost of \$3.1m. As at 31 December 2017, the Group had incurred project costs of \$0.8m which have been classified as freehold investment property under construction (see note 6). The Group is committed to additional expenditure of \$2.3m, to be paid on agreed milestones subject to the completion of the project.

There are no other contingent assets or liabilities for the Group.

17. Earnings per stapled security

	31 Dec 2017 cents	31 Dec 2016 cents (adjusted)
Basic and diluted earnings per stapled security	11.56	4.81
Reconciliation of earnings used in calculating earnings per stapled security		
<i>Basic and diluted earnings per security</i>	\$'000	\$'000
Net profit attributable to members	59,813	23,682
	No. of units	No. of units
Weighted average number of securities for basic and diluted earnings per stapled security	517,457,698	492,663,866

The weighted average number of securities for the period ending 31 December 2016 used to calculate basic and diluted earnings per share has been restated for the effect of stapled securities issued in the current period ending 31 December 2017 under the institutional placement and distribution reinvestment plan.

18. Events after reporting period

ACQUISITION OF STORAGE CENTRE ASSETS

On 4 January 2018, NSR completed the acquisition of a storage centre asset in Robina, Queensland for \$26m. As disclosed in note 16, NSR was contractually committed to this purchase at 31 December 2017.

On 18 January 2018, NSR completed the acquisition of a storage centre asset in Geelong, Victoria for \$4.2m.

On 13 February 2018, NSR completed the acquisition of a storage centre asset in Darwin, Northern Territory for \$14m.

On 14 February 2018, NSR completed the acquisition of a storage centre asset in Carrara, Queensland for \$14m. This asset was purchased from the Australian Prime Storage Fund, an associate entity in which NSR has a 24.9% holding.

SECURITY PURCHASE PLAN

On 13 December 2017, NSR announced a SPP to raise up to \$15m from eligible security holders, in order to execute future acquisition opportunities and strengthen the Group's balance sheet. The SPP raised a total of \$9.5m at an issue price of \$1.4948 resulting in the issue of 6,379,548 new securities.

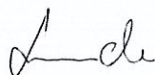
DIRECTORS' DECLARATION

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

In the opinion of the Directors:

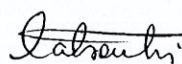
- (a) the financial statements and notes of NSR for the half-year ended 31 December 2017 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended 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 NSR will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



Laurence Brindle
Chairman

22 February 2018
Brisbane



Andrew Catsoulis
Managing Director

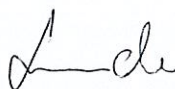
DIRECTORS' DECLARATION

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

In the opinion of the Responsible Entity:

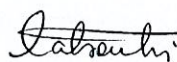
- (a) the financial statements and notes of NSR (to the extent they include a component of NSPT) for the half-year ended 31 December 2017 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of NSR's financial position (to the extent it includes a component of NSPT) as at 31 December 2017 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 NSR (to the extent it includes a component of NSPT) will be able to pay its debts as and when they become due and payable.

On behalf of the Responsible Entity,



Laurence Brindle
Director

22 February 2018
Brisbane



Andrew Catsoulis
Director

INDEPENDENT AUDITOR'S REVIEW REPORT



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

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

To the members of National Storage REIT

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of National Storage REIT and the entities it controlled (the Group) during the half-year, which comprises the interim statement of financial position as at 31 December 2017, the interim statement of profit or loss, the interim statement of other comprehensive income, the interim statement of changes in equity and the interim statement 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' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial 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*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Group 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 control as the directors determine is 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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial 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 the Group, 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.

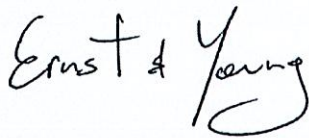
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INDEPENDENT AUDITOR'S REVIEW REPORT



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink that appears to read 'Ric Roach' in a cursive, stylized font.

Ric Roach
Partner
Brisbane
22 February 2018

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