

The logo for National Storage is contained within a black-bordered square. The text "NATIONAL" is positioned above "STORAGE", both in a bold, black, sans-serif font. The words are centered within the square.

**NATIONAL
STORAGE**

**ANNUAL REPORT
2013/2014**

Important Information

National Storage Holdings Limited ACN 166 572 845 ("NSH" or the "Company")
National Storage Property Trust ARSN 101 227 712 ("NSPT")
together form the stapled entity National Storage REIT ("NSR" or the "Consolidated Group")

Responsible Entity of NSPT

The Trust Company (RE Services) Limited ("The Responsible Entity")
ACN 003 278 831 AFSL 235 150
Level 15, 20 Bond Street, Sydney NSW 2000

DISCLAIMER

This is the Annual Report for National Storage REIT which comprises the combined assets and operations of National Storage Holdings Limited (ACN 166 572 845) ("NSH") and the National Storage Property Trust (ARSN 101 227 712) ("NSPT"). This report has been prepared by NSH and The Trust Company (RE Services) Limited (ACN 003 278 831) ("Trust Co") as responsible entity for NSPT. National Storage REIT (ASX: NSR) currently has stapled securities on issue on the Australian Securities Exchange ("ASX") each comprising one unit in NSPT and one ordinary share in NSH ("Stapled Securities").

The information contained in this report should not be taken as financial product advice and has been prepared as general information only without consideration of your particular investment objectives, financial circumstances or particular needs. This report is not an invitation, offer or recommendation (express or implied) to apply for or purchase or take any other action in respect of Stapled Securities.

This report contains forward-looking statements and forecasts, including statements regarding future earnings and distributions. These forward-looking statements and forecasts are not guarantees of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of NSH and/or Trust Co, and which may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements and forecasts contained in this report.

No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved. Similarly, no representation is given that the assumptions upon which forward-looking statements and forecasts may be based are reasonable.

These forward-looking statements and forecasts are based on information available to NSH and/or Trust Co as of the date of this report. Except as required by law or regulation (including the ASX Listing Rules) each of NSH and Trust Co undertake no obligation to update or revise these forward-looking statements or forecasts.

Certain financial information in this report is prepared on a different basis to the Financial Report, which is prepared in accordance with Australian Accounting Standards. Any additional financial information in this report which is not included in the Financial Report was not subject to independent audit or review by Ernst & Young.

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SUPERSTORE**



Overview

National Storage is one of Australia's largest self-storage providers, tailoring self-storage solutions to over 25,000 residential and commercial customers in 69 centres across the country.

The National Storage offering spans self-storage, business storage, records management, climate controlled wine storage, vehicle storage, vehicle and trailer hire, packaging, insurance and other value added services.

In December 2013, National Storage listed on the Australian Securities Exchange (ASX) forming National Storage REIT (NSR), the first publicly listed independent, internally managed and fully integrated owner and operator of self-storage centres in Australia.

The establishment of NSR brought together:

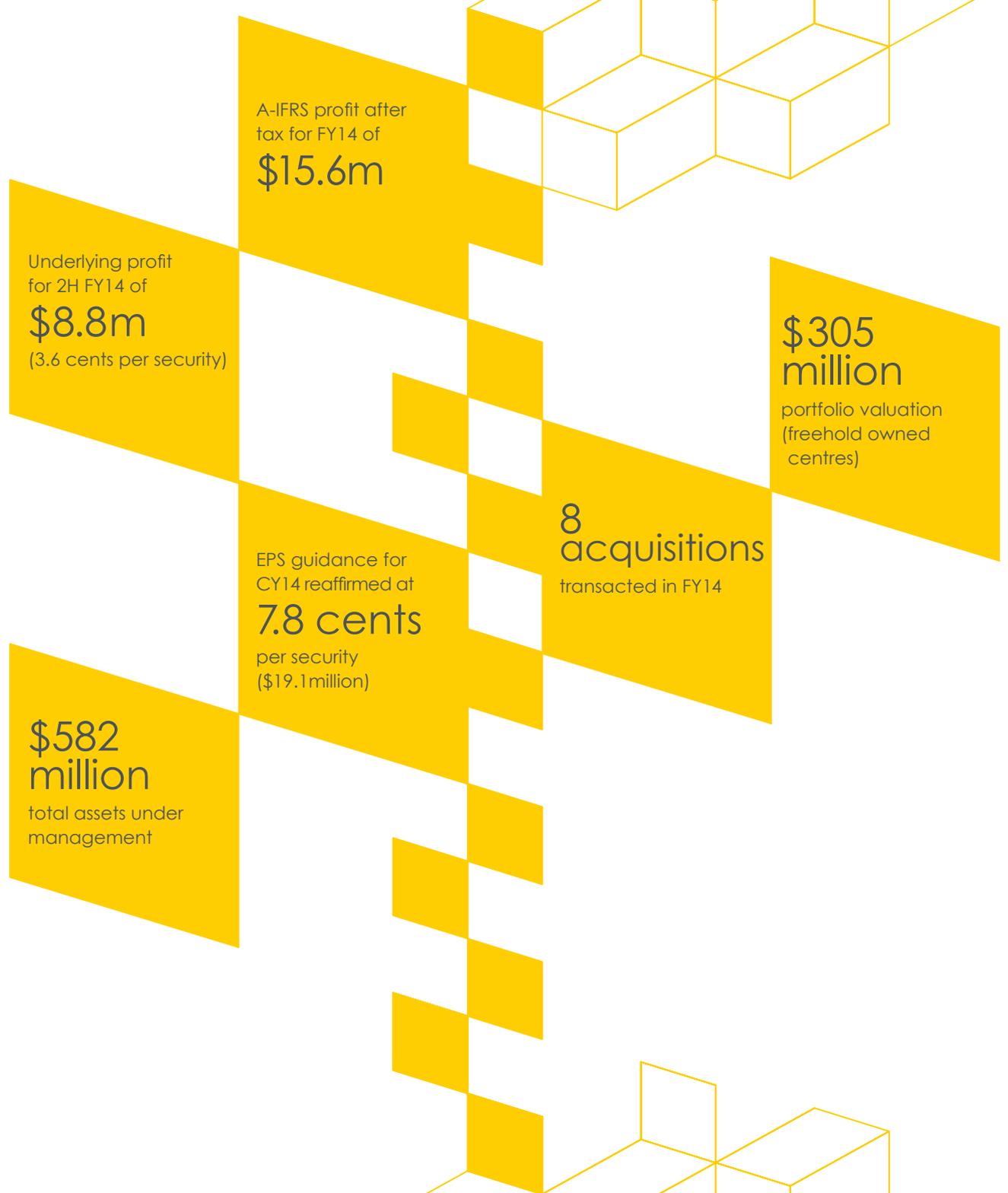
- 28 freehold self-storage properties and businesses¹;
- Long term leasehold interests over an additional 10 self-storage centres;
- Management rights and a 10% investment interest in an additional 24 self-storage centres owned by Southern Cross Storage Group (an investment fund co-owned by NSR and funds managed by global real estate investment manager Heitman);
- The National Storage operating platform, providing fully integrated management services to self-storage centres across Australia.

NSR is a stapled entity comprising units in the National Storage Property Trust and shares in National Storage Holdings Limited. The responsible entity of the NSPT is The Trust Company (RE Services) Limited.

Since listing, the NSR portfolio has grown rapidly with the acquisition of a further eight centres, representing an additional 58,000 sqm of net lettable area (NLA) and bringing the total number of self-storage centres under operation or management to 69 at September 2014.

¹ The Artarmon centre was managed by National Storage prior to the IPO and is included in the 28 centres was formally purchased immediately after listing.

Highlights 2014



69 centres

under management
and operation
at September 2014

Total net
lettable area²
372,000
sqm

10% increase
in rate / sqm

occupied for FY14¹

41,000
storage
units

at September 2014

25,000
customers

launch

of dedicated third party
centre management
platform designed to
expand reach and
provide additional
revenue.

At 30 June 2014 unless otherwise noted.

¹ From \$249 per sqm at 1 July 2013 to \$275 per sqm
at 30 June 2014 excluding all CY 2014 acquisitions.

² Approximate as at September 2014.

Strategy

NSR's objective is to deliver investors a stable and growing income stream from a diversified portfolio of quality self-storage assets and to drive income and capital value growth through active asset and portfolio management.



Asset Management

drive organic same centre growth



Portfolio and Development Management

execute accretive acquisitions, portfolio recycling and development opportunities



Centre Management

drive revenue from third party management



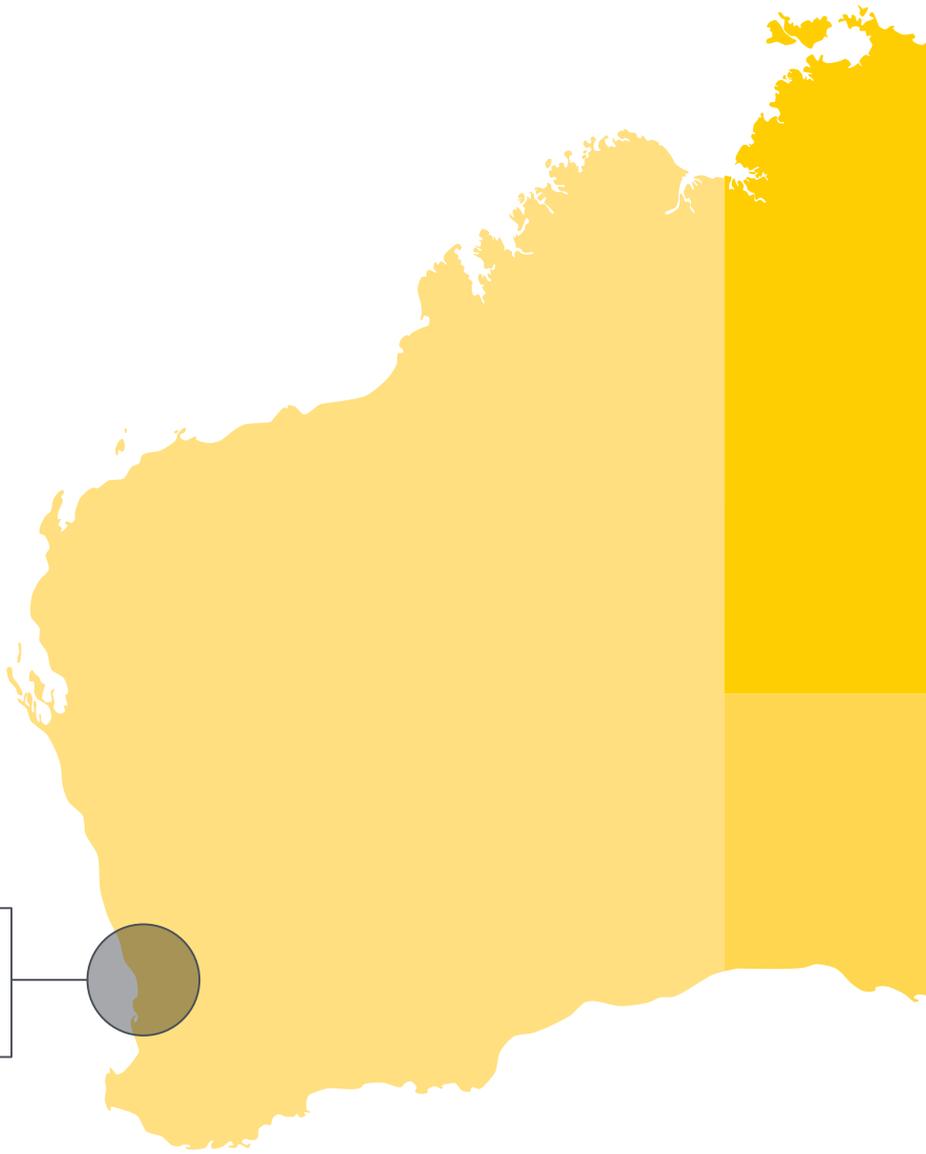
Capital Management

maintain an efficient capital structure

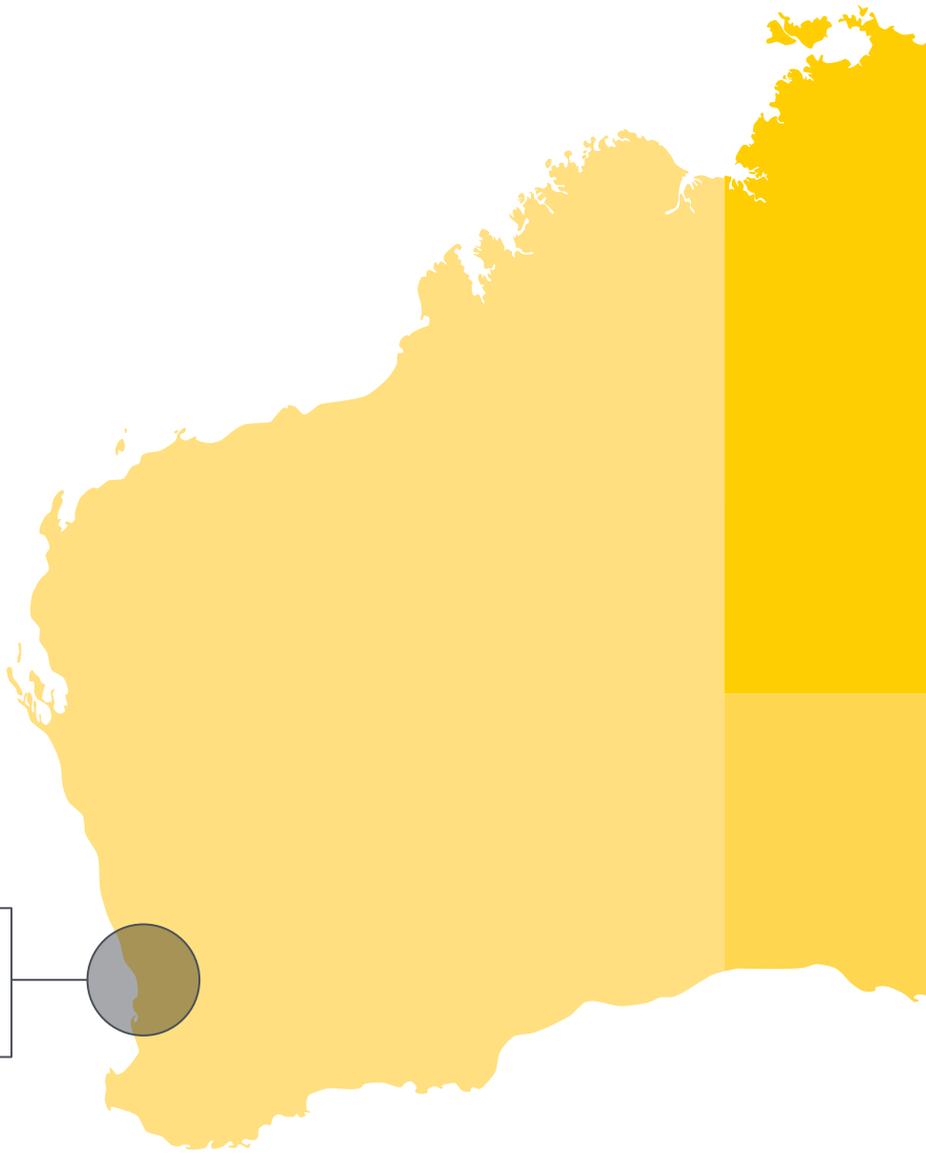


develop multiple revenue streams to maximise returns

Portfolio

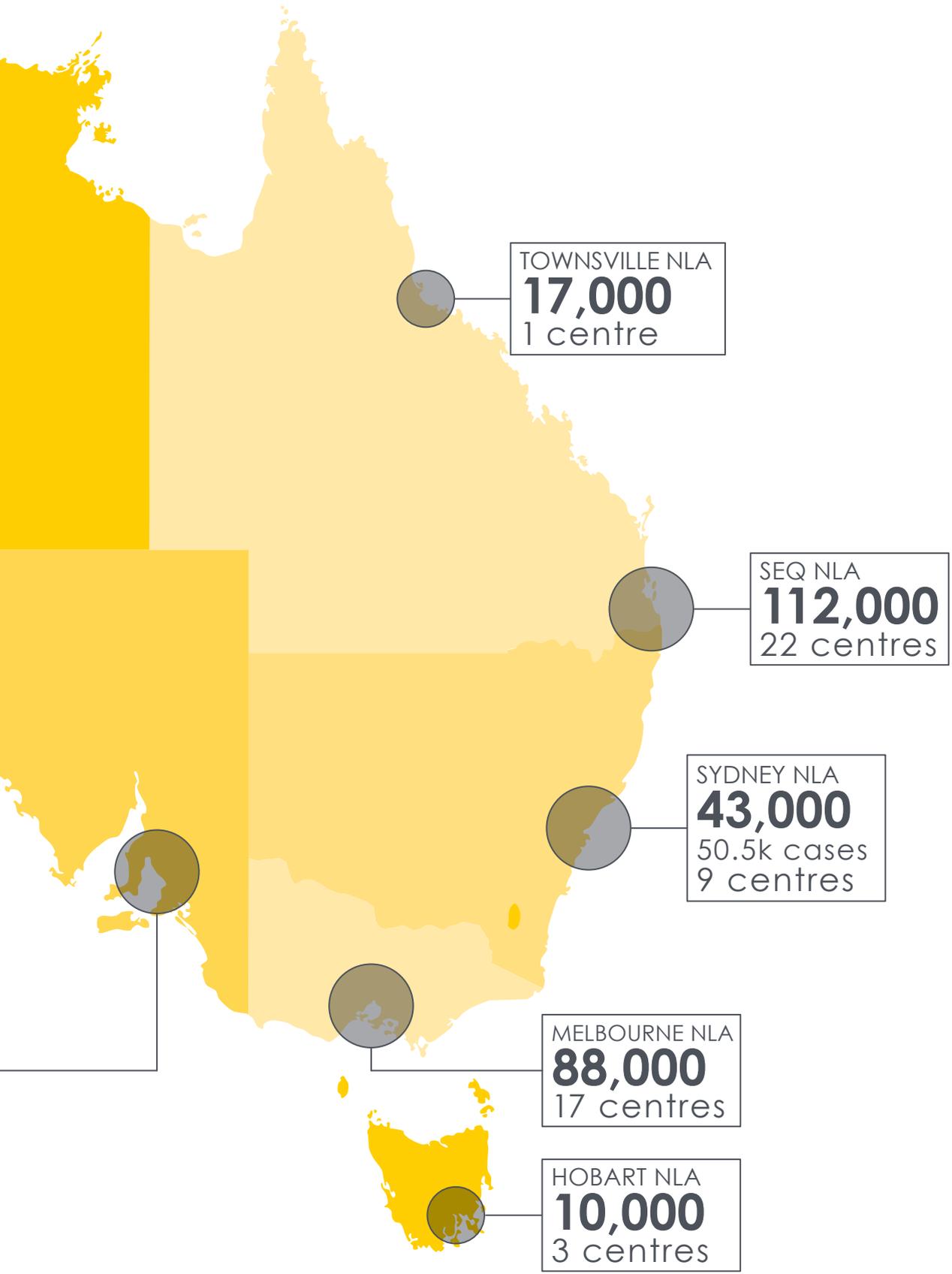


PERTH NLA
67,000
11 centres



ADELAIDE NLA
35,000
6 centres

All figures are rounded to the nearest thousand and expressed in square metres.



Chairman's Report



On behalf of the Board of NSH I am pleased to present the National Storage REIT 2014 Annual Report.

This inaugural annual report represents an important milestone for NSR, having successfully transitioned from a private company to Australia's first publicly listed self-storage real estate investment trust in December 2013. Listing National Storage provided an opportunity to reinvent the business model, taking into account 20 years of industry learnings and working to develop a strong platform for future growth.

Importantly, the founding shareholders of National Storage remain integrally involved as shareholders and management in NSR.

The new structure is designed to improve productivity and profit. NSR provides an opportunity to invest in an operating retail business with the relative security and capital growth inherent in more traditional property investment classes. Multiple revenue streams and the benefits of scale are now directed into a single structure, in order to deliver a stable and growing income stream for investors with the potential for future capital growth.

Since listing, NSR has executed its acquisition and consolidation strategy, transacting on \$85 million in acquisitions representing an additional six assets in the NSR portfolio. In addition a further two acquisitions were made on behalf of Southern Cross Storage Group. The Board is confident NSR will continue to grow market presence and assets under management into 2015 and beyond.

NSR adopts a disciplined approach in its capital management strategy, with conservative gearing targets and a strong balance sheet providing significant additional acquisition capacity. In August 2014, NSR undertook a placement offer which raised \$45.9 million to replenish the balance sheet and provide further capacity for accretive potential acquisitions. A Security Purchase Plan for retail investors is anticipated to raise a further \$5 million.

The successful listing of NSR is an important achievement for both the company and the broader self-storage industry. Self-storage has long been accepted as an institutional investment quality asset class in the United States of America, and more recently in the United Kingdom. The formation of Australia's first internally managed sector specific self-storage REIT in NSR has seen the asset class gain acceptance and support with institutional investors and the broader investment market, as well as facilitating important independent analysis and research. NSR has set the standard for the future of investment in self-storage in Australia.

Yours faithfully

A handwritten signature in white ink, appearing to read 'L Brindle', positioned above the printed name and title.

Laurence Brindle
Chairman



Managing Director's Report



December 2013 was an historic moment for our company. After 14 years of private ownership National Storage became the first sector specific storage company to successfully undertake a public listing on the ASX, fulfilling a long term strategic goal of the founding management team. In doing so we have brought together a number of diverse business and property interests into a single integrated platform whereby all future activities of NSR will be directed towards achieving long term business growth and enhancing returns to our stakeholders.

This growth will come primarily from the following areas:

- organic same centre growth - from gradual increases in occupancy, rate per square metre and ancillary sales achieved from existing centres over time;
- acquisition based growth - from capitalising on high quality consolidation opportunities, by acquiring individual maturing or established storage centres in the highly fragmented Australian self-storage market;
- management opportunities - through leveraging our existing platform to generate additional management fee revenue and share expenses across operations, as well as providing an important pipeline of future potential acquisitions;
- development / project management opportunities - providing additional development, project management and acquisition opportunities; and
- portfolio recycling - assessing the highest and best use of properties within the NSR portfolio on an ongoing basis and capitalising on appropriate opportunities.

As one of Australia's largest dedicated storage operators and the only listed self-storage REIT in the fragmented Australian market, National Storage has a number of advantages in terms of size and scalability which allow us to compete effectively. Our existing competitive advantage has been enhanced by our growth this year having expanded our portfolio by eight centres, with a further 6,400 storage units being added into the National Storage portfolio.

Our customer service specialists at Australia's only dedicated self-storage contact centre and at our centres are focused on creating "tailored storage solutions", while providing positive and proactive advice designed to help our customers find the perfect sized space for their needs and budget. We are constantly striving to improve our customer service and training interfaces, together with sharing our company's vision for the future with our staff, who are our most important assets. Sales enquiry conversion rates are currently tracking at 50% which is pleasing given the competitive market conditions. Further training and development will focus on building on these skills to ensure our personalised service continues to deliver a significant competitive advantage over other self-storage operators.

Our focus on internet technology and digital marketing has seen our web traffic improve, and our search engine optimisation results grow in

ranking to consistently place in the top three in organic search results for “self storage” in specific markets. As the marketing landscape changes and continues to move in a digital direction, it has become increasingly more important for us to focus on digital marketing and direct marketing initiatives that will serve to build our brand locally, regionally and nationally. This focus is also reflected in our ongoing sponsorship of the Brisbane Lions Australian Football Club, providing exposure to over eight million television viewers last year as well as a myriad of direct fan engagement and business to business marketing opportunities.

Our yield management system and dynamic pricing model, which has been born out of twenty years of storage industry experience and extensive industry specific research and development, has been enhanced considerably in the last year and allows us to react rapidly to changing market conditions and new trends in customer activity. These systems provide us with the capacity to apply our pricing seamlessly across the portfolio's 41,000 individual storage units, allowing us to more appropriately position our rental rates and “move in” incentives.

On the acquisition front we are actively engaged in confidential negotiations with multiple owners with a view to continuing to expand our storage portfolio earnings via accretive, quality acquisitions. We are also focused on securing a number of new management deals, which in addition to providing us with an important new revenue stream and expanded operations over which to share expenses, will provide a potential pipeline for future acquisitions.

We are tremendously excited about the future of NSR and strongly believe in the growth potential for our business. With our experienced senior management team, dedicated storage staff, state-of-the-art operating systems and an ongoing commitment to our core values of “teamwork, care and excellence”, we are well placed to continue our growth on a number of fronts.

We sincerely appreciate your overwhelming support during the NSR IPO process late last year and we are deeply grateful for your ongoing support during 2014 and beyond.

Yours faithfully



Andrew Catsoulis
Managing Director

The Self Storage Industry



Self-storage centres emerged in Australia in the late 1970s, following the development of the self-storage industry in the USA. Today, according to industry research, there are more than 1,100 self-storage centres operating in Australia.

Self-storage centres offer individual lock-up units, hardstand storage and managed storage facilities typically rented on a month-to-month basis. High quality centres generally provide secure premises, extended access hours, an on-site manager, drive-up access, undercover loading areas and the sale of ancillary products and services including packaging solutions, insurance and vehicle hire.

The performance of a self-storage centre is primarily driven by its management, location, level of customer service, quality of offering, relative pricing and level of promotion. Financial performance is driven by rental rates, area occupied, ancillary services and cost control.

Demand for self-storage is influenced by socioeconomic factors and demand drivers, such as population growth, new housing developments, increasing density of medium to high residential

development and proximity to retail shopping centres, small business centres and retirement villages. The typical tenant mix at a self-storage centre is approximately 70% residential users, who generally require self-storage due to “change of life” events, and 30% small business or commercial users who require storage for inventory or archives.

Further industry growth is expected as a result of several underlying trends, including a shift to smaller living spaces (exemplified by an aging population and apartment living trends), a desire by individuals, business and government to utilise existing space more efficiently, an increase in online retailing which requires flexible storage space, and an increased customer awareness of the benefits offered by self-storage generally.

There is a lower supply of storage on a per capita basis in Australia compared to international markets such as the USA and Canada, which may indicate there is scope for continued growth in the sector. The greatest barrier to entry into the market is the availability of suitable and reasonably priced development sites, which adds further value to existing sites which can be acquired or expanded.

A TYPICAL SELF STORAGE CENTRE

A typical self-storage centre sits on approximately 6,000 – 8,000 sqm of land area, with 4,000 sqm of net lettable area. A centre of this size would house approximately 450 storage units ranging from one to 20 sqm, with nine sqm being the most popular unit size. The centre would be staffed by two to four staff.

Storage units are typically rented on a month to month basis with a minimum term of one month, and can generally be terminated by giving two weeks to one month's notice. Payments are monthly in advance, with credit card and automatic direct debit being the most common and preferred payment methods. The rate of delinquency in a well-managed centre should be low with bad debts in a strong operation running at less than 2%.

Revenue

New centres often require five years to reach maturity.

Typically, a self-storage centre derives approximately 95% of its income from storage rental income, and approximately 5% from the sale of ancillary services/products (including sale of packaging, insurance and vehicle hire).

The pricing of self-storage units varies by unit size, type and location. Smaller units typically achieve higher rates per square metre than larger units. In many self-storage centres, the internal space can be reconfigured to produce variations of unit size to optimise income based on customer demand. Generally the closer a storage centre is to the inner city, the greater the demand for smaller unit sizes and the higher the rate per square metre which can be achieved.

Costs

Recurring operating expenses are generally fixed in nature and represent between 25 – 35% of total income, depending upon the size of a centre, with the major components being labour, rates/taxes and advertising.

Consolidation provides opportunities for cost savings through lower individual centre staffing numbers due to centralised enquiry management via a call centre, accounting, training, maintenance, management systems, common branding and advertising campaigns.

Capital Expenditure

Development of a storage centre requires a relatively high upfront capital commitment in order to acquire appropriate land and construct a state-of-the-art storage centre. Once established, self-storage is a property sector that generally requires low levels of ongoing capital expenditure and maintenance. In an average year, excluding any major works, a typical centre should have costs of under \$20,000 for capital expenditure.

THE NATIONAL STORAGE ADVANTAGE

There are two goals at the heart of the National Storage business – to provide reliable income for investors, and to provide value-added, tailored storage solutions to our customers.

At the corporate level, our business model provides our competitive advantage. NSR's ability to drive economies of scale, gain efficiencies through centralisation and derive value from the REIT structure, allows multiple revenue streams to be delivered into a single source, increasing value for our investors.

At a centre level, our staff and their commitment to excellence in customer service and the provision of high quality, clean and secure facilities drives value for our customers. Our offering of a quality product in clean, modern and secure centres that are conveniently located and easy to access, with a range of related ancillary products and services, all helps create value in the mind of the customer. However, a number of our competitors also offer modern, secure centres with similar features and benefits.

Our difference lies in the focus and dedication of our staff who strive to tailor storage solutions for our customers, to offer peace of mind and a reassurance that at National Storage, we handle their possessions with care.

NSR: Australia's First Self-Storage REIT

The key to achieving growth across the NSR business will be to leverage the operating platform and develop multiple revenue streams:

- Storage income (driven by increasing rate per square metre and occupancy)
- Ancillary income (sale of merchandise, insurance and value added services)
- Wine income (derived from Australia's premier wine storage business, Wine Ark)
- Third party centre management income
- Project/development management fees from Southern Cross and third party vendors/developers
- Portfolio recycling/redevelopment opportunities
- Acquisition fees
- Supplementary income from telecommunications towers and outdoor advertising

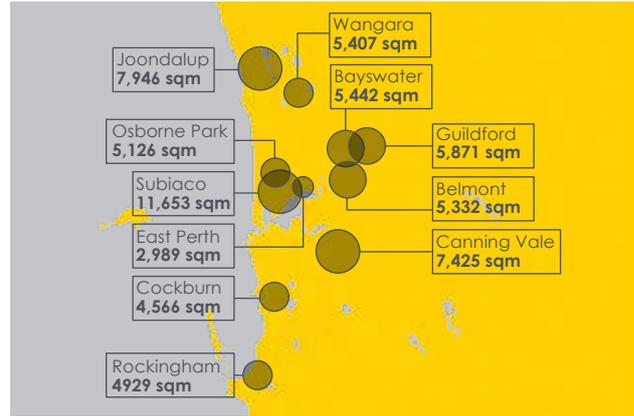
PROPERTY PORTFOLIO

The NSR portfolio currently comprises 33 freehold centres and 10 long term leasehold centres, all managed or operated by National Storage.

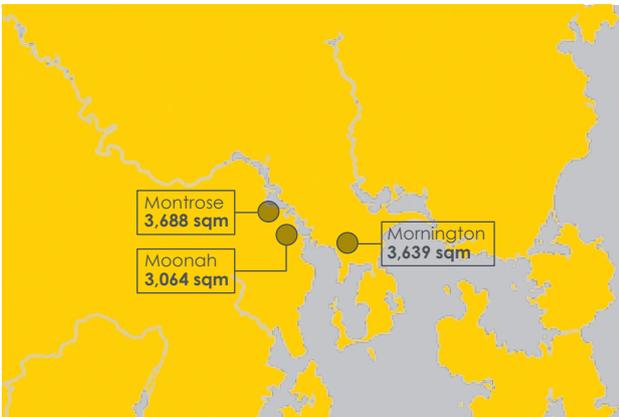
Sydney



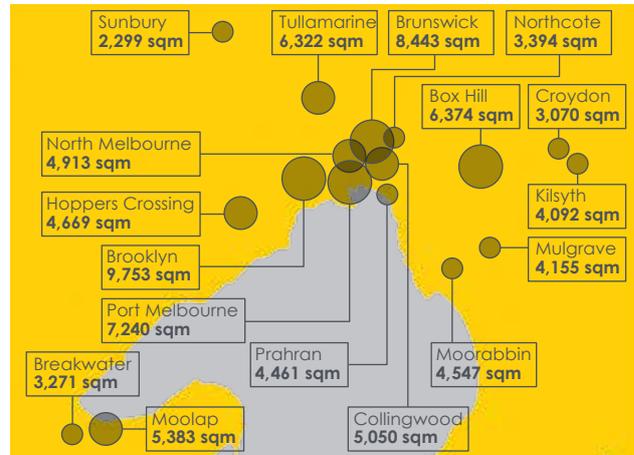
Perth



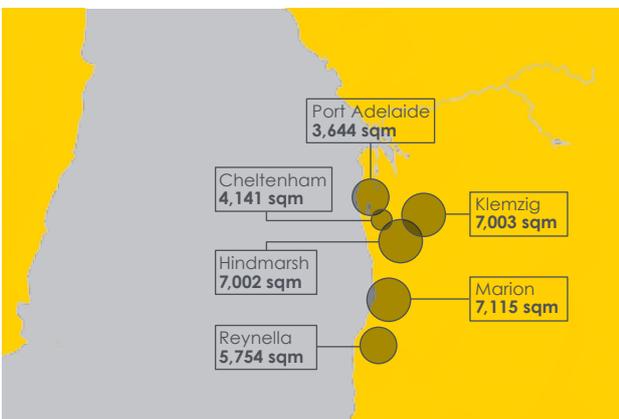
Hobart



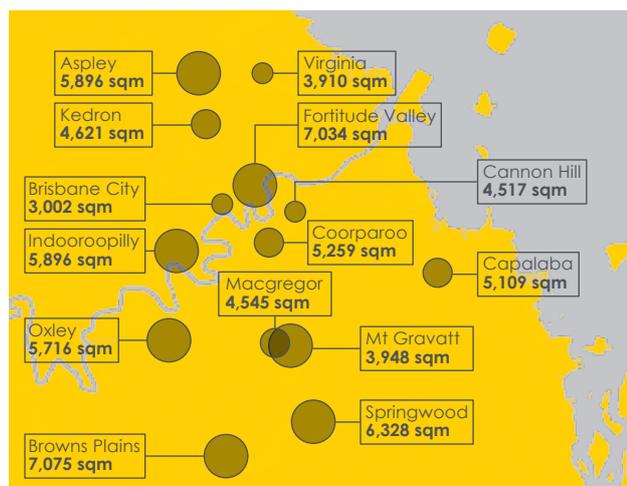
Melbourne



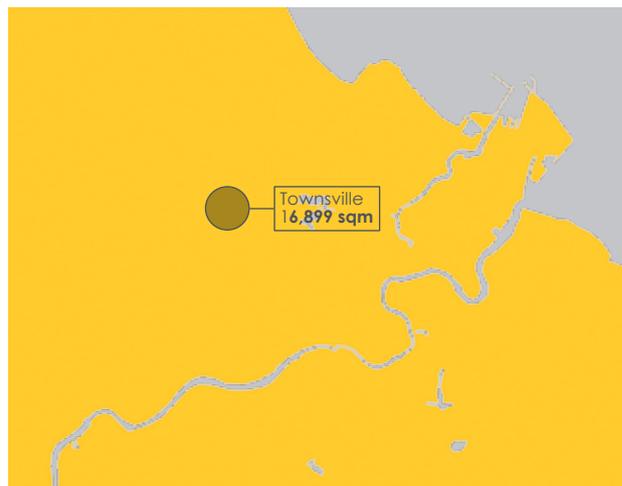
Adelaide



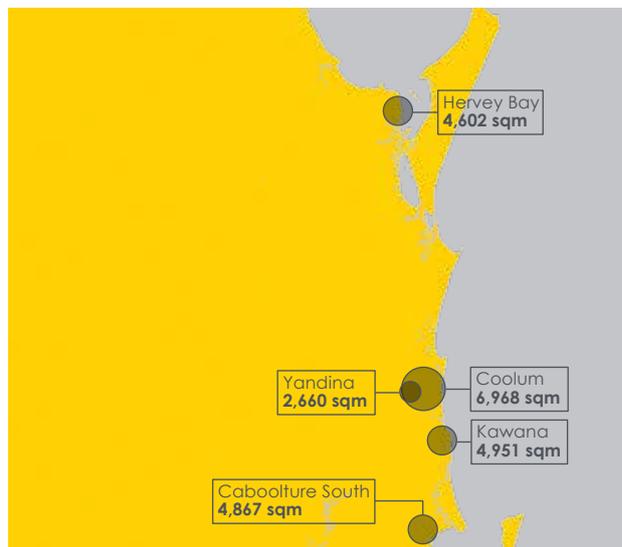
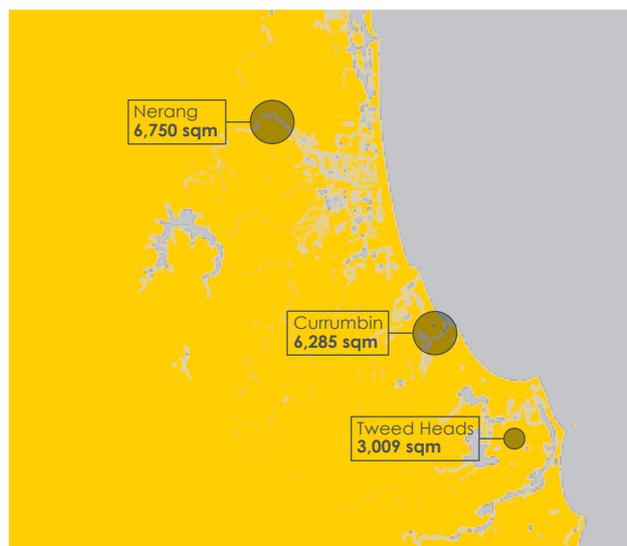
Brisbane



Townsville



Regional Queensland

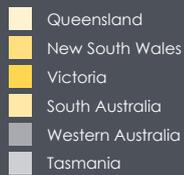
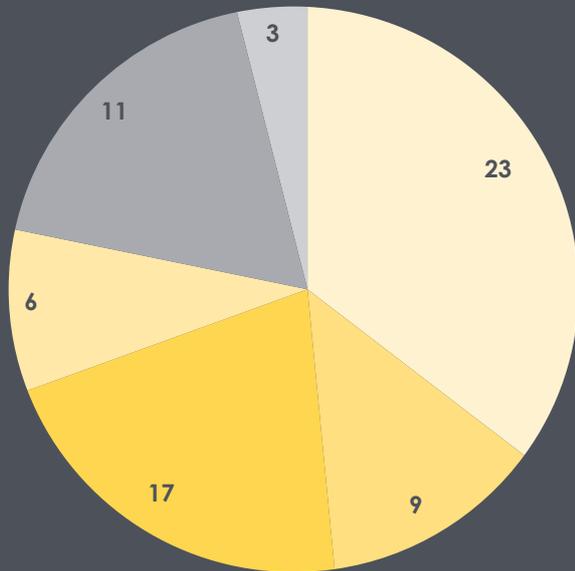


Portfolio Metrics

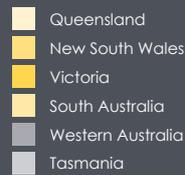
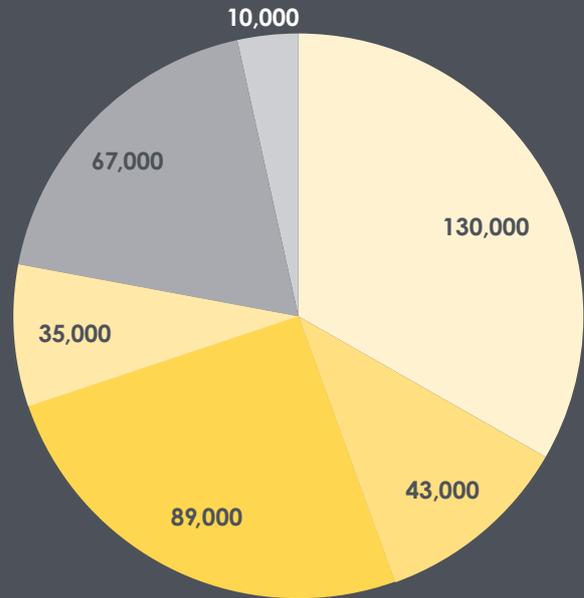
	IPO	30 June 2014	31 July 2014
Freehold Centres	28	31	33
Leasehold Centres	10	10	10
Southern Cross Centres	24	26	26
Freehold net lettable area	212,062 sqm	238,343 sqm	247,484 sqm
Total net lettable area	329,544 sqm	363,157 sqm	374,661 sqm
Total storage units	36,210	39,924	41,039
Portfolio valuation (Freehold Centres)*	\$270 million	\$305 million	\$321 million
Sustainable occupancy as per independent valuation	83%	83%	83%
Weighted average cap rate	9.7%	9.6%	9.6%
Weighted average remaining term on Leasehold Centres	15.5 years at August 2013	16 years	16 years

*summed on an individual basis

Portfolio Diversification by State



NLA by State¹



¹ Rounded to the nearest thousand square metre.

Southern Cross Portfolio

The Southern Cross Storage Group (Southern Cross) is an unlisted investment fund established in September 2011 via a joint venture between National Storage and Heitman, a global real estate investment manager.

Funds managed by Heitman own 90% of the equity interest in Southern Cross. NSR holds a 10% interest in Southern Cross with returns to NSR based on the performance of the fund.

The current investment term expires in August 2016. NSR and Heitman have reciprocal pre-emptive rights with respect to the Southern Cross portfolio.

The portfolio comprises 26 assets around Australia.



WINE ARK

Established in 1999, Wine Ark is Australia's largest and most recommended wine storage provider. State-of-the-art storage facilities have set international benchmarks and allowed Wine Ark to develop one of the most respected brands within the industry. With over two million bottles of wine in our cellars, stored for clients located in over 30 countries, there are few other businesses in Australia with more experience when it comes to collecting, storing and managing premium wine.

Wine Ark has three dedicated wine storage sites at Chatswood, Alexandria and Artarmon in Sydney, New South Wales. There are an additional nine National Storage centres across Australia that house a Wine Ark facility.

Wine Ark's managed cellarage combines the benefits of off-site climate controlled storage with value-added cellar services, including the Wine Ark Provenance Program. Each case of wine put into managed cellarage is inspected, catalogued and labelled with a

ACQUISITION SNAPSHOT

National Storage Townsville

The Townsville acquisition is a landmark asset in a significant regional market. It is well located in an anticipated potential growth area with access to a broad customer base, including residential, government and military markets.

The centre is constructed on 20,000 sqm of land with a net lettable area of 16,899 sqm. The assessed replacement cost is approximately \$27.6 million. The centre has a large frontage with excellent visibility to passing traffic and features two two-level buildings which offer all-weather loading, a large reception area, serviced offices, meeting rooms and an on-site manager's residence. The centre was constructed in 2005 to a very high standard which affords a local competitive advantage.

Centre Details

Address	399 Woolcock Street, Garbutt
Date acquired	May 2014
Number of units	1475
Net lettable area	16,899 sqm
Occupancy upon acquisition	c 50%
Residential dwellings nearby	c 24,000
Distance from CBD	6km
Number of competitors within 5km radius	4
Purchase price	\$17 million
Projected year one passing income yield	7%

National Storage Port Adelaide

The Port Adelaide acquisition strengthened National Storage's position in the Adelaide market, bringing the NSR portfolio to six centres. The Port Adelaide centre is located within a converted heritage wool store in an urban renewal precinct, which is an area of anticipated growth and ongoing gentrification. The property offers a range of unit sizes across three levels with a well-proportioned retail shopfront inside an impressive building façade. It is well positioned in the market with few direct competitors, good arterial road access and three street frontage.

Centre Details

Address	9 Santos Parade, Port Adelaide
Date acquired	July 2014
Number of units	511
Net lettable area	4,192 sqm
Occupancy upon acquisition	c 50%
Residential dwellings nearby	c 50,000
Distance from CBD	8km
Number of competitors within 5km radius	3
Purchase price	\$5.2 million
Projected year one passing income yield	9.8%



VALUATIONS

There are few valuers in Australia who specialise in self-storage and their methodologies and valuation models may vary.

NSR's self-storage facilities are valued utilising the capitalisation of passing and potential income as the primary approach, with the discounted cash flow and direct comparison approaches employed for reconciliatory purposes.

Within the capitalisation approach, a market-derived capitalisation rate is applied to the passing income with a secondary capitalisation rate, typically of between 50 and 200 basis points higher, applied to the additional 'potential' income forecast to be received at the assessed sustainable occupancy level. This undertaking of discrete calculations allows an explicit assessment of the risks inherent to each income stream. Below-the-line adjustments are then made to adjust the capitalised value for income and expenses not received or incurred during the letting-up of the facility to the sustainable level.

NSR's valuation policy is to undertake rolling valuations on a three year basis. Freehold and leasehold centres will therefore be independently revalued at least every three years, or earlier if NSR believes there has been a significant change in the value of the property.

Since listing the NSR portfolio valuation has increased by approximately 4% on a stand alone centre basis.

ASSET MANAGEMENT

Asset Management at National Storage encompasses all functions of operational management, human resources, marketing and property management. The functions all work together to achieve continuous improvement as well as to enhance the overall customer experience at a National Storage centre.

Operational Management

National Storage's operating platform has been developed with the cumulative experience of over twenty years of industry knowledge and expertise. The focus for the year in review has been to systemise and automate as many functions as possible so as to improve scalability and performance.



Dynamic Pricing Model

National Storage's Dynamic Pricing Model is a complex system that takes into account market indicators, occupancy, centre tenancy mix and unit size/type mix when modelling pricing decisions. Pricing decisions can be made on an individual unit basis right through to centre, regional and national movements.

Generally, retail rates for the broader portfolio will increase every nine months. Tenants will receive individual price increases once in a nine month period based on their length of stay and payment profile.

Market Indicators

Regular reviews of macroeconomic conditions, macro and micro industry indicators, competitor activity and internal operational indicators stimulate and influence operational decision making.

Technology

National Storage uses SiteLink, a market leading cloud based technology developed in the USA. SiteLink facilitates the day-to-day operations of self-storage centres, and provides real time data to management on the operational performance of the portfolio.

Systems, Policies and Procedures

The National Storage operating platform is founded on a set of detailed operating policies and procedures. Training and guidance on the implementation of systems and procedures at a centre level is undertaken on a regular basis and internal audits ensure compliance. Operating guidelines for centre management and performance are designed to deliver a consistent product and a scalable operating system. NSR's focus on continuous improvement of its systems and procedures allows us to remain consistently at the forefront of the Australian storage industry.

National Contact Centre

The National Contact Centre is housed in Brisbane head office. Centralising sales enquiries to a small, trained workforce facilitates consistency, accuracy, measurability, feedback and improves the overall customer experience. The operational visibility and access to customer sentiment and trends provides valuable insight for management and allows for timely and agile decision-making. Calls are recorded and monitored for improvement purposes, with regular feedback and training provided to customer service representatives.

Marketing and Customer Experience

As a relatively new industry with a needs based product and historically low levels of customer awareness, the Australian self-storage industry faces a number of specific marketing challenges. Across the industry there are generally low levels of brand recognition, product differentiation and general public awareness of the attributes and benefits of self storage.

To date, National Storage's marketing has centred on high level brand awareness and being top-of-mind. With the establishment of NSR and the drive to be Australia's leading self-storage provider, a new targeted integrated marketing communications strategy has been developed for 2014/2015.

The marketing strategy for National Storage centres around three key objectives – broadening the customer base, increasing brand awareness and driving customer enquiry – and employs five key disciplines.

Driving and converting online traffic is a key focus for the National Storage marketing team, with up to 20% of enquiries received via the website. Sponsored search listings deliver the most paid traffic, though it is important to note approximately 62% of the traffic to the National Storage website is organic which places great importance on the search engine optimisation program. A continuous improvement project is underway to further develop the website and online sales channel with the aim of delivering a simple and seamless customer experience and increasing our conversion rates of enquiries into sales.

Brisbane Lions

National Storage was the first self-storage company to sponsor a national sporting team when it became a major sponsor of the Brisbane Lions Australian Football Club in 2013.

As Australia's largest participation and spectator sport, AFL offers NSR exposure in all of its key markets across Australia.

The sponsorship has afforded high levels of brand awareness with over nine million people seeing the National Storage brand in association with the Brisbane Lions either in person, on television or online in 2013.



PORTFOLIO AND DEVELOPMENT MANAGEMENT

Human Resources

Teamwork, Care and Excellence are the core values of the National Storage team.

NSR employs over 200 people – 190 operational staff, 12 sales staff in the national contact centre and 25 staff in head office. 60 of our staff have been part of the National Storage family for longer than five years. The Senior Centre Managers who manage regional groups of centres collectively have over 90 years' experience with National Storage and on average have been with National Storage for five years.

Staff engagement focuses on a program of training, performance management and a reward and recognition program. The NS Intranet aims to overcome the challenge of engaging a geographically diverse workforce by providing a platform for staff to connect and share ideas, knowledge and success.

Property Management

The National Storage property maintenance team undertake a preventative and cyclical maintenance program and manage all repair work for the portfolio.

The basis of construction for self-storage centres is concrete and steel, which generally requires minimal repair and maintenance work. Lifts, goods hoists and other working equipment require a regular repair and maintenance program, though the nature of the business and internalising as much of this work as possible allows the team to keep the quality of the work to a high standard, and costs to a minimum.

Over the period, the property maintenance team have executed 14 signage upgrades and two new retail fit outs, with further signage and retail upgrades planned for 2014/15 to maintain a high presentation standard across the portfolio.



Portfolio Management

The Australian self-storage industry is highly fragmented, with the majority of centres owned by independent operators. NSR has successfully completed, and continues to seek acquisition opportunities within the industry, with a clear focus on acquiring assets that deliver positive yields. NSR considers its ability to acquire and integrate accretive and strategic assets to be a cornerstone of its growth strategy.

Since listing, the number of centres in the portfolio has grown by eight to 69 and has resulted in the increased value of the NSR property portfolio (including indirect interests) by \$89.9million. The new assets in the portfolio are detailed as follows:

Centre	Price	Forecast year one passing income yield	Settlement
Artarmon	\$36.5m	10.5% (actual at 30 June 2014)	Dec 2013
Townsville	\$17m	7%	May 2014
Moorabbin	\$8.2m	8.7%	June 2014
Mulgrave	\$7m	7.9%	June 2014
Wangara	\$10.9m	9%	July 2014
Port Adelaide	\$5.2m	9.8%	July 2014
Hervey Bay (SX)	N/A	N/A	May 2014
Yandina (SX)	N/A	N/A	May 2014

Investment Guidelines

NSR seeks accretive and strategic assets that feature:

- prominent location and high visibility to passing traffic
- proximity to drivers of self-storage demand including commercial, retail and/or residential markets with strong growing local populations
- quality, modern designs with good access and security
- ability to value add to existing operations to enhance the potential for future growth or further development

NSR works to acquire assets that deliver a year one passing income yield of 8% – 10% post integration into the National Storage portfolio.

Acquisition Pipeline

The three major players in the Australian self-storage industry have a combined modest market share of approximately 25%. The industry is highly fragmented, with the majority of owners being independent operators who own a single asset or a small region specific portfolio of assets.

For the most part, acquisition opportunities are generated off-market and come from a deep understanding of the industry and a well-established network of relationships.

There are currently a number of identified investment opportunities under review, including some under advanced negotiation.

A typical due diligence process takes six to eight weeks and involves the National Storage acquisition team and external consultants. An independent valuation together with commercial, financial, building, environment and legal due diligence are all undertaken to produce a feasibility report for approval by the Investment Committee and Board.

Once transacted, a typical centre takes four to six weeks to integrate into the National Storage operating platform, with ongoing synergies derived over the ensuing 12 – 18 months.

Development Management and Portfolio Recycling

Development management presents an opportunity for NSR to add value to development projects and demonstrates the depth of the team's experience in project managing self-storage development.

The announced \$8 million turnkey development in Kardinya, Perth is expected to complete in late 2014. The purpose built site will house approximately 400 units over approximately 4,400 sqm of net lettable area and bolster National Storage's already strong presence in the Perth market.

The announced expansion of the Cockburn centre in Perth, Western Australia will generate project management fees and facilitate a portfolio recycling opportunity for the existing nearby Dobra Road centre. It is envisaged customers would be transitioned into the new Cockburn facility, leaving the Dobra Road centre available for higher and better use opportunities.

Portfolio Valuation

A revaluation of NSR centres on a stand-alone basis at 30 June 2014 (based on valuations and methodologies from independent property valuer m3 Property) yielded an increase of 4% from \$269.6 million to \$281.7 million.



CENTRE MANAGEMENT

The National Storage Centre Management platform was launched at the Self Storage Association of Australasia Convention in August 2014. The National Storage Centre Management platform is an extension of National Storage's quality offering of tailored storage solutions into existing self-storage centres, currently managed by owner-operators, franchisees or investors. Centre management can be applied to a single centre or across a multiple asset portfolio.

The National Storage Centre Management platform capitalises on:

- national, state and local marketing programs including access to the National Storage web platform with dedicated in-house management of search engine optimisation and digital marketing initiatives
- prudent financial management and reporting
- economies of scale and purchasing power
- established sales, yield management and performance management practices
- Australia's only dedicated national self-storage contact centre
- the national property maintenance team; and
- ancillary products including packaging and insurance

Importantly for NSR, centre management provides

- increased income derived from the provision of management services, with limited increase to the cost base and limited capital requirements
- greater economies of scale through a broader number of centres across which to share expenses; and
- the establishment of a possible future acquisition pipeline.

CAPITAL MANAGEMENT

NSR practices a conservative and disciplined approach to capital management.

At 30 June 2014, NSR was 23% geared against a loan to value ratio covenant of 50%, and had an interest cover ratio of 9.4 times against a covenant of two times. Debt of \$87.9 million was drawn of \$100 million debt capacity, with the NAB facility further extended to \$135 million capacity in July 2014.

In August 2014, NSR undertook a placement offer which raised \$45.9 million to replenish the balance sheet and provide further capacity for accretive potential acquisitions. A Security Purchase Plan for retail investors is anticipated to raise a further \$5 million.

This capital has been used to pay down debt and afforded NSR significant balance sheet acquisition capacity.

NSR adopts the following approach to minimise financial risk:

- maintain significant headroom relative to key financial covenants;
- maintain sufficient liquidity to meet NSR's objectives;
- when possible, reduce refinancing risk by having staggered debt maturities (or managing debt refinancing well in advance of debt expiry); and
- manage interest rate risk by hedging an appropriate level of NSR's drawn debt and generally matching the terms of the hedges with debt maturities.

NSR intends to distribute 90% – 100% of its underlying earnings which will include all taxable income and reflects the underlying net cash flow from operating activities.

SUSTAINABLE BUSINESS PRACTICES

National Storage is committed to building a sustainable business and minimising its environmental footprint.

The NS Energy Efficiency Project commenced in June 2014 and will see a full centre audit undertaken with energy efficiency outcomes to be delivered in 2015. The audit will review energy usage throughout the portfolio and determine the best approach for energy at a centre level, whether through installation of solar panels, upgrading existing lighting or transitioning to light-emitting-diode (LED) lighting. The project will also review refrigeration and associated energy usages to ensure the most efficient structures are in place.

Recycling is a day-to-day activity at National Storage centres, with every centre equipped with large paper and cardboard bins. 98% of NSR's paper supplies are derived from environmentally friendly sources. In addition, National Storage offers a box buy-back program, where customers are encouraged to return their used National Storage cartons for a small cash payment. The cartons are then on-sold as second hand cartons to customers seeking to be more environmentally friendly and cost efficient during their move.

SOCIAL RESPONSIBILITY

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

In CY2013, National Storage offered over half a million dollars of in-kind storage to local community groups and charities across the country.

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

At the corporate level, National Storage supports a number of larger charities and not-for-profit organisations including the Mater Foundation and local Crime Stoppers networks.





L – R: Anthony Keane, Laurence Brindle, Andrew Catsoulis

Board of NSH Directors

Anthony Keane

Independent Non-executive Director
BSc(Maths), GradDipCorpFin

Anthony is an experienced finance and business executive with over 30 years background in corporate, institutional, business and retail banking. Prior to accepting his directorship with the Company, Anthony was most recently Head of Corporate Banking Queensland for National Australia Bank and was responsible for the bank's relationships with large privately owned and public listed companies across a broad range of industries including manufacturing, retail, wholesale, property, professional services, technology, leisure and tourism, transport, mining and associated services. Anthony has a Bachelor of Science (Mathematics) from University of Adelaide and a Graduate Diploma in Corporate Finance from Swinburne. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors and a Fellow of the CEO Institute. He is a Director of Queensland Symphony Orchestra Pty Ltd.

Anthony acts as Chairman of the Audit and Risk Committee and is a member of the Nomination and Remuneration Committee.

Laurence Brindle

Independent Non-executive Chairman
BCom, BEng(Hons), MBA

Laurence has extensive experience in funds management, finance and investment. Until 2009 he was an executive with Queensland Investment Corporation (QIC). During his twentyone years with QIC he served in various senior positions including Head of Global Real Estate where he was responsible for a portfolio of \$9 billion. Laurence was also a long term member of QIC's Investment Strategy Committee. Since 2010, Laurence has been a director of Westfield Retail Trust (now Scentre Group). He provides advice to a number of investment institutions on real estate investment and funds management matters. Laurence holds a Bachelor of Engineering (Honours) and a Bachelor of Commerce from the University of Queensland, and a Master of Business Administration from Cass Business School, London. He is a former Chairman of the Shopping Centre Council of Australia.

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



Andrew Catsoulis

Managing Director
LLB, GradDip Project Mgmt

Andrew is a qualified lawyer who has been admitted to the Supreme Court of Queensland and the Federal Court of Australia. He has had extensive experience in the fields of finance, commercial and property law during his tenure at major law firms both in Australia and overseas. He is also a qualified project manager and has considerable property development experience both within the storage industry and in broader markets. A founder of the original National Storage business, he has over 18 years of specific self-storage industry expertise including in the areas of acquisition, development, integration and operation of 'greenfield' and developed self-storage centres. Andrew was instrumental in the successful acquisition and integration of the original portfolio and led the company through the IPO.

The Board of Directors of The Trust Company (RE Services) Limited are detailed on page 48.



Senior Executives

Andrew Catsoulis

Managing Director
LLB GradDip Project Mgmt
See page 32.

Peter Greer

Chief Operating Officer

Peter gained his experience over 15 years in the finance industry with one of Australia's largest banking organisations. He developed extensive experience in relation to the self-storage industry, specifically in the financing, operations and development of self-storage centres. Peter then transferred these skills and has exclusively worked in the self-storage industry for the last 15 years with a focus on operations, human resource management, strategic business planning and day-to-day operational management. He was one of the founding shareholders of National Storage and has worked side by side with Andrew to grow the National Storage business. Peter is a former board member of the Self Storage Association of Australasia (SSAA), including a term as the President of this body and a regular speaker at the national SSAA conference.

Patrick Rogers

Company Secretary and General Counsel
LLB BBus – Accty

Patrick holds both legal and accounting qualifications and is admitted as a solicitor of the Supreme Court of Queensland. He has practiced as a solicitor for over 15 years in both fields. During his time in private practice, Patrick has had significant experience in corporate, property, commercial, taxation and transactional work. In addition to private practice, Patrick was the general counsel and company secretary of the Super A-Mart Group for over eight years, (including holding the role of CFO for a time) where he was a part of the senior management team and had extensive involvement in the operations of the company.



Thomas Rice

Chief Financial Officer
BCom BEcon Grad Dip AppFin

Thomas is a Chartered Accountant who commenced his career at PwC, and then built on his commercial acumen in subsequent positions in London and Brisbane working for a variety of multi-national, listed and government owned corporations. In addition to a Graduate Diploma of Applied Finance, Thomas holds bachelor degrees in both Commerce and Economics. As Chief Financial Officer for National Storage Group for the past eight years, Thomas is primarily responsible for the financial operations, reporting and transaction support.



Makala Ffrench Castelli

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

Makala has over eight years experience in corporate communications, investor relations and marketing communications. She has worked with leading companies in the place management, property and finance industries, including one of Australia's major investment banks. Makala is responsible for the strategic development and implementation of retail marketing, corporate affairs and investor relations at National Storage. She holds a Bachelor of Business (Marketing/E-Business) from Queensland University of Technology and a Graduate Diploma in Arts from University of Adelaide.

Corporate Governance

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

GOVERNANCE FRAMEWORK

The NSH and Responsible Entity Boards and NSH management are committed to achieving and demonstrating to Securityholders high standards of corporate governance and to ensure NSH acts in the best interests of its Securityholders balanced with its broader community obligations. To achieve this, the NSH Board has created a framework for managing National Storage Group including internal controls and a business risk management process. The governance system is reviewed during each year by the Company Secretary and the Board to ensure that it reflects changes in the law.

The NSH Board's obligations are discharged through a number of mechanisms including meetings and its committees. During the financial year ended 30 June 2014, the NSH Board has convened the following committees as part of its corporate governance framework:

Committee	Chair	Members
Audit and Risk	Anthony Keane (Independent Director)	Laurence Brindle (Independent Director)
Nomination and Remuneration	Laurence Brindle (Independent Director)	Anthony Keane (Independent Director)
Disclosure Committee	Andrew Catsoulis (Managing Director)	Thomas Rice (CFO), Patrick Rogers (Company Secretary)

NSH committees are governed by their respective Charters. Please note, that effective 30 September 2014, the Audit and Risk Committee has been split into two separate committees being the Audit Committee and the Risk Committee. This has been undertaken in accordance with the third edition of the ASX Corporate Governance Principles and Recommendations.

The composition of NSR's committees as of 30 September 2014 is as follows:

Committee	Chair	Members
Audit Committee	Anthony Keane (Independent Director)	Laurence Brindle (Independent Director)
Risk Committee	Anthony Keane (Independent Director)	Laurence Brindle (Independent Director)
Nomination and Remuneration	Laurence Brindle (Independent Director)	Anthony Keane (Independent Director)
Disclosure Committee	Andrew Catsoulis (Managing Director)	Thomas Rice (CFO), Patrick Rogers (Company Secretary)

Given the size of the NSH Board it was determined that the Investment Committee and Diversity Committee functions be undertaken by the full Board. As a result these Committees have not been formally convened at this time, however this will be reviewed upon the size of the Board of NSH increasing.

An important component of the NSR corporate governance structure is the ASX Corporate Governance Principles and Recommendations (the "ASX Recommendations"). The NSH Board considers that throughout the financial year ended 30 June 2014 and as the date of this statement, the governance practices adopted by NSR comply with the second edition of the ASX Recommendations, with the exception of Principle 4.2 which had partial compliance.

Principle 4.2 requires the audit committee to have at least three members. The initial Board of NSH was comprised of three Directors, with two Directors being non-executive and one Director being the Managing Director. As a result, the audit committee could only consist of two nonexecutive Directors. The intention of the Board on listing was that the Board size would be expanded by the addition of further non-executive Directors.

BOARD AND MANAGEMENT RESPONSIBILITY

This has been implemented by the Board by it nominating a further two non-executive Directors at this year's AGM. Upon the election of the two further Directors, all of the Board committees will be expanded by at least one further member and will then have at least three non-executive Directors as members.

The NSH Board and Responsible Entity Board has early adopted the third edition of the ASX Corporate Governance Principles and Recommendations as at 30 September 2014 with the extent of NSR's compliance detailed in its Appendix 4G.

Full copies of the NSR Corporate Governance Statement, Appendix 4G and all NSR governance Policies and Charters can also be found in the Governance section of the website at www.nationalstorageinvest.com.au.

Additionally, the Responsible Entity has established a compliance committee comprising three independent members. NSPT is a registered managed investment scheme and the rights and obligations of the Responsible Entity as a responsible entity of NSPT and NSPT Unitholders are governed by the constitution of NSPT.

As the responsible entity of NSPT, the Responsible Entity must comply with all obligations set out in the constitution and the Corporations Act. The Responsible Entity is also subject to duties including duties to act in the best interests of NSPT Unitholders, act honestly, exercise care and diligence, and treat NSPT Unitholders of the same class equally. In order to ensure compliance with the constitution and the Corporations Act, the Responsible Entity has in place a compliance plan which sets out the measures it will apply in operating NSPT.

A copy of the compliance plan can be inspected at National Storage's head office at any time between 8:30am and 5:00pm on a business day in Brisbane or a free copy may be requested by contacting NSH or the Responsible Entity.

The role of the NSH Board is to provide overall strategic guidance for NSR and effective oversight of management. It is responsible for monitoring the financial performance of NSR and the performance of the Managing Director and senior management team. The NSH Board ensures the activities of NSR comply with its Constitutions, from which NSH Board derives its authority to act, and with legal and regulatory requirements.

The responsibility for the daily operation and management of NSR is delegated to the Managing Director who undertakes this task in accordance with the strategy, policies and plans approved by the NSH Board. The Managing Director has authority to sub-delegate to the senior management team.

BOARD COMPOSITION AND INDEPENDENCE

The current NSH Board is comprised of three Directors, the composition of which being two non-executive Directors (one of whom is the Chairman) and the Managing Director. Detailed information about the Directors is set out on pages 32 – 33.

The NSH Board considers that its current members have had an appropriate balance of skills, independence and experience to discharge their obligations and affect the strategy of NSR through its initial post listing period. However, the NSH Board considers that it is appropriate and in the best interests of NSR and the stapled security holders to increase the number of Board members. This will strengthen and broaden the skills and experience base of the current highly experienced Board members and also the number of independent Directors.

To achieve this, a resolution will be put to the AGM on 20 November 2014 seeking the appointment of two new Directors, Mr. Howard Brenchley and Mr. Steven Leigh. Details of the proposed new Directors can be found in the explanatory notes to the Notice of Meeting for the AGM.

The NSH Board considers all of the current non-executive Directors, being the Chairman Mr. Laurence Brindle and Mr. Anthony Keane, to be independent.

The Directors of the Responsible Entity are set out on page 48.

COMPANY SECRETARIES

The Company Secretary of NSH is Mr. Patrick Rogers. Detailed information on Mr. Rogers is contained on page 34 on this report. The Company Secretaries of the Responsible Entity are listed on page 52 of this report.

RISK MANAGEMENT

NSR's operations expose it to risks. A summary of potential risks is set out on pages 47 and 116 – 121 of this report. Risks can be either of a controllable nature or of a non-controllable / less controllable nature. Examples of controllable risks are systems, processes and staff based risk. Non-controllable or less controllable risks are generally risks considered to be "external" to the Company such as macroeconomic factors, financial, regulatory or market risks.

Assumption of operating risks is undertaken through the risk management framework which seeks to identify, control and minimise risk where possible. NSR maintains a Risk Management Policy which lays a foundation for the NSH Board and senior management to manage risk and decision making by officers of NSR. A copy of the Risk Management Policy can be found on the website at www.nationalstorageinvest.com.au.

Senior management of NSR and the NSH Board are committed to effective risk management in the operation of NSR.

CONFIRMATION

NSR confirms it has, from the date of admission to the Australian Securities Exchange (19 December 2013) to the end of the reporting period (30 June 2014), used the cash and/or cash equivalents that it had on hand at the date of admission to the Australian Securities Exchange in a manner consistent with its business objectives. Detailed commentary relating to NSR's business activities and strategy can be found at pages 41-44 of this Report.





Directors' Report

The Directors of NSH jointly with the Directors of the Responsible Entity as responsible entity of the NSPT present their report together with the financial statements of NSR which incorporates NSH and its controlled entities ("NSH Group") and NSPT and its controlled entities ("NSPT Group") for the financial year ended 30 June 2014 (the "Reporting Period") and the Independent Auditor's Report. The Directors Report has been prepared in accordance with the requirements of Division 1 of Part 2M of the Corporations Act Cth 2001.

On 19 December 2013, the shares in NSH were stapled to the units in NSPT as part of the Initial Public Offering of NSR and its quotation on the Australian Securities Exchange ("ASX"). This is known throughout the Directors' Report as the "IPO".

As NSR only came into existence on 19 December 2013, the information presented in the Financial Statements does not reflect NSR's operations for the entire Reporting Period. Further, the comparative information is reported to the extent possible due to the recent creation of NSR. Please note the commentary in the section on "Review and Results of Operations" – users of the financial information should familiarise themselves with the "Corporate Information" and "Basis of Preparation" in Notes 1 and 2(a) in the Financial Statements.

Additionally, as part of the IPO on 19 December 2013, the Responsible Entity became the responsible entity of NSPT, replacing the former responsible entity APN Funds Management Limited.

Key Highlights

- A-IFRS ("Australian International Financial Reporting Standards") profit after tax for the Reporting Period of \$15.565 million and earnings per Stapled Security ("EPSS") for the Reporting Period of 8.98 cents.¹
- 10% increase in rate per square metre ("psqm") from \$249 psqm at July 1 2013 to \$275 psqm at June 30 2014 (excluding all 2014 calendar year acquisitions).
- 12% increase in gross trading income² from \$21.25 million (July - December 2013) to \$23.8 million (Jan -June 2014).
- 8 contracted or completed acquisitions (6 by NSR, 2 in Southern Cross) totalling \$89.9 million adding 59,000 sqm in net lettable area.
- Total Assets Under Manager (AUM) increased by 13.5% to \$582 million at 30 June 2014.
- 4% increase in underlying portfolio revaluation from \$269.6 million to \$281.4 million.

Principal Activities

NSR is the first internally managed and fully integrated owner and operator of self-storage centres to be listed on the ASX.

NSR is one of Australia's largest self-storage owner/operators, with 69 self-storage centres under operation or management, tailoring storage solutions to approximately 25,000 customers across Australia. NSR has grown its portfolio by 13% from 61 centres at the time of the IPO to 67 centres as at 30 June 2014 and 69 centres at the time of this Directors' Report. It has grown total storage units by approximately 8% with NSR now managing over 41,000 storage units across 372,000 sqm of net lettable area around Australia. AUM has increased to be \$582 million as at 30 June 2014.

Of the 69 self-storage properties in the NSR portfolio, ownership is as follows:

- 33 self-storage centres owned by NSPT;
- 10 self-storage centres operated as long-term leasehold centres (Leasehold Centres); and
- 26 self-storage centres managed for the Southern Cross Storage Group (Southern Cross) in respect of which NSR holds a 10% interest through a wholly owned subsidiary.

Southern Cross is an unlisted investment fund established by National Storage and real estate investment firm Heitman in September 2011 that owns self-storage centres throughout Australia.

The National Storage core product offering covers self-storage, business storage, vehicle storage and wine storage at National Storage's climate controlled storage facilities and via Wine Ark (which operates dedicated self-access and managed cellars). Ancillary income streams are derived from other related activities including packaging sales and vehicle/trailer hire.

¹ NSH prefers to state EPSS pursuant to the combine financial statement methodology as we concur with ASIC's view expressed in Consultation Paper 217 and consider it more useful and a better indicator of performance than utilising the consolidated accounting methodology which must be used in the formal financial statements and reflects EPSS of 11 cents.

² Definition is total revenue less cost of packaging and other products sold.



BUSINESS STRATEGY

NSR's objective is to deliver Securityholders a stable income stream from a diversified portfolio of quality self-storage centres, and consistent income and capital value growth through active asset management, and portfolio management (including the acquisition, development or redevelopment of self-storage centres).

The key drivers of the business are:

- Asset management – driving an appropriate balance between rental rate and occupancy growth and actively pursuing other business development initiatives;
- Portfolio management – acquiring and integrating quality assets into either the NSPT or Southern Cross portfolios;
- Centre Management – effective operation of individual assets and the expansion of the National Storage Centre Management platform (revenue from third parties);
- Development management – development / refurbishment / redevelopment of new and existing centres and actively managing portfolio recycling opportunities; and
- Capital management – maintaining an appropriate and efficient capital structure.

ASSET MANAGEMENT

NSR is firm in its belief that the effective management of rental yields and occupancy levels at centres are key factors in driving operating income and, in turn, Securityholder value. To ensure a balance between these two related yet competing factors is achieved, management focuses on the following:

- Indicator Reviews – NSR's holistic approach involves regular review of key operational indicators.
- Dynamic Pricing Model – Inputs from indicator reviews and general market conditions are taken into account when modelling and determining pricing at unit, centre and regional levels.
- Staff Engagement – Staff engagement via performance management, training and a reward and recognition program encourages our staff to increase conversion rates on enquiries over time.
- Marketing and Customer Experience – The strategic marketing plan aims to broaden the customer base, increase brand awareness and drive customer enquiry.
- Systems and Policies – Since IPO, management has been seeking to automate and systemise as many functions as possible (this remains an ongoing initiative).



PORTFOLIO MANAGEMENT

The self-storage industry is highly fragmented with the majority of centres being owned by small independent operators. NSR has successfully sought, and continues to seek, acquisition opportunities within the industry with a clear focus on acquiring strategic quality assets that deliver positive yields to NSR.

During and subsequent to the Reporting Period, the following assets were acquired by NSR and integrated into the National Storage portfolio:

- centre in Artarmon (NSW) – acquired in December 2013;
- centre in Townsville (QLD) – acquired in May 2014;
- centre in Mulgrave (VIC) – acquired in June 2014;
- centre in Moorabbin (VIC) – acquired in June 2014;
- centre in Wangara (WA) – acquired in July 2014;
- centre in Port Adelaide (SA) – acquired in July 2014.

A centre currently under construction in Kardinya (WA) is the subject of a contract to be acquired by NSR. It is anticipated the centre will be operational by November 2014. In addition to the above acquisitions by NSR, the former “Box n Lock” centres at Hervey Bay and Yandina (both in QLD) were acquired by Southern Cross. They have also been integrated into the National Storage operating platform.

CENTRE MANAGEMENT

NSR launched the NS Centre Management platform at the Self-Storage Association of Australasia Convention in August 2014.

The potential benefits to NSR include:

- Increased income derived from provision of the management service with limited increase to the cost base and limited capital requirements;
- Greater economies of scale to the group due to the larger number of centres operating as “National Storage” branded and managed centres; and
- The establishment of a possible future acquisition pipeline.

DEVELOPMENT MANAGEMENT

NSR considers the evaluation of the NSPT centres for development or redevelopment as an important part of its ongoing strategy to maximise value to Securityholders. Management periodically assesses the centres in light of the prevailing market conditions and available information to determine if any development opportunity exists and the appropriate timing for engaging in such opportunities.

Review and Results of Operations

To facilitate the IPO, NSH was incorporated as the holding company for National Storage Pty Ltd ("NSPL"). Units in the NSPT were stapled to shares of NSH ("Stapled Securities"). The Stapled Securities were quoted on the ASX on 19 December 2013.

The Financial Statements of NSR are prepared in compliance with Australian Accounting Standards and the requirements of the Corporations Act 2001. In order to ensure accurate and compliant financial reporting for comparative purposes, the financial accounts of NSH are treated as a continuation of NSPL. The comparative period (the "Comparative Period" or "2013"), for the purposes of the Financial Statements, is the year ended 30 June 2013 for NSPL and its then consolidated group (the "Pre-Existing Group").

However, given NSR only came into existence on 19 December 2013, the information presented in the Financial Statements does not reflect NSR's operations for the entire Reporting Period. Further, the comparative information is reported to the extent possible due to the recent creation of NSR. Users of the financial information should familiarise themselves with the "Corporate Information" and "Basis of Preparation" in Notes 1 and 2(a) in the Financial Statements.

CHANGE IN NAME OF TRUST

During the Reporting Period, and as required by the constitution of the NSPT and as noted in the PDS, the Directors of the Responsible Entity resolved to change the name of "APN National Storage Property Trust" to "National Storage Property Trust". Approval of this change was received from ASIC on 17 February 2014.

OPERATING RESULTS

A-IFRS profit after tax for the Reporting Period was \$15.565 million and EPSS for the Reporting Period was 11 cents.³

Gross trading income rose by 12% from \$21.25 million (July – December 2013) to \$23.8 million (January – June 2014). The rate per square metre achieved across the group increased by 10.4% from \$249/sqm at 1 July 2013 to \$275/sqm at 30 June 2014 (excluding all calendar year 2014 acquisitions).

Negative retail and consumer sentiment and increasing levels of unemployment have characterised the subject Reporting Period as one presenting challenging trading conditions. Early indications for the 2015 Financial Year are that these conditions are easing with a pick-up in inquiries and bookings starting to become evident. Seasonally, the traditionally busier spring and summer months should present improved trading conditions in the second half of CY 2014.

NSR's acquisition strategy has positively impacted overall revenue during the Reporting Period. The acquisitions made during 2014 had not been held by NSR long enough for their incremental effect on revenue to be fully realised in the Reporting Period, however this is expected to be reflected in the 2015 financial year results. The acquisitions made by NSR have also increased its market share (due to NSR acquiring centres previously owned/operated by others). Management anticipates this increased market share and improved efficiencies through scalability will allow NSR to leverage off any improvement of macroeconomic conditions.

Aside from the positive input of acquisitions, earnings for this period were impacted by a number of factors. First, the anticipated increase in physical occupancy forecast for this period did not occur primarily due to weaker than expected trading conditions and aggressive competitor discounting in some markets. This has negatively impacted earnings growth during the 6 months to 30 June 2014 compared to our expectations. In response to these conditions, management has elected to focus on achieving rate per square meter growth objectives. As at the date of this Directors' Report group occupancy stands at 71% (excluding 2014 acquisitions). Second, higher than anticipated costs, primarily in relation to the establishment of a dedicated acquisition team and related acquisition activity increased overall expenses. The positive earnings impact of completed acquisitions will be seen more fully in future reporting periods.

In light of the increased rate per square metre being achieved and the additional earnings generated by NSR from completed acquisition activity, management forecasts EPSS for the period 1 July 2014 to 31 December 2014 to be 4.2 cents per Stapled Security and 4.3 cents per Stapled Security for the period 1 January 2015 to 30 June 2015. Any

³ NSH prefers to state EPSS pursuant to the combine financial statement methodology as we concur with ASIC's view expressed in Consultation Paper 217 and consider it more useful and a better indicator of performance than utilising the consolidated accounting methodology which must be used in the formal financial statements and reflects EPSS of 11 cents.

forecast result is subject to economic or other factors that are beyond the control of management (eg: macro-economic trends in the Australian economy such as consumer confidence). Forecasts are based on the number of Stapled Securities on issue as at 30 June 2014 and do not reflect the financial impact of any future capital raisings or acquisitions that may or may not occur.

CASH MANAGEMENT

Cash and cash equivalents as at 30 June 2014 were \$8.26 million compared to \$382,000 in 2013.

As part of the IPO, the NSPT previous debt finance facility of \$109 million with National Australia Bank Limited ("NAB") was repaid and a new debt finance facility of \$50 million entered into with NAB. In May 2014, the facility was increased by a further \$50 million to \$100 million to fund acquisitions. The facility has been drawn down a number of times during the Reporting Period to facilitate those acquisitions. As at 30 June 2014, the facility limit of \$100 million was drawn to \$87.9 million with a remaining limit of \$12.1 million.

In July 2014, the facility was increased by a further \$35 million to \$135 million which has been subsequently drawn upon to fund acquisitions. As at the date of this Directors' Report, the facility limit of \$135 million was drawn to \$106.03 million with a remaining limit of \$28.97 million. Net operating cashflow for the year was \$12.45 million compared to \$12.02 million in 2013.

ACQUISITIONS AND INVESTMENTS

NSR considers its ability to acquire and integrate accretive and strategic assets to be a cornerstone of its growth strategy. During the course of the Reporting Period, a dedicated acquisitions team was formed to identify, facilitate and transact on acquisitions that were considered appropriate for the portfolio.

The acquisition strategy has seen the number of centres in the NSR portfolio grow by 8 centres as at the date of this Directors' Report, and has resulted in the value of the NSR property portfolio (including indirect interests) increasing by \$89.9 million. Further, a revaluation of the NSR centres on a stand-alone basis as at 30 June 2014 (based on valuations and methodologies from independent valuer m3Property) yielded an increase of 4% from \$269.6 million to \$281.7 million.

Likely Developments

NSR intends to utilise its position as Australia's first listed self-storage REIT to continue to consolidate independently owned storage centres under NSR's ownership and management structure. In accordance with its strategy, NSR continues to seek accretive acquisition opportunities, evaluate its existing portfolio for development or re-development opportunities and further develop its third party management offer.

Dividends & Distributions

NSR announced to the ASX on 24 June 2014 that NSPT will make a distribution of 3.8 cents per Stapled Security for the 6 months to 30 June 2014. The distribution is expected to be paid on 26 August 2014 and is expected to contain a tax deferred component.

On 19 December 2013, as part of the IPO NSPT paid a cash-out distribution of \$2,077,000 to the exiting NSPT unitholders in accordance with the details disclosed in the PDS.

On 31 October 2013, NSPT paid a distribution of \$1,861,000.

On 24 October 2013, NSPL, the then head-entity of the former National Storage corporate group, declared a fully franked dividend of \$5,598,000 to shareholders. This amount was offset against loans owed by the former shareholders of NSPL.

On 31 July 2013, NSPT paid a distribution of \$1,681,000 to the unitholders. This distribution was declared prior to the Reporting Period.

During the Comparison Period, NSPL, the then head-entity of the former National Storage corporate group, paid a fully franked dividend of \$900,000 and NSPT paid distributions totalling \$5,041,000.

Options over Stapled Securities

No options over issued Stapled Securities or interests in a Controlled Entity have been granted in NSR since the IPO. There are no options in Stapled Securities outstanding as at the date of this report.

Environmental Regulation

The Consolidated Group's operations are not regulated by any environmental law of the Commonwealth or a State or Territory that is enacted specifically for NSR. However, NSR must comply with broader environmental laws. NSH management on behalf of NSR has in place procedures to identify and ensure compliance with such laws including identifying and obtaining of necessary approvals, consents or licences.

There have been no known material breaches during the Reporting Period of any environmental laws to which NSR is subject.

Environmental, Economic and Other Sustainability Risks

NSR's operating activities expose it to a number of potential risks. Overall risk is managed centrally by management to minimise potential adverse effects on the financial performance of NSR and protect Securityholder value.

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

- **Economic Conditions** – Fluctuations in economic conditions including consumer confidence may adversely impact upon demand for storage space. Material macroeconomic events occurring or any significant trading downturns due to factors beyond the control of management have the potential to negatively impact on forecast trading performance. The results of NSR's operating activities are dependent on the performance of the properties in which it invests and those it manages on behalf of other parties. This performance in turn depends on economic factors; these include economic growth rates, inflation rates and taxation levels. There are also industry and location specific risks to consider, including competitor behaviour.
- **Tenure** – storage agreements are typically month to month and there is no guarantee customers will renew or that other customers will be found to take their place upon departure. To mitigate this risk, customer relationships are carefully managed to maximise duration of stay.
- **Competition** – Entry by new competing storage centres or discounting by existing storage centres may adversely impact upon occupancy and rental rates on a centre specific basis. While there are barriers to entry for new competition, NSR constantly monitors its competitors' activities to ensure pricing and terms remain competitive.
- **Valuations** – property valuations in self-storage are subject to multiple micro and macroeconomic factors which are outside the control of NSR.
- **Property liquidity** – self storage centres are property based illiquid assets and subject to supply and demand factors dependent upon prevailing market conditions. As a result it may not be possible for NSR to dispose of assets in a timely or price accretive fashion should the need to do so arise.
- **Exposure to Southern Cross** – NSR has entered into a management agreement with Southern Cross which provides management fees for its services. This agreement may be terminated in certain circumstances and if so these management fees would be lost. The investors agreement pursuant to which NSR holds its investment in Southern Cross contains termination rights. If Heitman exercised these, the assets of the trust may have to be sold.
- **Leasehold interests** – NSR holds lease agreements with certain third parties which allow it to operate storage centres from these properties. Lease terms for these properties are typically long (greater than 10 years). However there is no guarantee that these lease arrangements will be able to be renewed upon expiry or if so on suitable terms to NSR.
- **Future acquisitions and expansions** – the rate at which NSR will be able to expand will depend upon prevailing market forces including availability of appropriately priced acquisition opportunities and availability and pricing of both debt and equity capital. It is possible for a number of reasons that acquisitions made or to be made may not perform at the forecast level. NSR conducts extensive due diligence and financial modelling and has detailed integration and operational systems and processes designed to minimise this risk.
- **Personnel risk** – NSR relies upon the expertise and experience of the senior management team. As a consequence, if the services of key personnel were no longer available this may have an adverse impact on the financial performance of NSR. However, NSR's senior management team are considered internally to be stable and committed and succession planning is undertaken periodically by the Board and Managing Director. Further, the Managing Director and Chief Operating Officer are subject to the clawback agreement over their Stapled Securities as detailed later in this Directors' Report.
- **Interest rate fluctuations and derivative exposure** – unfavourable movements in interest rates could lead to increased interest expense to the extent that these rates are not hedged. NSR uses derivative instruments to hedge a percentage of its exposure to interest rates however the interest rate movements could result in an adverse effect on financial performance.

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. The Directors were the inaugural directors of the Company on incorporation on 1 November 2013 and have remained in office during the remainder of the Reporting Period.

- Laurence Brindle** Non-Executive Chairman (appointed 1 November 2013)
- Andrew Catsoulis** Managing Director (appointed 1 November 2013)
- Anthony Keane** Non-Executive Director (appointed 1 November 2013)

THE TRUST COMPANY (RE SERVICES) LIMITED

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.

- Andrew Cannane** Director (appointed 31 March 2011)
- Christopher Green** Director (appointed 7 March 2014)
- Gillian Larkins** Director (appointed 7 March 2014)
- David Grbin** Director (appointed 22 July 2008, resigned 7 March 2014)
- Rupert Smoker** Director (appointed 18 December 2013, resigned 7 March 2014)
Alternate Director for John Atkin, David Grbin and Andrew Cannane (appointed 20 February 2013, resigned 18 December 2013)
- John Atkin** Director (appointed 27 January 2009, resigned 18 December 2013)
- Anna O'Sullivan** Alternate Director for Andrew Cannane (appointed 7 March 2014) and
Alternate Director for Christopher Green (appointed 7 March 2014)
- Joanne Hawkins** Alternate Director for Gillian Larkins (appointed 7 March 2014)
- Glenn Foster** Alternate Director for Gillian Larkins (appointed 7 March 2014)

On 28 November 2013, shareholders of The Trust Company Limited (the then ultimate parent of the Responsible Entity) voted to accept a proposal from Perpetual Limited for it to acquire 100% of The Trust Company Limited by way of a Scheme of Arrangement. On 18 December 2013, the Scheme of Arrangement was formally implemented and The Trust Company Limited became wholly owned by Perpetual Limited.

The responsible entity prior to The Trust Company (RE Services) Limited was APN Funds Management Limited ("APN"). APN ceased to be the responsible entity of the NSPT on 19 December 2013 as part of the IPO. The Directors of APN at the time of it ceasing to be the responsible entity were Geoff Brunston, David Blight, Howard Brenchley, Michael Johnstone, and Jennifer Horrigan.

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Board of National Storage Holdings Limited

Laurence Brindle, Independent Non-executive Chairman (appointed 1 November 2013)
BComm, BEng(Hons), MBA

Laurence has extensive experience in funds management, finance and investment. Until 2009 he was an executive with Queensland Investment Corporation (QIC). During his twenty-one years with QIC he served in various senior positions including Head of Global Real Estate where he was responsible for a portfolio of \$9 billion. Laurence was also a long term member of QIC's Investment Strategy Committee. Since 2010, Laurence has been a director of Westfield Retail Trust (now Scentre Group). He provides advice to a number of investment institutions on real estate investment and funds management matters. Laurence holds a Bachelor of Engineering (Honours) and a Bachelor of Commerce from the University of Queensland, and a Master of Business Administration from Cass Business School, London. He is a former Chairman of the Shopping Centre Council of Australia.

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

Andrew Catsoulis, Managing Director (appointed 1 November 2013)
LLB, GradDip Project Mgmt

Andrew is a qualified lawyer who has been admitted to the Supreme Court of Queensland. He has had extensive experience in the fields of finance, commercial and property law during his tenure at major law firms both in Australia and overseas. He is also a qualified project manager and has considerable property development experience both within the storage industry and in broader markets. A founder of the original National Storage business, he has over 18 years of specific self-storage industry expertise including in the areas of acquisition, development, integration and operation of 'greenfield' and developed self-storage centres. Andrew was instrumental in the successful acquisition and integration of the original Pre-Existing Group portfolio and led the Company through the IPO.

Anthony Keane, Independent Non-executive Director (appointed 1 November 2013)
BSc(Maths), GradDipCorpFin

Anthony is an experienced finance and business executive with over 30 years background in corporate, institutional, business and retail banking. Prior to accepting his directorship with the Company, Anthony was most recently Head of Corporate Banking Queensland for National Australia Bank and was responsible for the bank's relationships with large privately owned and public listed companies across a broad range of industries including manufacturing, retail, wholesale, property, professional services, technology, leisure and tourism, transport, mining and associated services. Anthony has a Bachelor of Science (Mathematics) from University of Adelaide and a Graduate Diploma in Corporate Finance from Swinburne. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors and a member of the CEO Institute. He is a Director of Queensland Symphony Orchestra Pty Ltd.

Anthony acts as Chairman of the Audit and Risk Committee and is a member of the Nomination and Remuneration Committee.

Board of The Trust Company (RE Services) Limited

Andrew Cannane, Director (appointed 31 March 2011) **BEcon, MBA**

Andrew is responsible for leadership of the Corporate Client Services team at Perpetual Corporate Trust which provides Wholesale Trustee and Custodial services for managed investment schemes and Corporate Trustee services for Singapore collective investment schemes. Andrew is a Director of the Responsible Entity licensed subsidiaries and was a Singapore Qualified Resident Manager. Andrew has worked in wealth management, financial markets and retail banking in Australia, Singapore and the UK for over 20 years. A graduate of the Australian Graduate School of Management, Andrew holds a Master of Business Administration (Executive) (AGSM), a Bachelor of Economics from Sydney University and is a Fellow of the Financial Services Institute of Australasia (FINSIA). He currently sits on the Asia Pacific Real Estate Association's (APREA) Australian Chapter Board, the Property Council of Australia's (PCA) Unlisted Property Roundtable and the Property Funds Association's Executive Committee.

Christopher Green, Director (appointed 7 March 2014) **B Comm, LLB, MBA**

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

Gillian Larkins, Director (appointed 7 March 2014) **B Comm, GradDip Accounting & Finance MBA CA GAICD**

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

Alternate Directors

Anna O'Sullivan – LLB

Joanne Hawkins – B Comm, LLB, Grad Dip CoSec Practice, Fellow of the Institute of Chartered Secretaries and Administration, Graduate of the Australian Institute of Company Directors.

Glenn Foster – B Comm, CA, MAICD

Directors' interests in NSR Securities

As at the date of this Directors' Report, the interests of the Directors (including indirect interests) in the Stapled Securities of NSR were:

Director	Direct	Indirect	Total
Laurence Brindle	-	1,020,400	1,020,400
Anthony Keane	-	102,000	102,000
Andrew Catsoulis	1,093,082	11,454,081	12,547,163
Andrew Cannane	-	-	-
Christopher Green	-	-	-
Gillian Larkins	-	-	-
Anna O'Sullivan ^{(1) (2)}	-	-	-
Joanne Hawkins ⁽³⁾	-	-	-
Glenn Foster ⁽³⁾	-	-	-

⁽¹⁾ Alternate for Andrew Cannane ⁽²⁾ Alternate for Christopher Green ⁽³⁾ Alternate for Gillian Larkins

The Responsible Entity's interests in NSR Securities

Entities related to the Responsible Entity within the Perpetual Group manage funds that own 199,675 Stapled Securities in NSR.

Directors' Meetings

The number of meetings of directors of NSH (including meetings of sub-committees of directors) held during the Reporting Period and the number of meetings attended by each director were as follows:

Director	Board	Audit and Risk Committee	Nomination and Remuneration Committee
Laurence Brindle	13 (13)	1 (1)	1 (1)
Anthony Keane	13 (13)	1 (1)	1 (1)
Andrew Catsoulis	13 (13)		

Notes:

- Figures in brackets indicate the number of meetings held whilst the director was in office or was a member of the relevant Committee during the Reporting Period. Figures not in brackets indicate the number of meetings or Committee meetings that the director attended.
- Mr. Catsoulis attends Nomination and Remuneration Committee meetings and Audit Committee meetings by invitation.
- A meeting was held by circular resolution during the Reporting Period in addition to the meetings listed in the above table.
- The Company has an Investment Committee Charter to govern an Investment Committee. The Board has determined that given its size, at this time, the full Board will act as the Investment Committee and therefore there are no separate Investment Committee meetings noted.

Company Secretary

National Storage Holdings Limited

Patrick Rogers (appointed 1 November 2013)
LLB, B Bus – Accty

Patrick holds both legal and accounting qualifications and is admitted as a solicitor of the Supreme Court of Queensland. He has practiced as a solicitor for over 15 years in both fields. During his time in private practice, Patrick has had significant experience in corporate, property, commercial, taxation and transactional work. In addition to private practice, Patrick was the general counsel and company secretary of the Super A-Mart Group for over 8 years, (including holding the role of CFO for a time) where he was a part of the senior management team and had extensive involvement in the operations of the company.

The Trust Company (RE Services) Limited

Glenda Charles	(appointed 28 February 2014)
Thornton Christensen	(appointed 28 February 2014)
Sylvie Di Marco	(appointed 1 May 2014)
Joanne Hawkins	(appointed 1 May 2014)
Geoffrey Stirton	(resigned 28 February 2014)
Alexander Carrodus	(resigned 5 July 2013)

Corporate Governance

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

The NSH and Responsible Entity Boards and NSH management are committed to achieving and

demonstrating to Securityholders high standards of corporate governance and to ensure NSH acts in the best interests of its Securityholders balanced with its broader community obligations. To achieve this, the NSH Board has created a framework for managing National Storage Group including internal controls and a business risk management process. The governance system is reviewed during each year by the Company Secretary and the Board to ensure that it reflects changes in the law.

NSH has convened the following committees as part of its corporate governance framework:

Committee	Chair	Members
Audit and Risk	Anthony Keane (Independent Director)	Laurence Brindle (Independent Director)
Nomination and Remuneration	Laurence Brindle (Independent Director)	Anthony Keane (Independent Director)
Disclosure Committee	Andrew Catsoulis (Managing Director)	Thomas Rice (CFO), Patrick Rogers (Company Secretary)



NSH committees are governed by their respective Charters.

Additionally, the Responsible Entity has established a compliance committee comprising three independent members. NSPT is a registered managed investment scheme and the rights and obligations of the Responsible Entity as a responsible entity of NSPT and NSPT Unitholders are governed by the constitution of NSPT.

As the responsible entity of NSPT, the Responsible Entity must comply with all obligations set out in the constitution and the Corporations Act. The Responsible Entity is also subject to duties including duties to act in the best interests of NSPT Unitholders, act honestly, exercise care and diligence, and treat NSPT Unitholders of the same class equally. In order to ensure compliance with the constitution and the Corporations Act, the Responsible Entity has in place a compliance plan which sets out the measures it will apply in operating NSPT.

A copy of the compliance plan can be inspected at National Storage's head office at any time between 8:30am and 5:00pm on a business day in Brisbane or request a free copy by contacting NSH or the Responsible Entity.

An important component of the NSR corporate governance structure is the ASX Corporate Governance Principles and Recommendations (the "ASX Recommendations"). A statement of the extent of NSR's compliance with the ASX Recommendations can be viewed on the NSR website at www.nationalstorageinvest.com.au/corporate/governance/.

Full copies of all NSR governance policies and Charters can also be found in the Governance section of the website.

Indemnification and Insurance of Directors and Officers

The Company has agreed to indemnify all the Directors and executive officers of the Company and its group entities to the extent permitted by law, for the amount of any liability, loss, cost, charge, damage, expense or other liability suffered by the Director or executive officer as an officer of the Company or group entity or as a result of having been an officer of the Company or any group entity. This includes any liability arising out of or in connection with any negligence, breach of duty, or breach of trust ("Indemnity").

However, the Indemnity does not extend to a claim in the nature of:

- (a) a challenge to any rejection of a Director's claim by the provider of the Company's insurance cover; or
- (b) a cross-claim or a third-party claim for contribution or indemnity in, and results directly from, any Proceedings in respect of which the Director has made a claim under the Indemnity.

Deeds of indemnity to affect the above have been formally entered into by the Company and the Directors. It is anticipated that the Company will enter into similar deeds of indemnity with the executive officers of the Company during the 2015 financial year.

The Deeds of Indemnity require the Company to obtain a back to back indemnity to the Company from the Responsible Entity out of the assets of the NSPT. This has been procured by the Company and is in place. The back to back indemnity requires the Responsible Entity to indemnify the Company for any liability under the Directors/officers indemnity to the extent that the Company is not able to meet that obligation. The indemnity does not extend to any payment made or due as a result of a breach by the Company of its obligations under a Director/officer indemnity or to any payment which the Company makes voluntarily but is not due and payable under the terms of a Director/officer indemnity.

The total amount of insurance contract premiums paid for Directors and Officers insurance for NSR (including subsidiary entities) during the Reporting Period was \$35,501.56.

No insurance premiums are paid out of the assets of the NSPT in regards to insurance cover provided to either the Responsible Entity or the auditors of the NSPT. So long as the officers of the Responsible Entity act in accordance with the constitution and the law, the officers remain indemnified out of the assets of the NSPT against losses incurred while acting on behalf of the NSPT. The auditors of the NSPT are in no way indemnified out of the assets of the NSPT.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made or claim received by NSR to indemnify Ernst & Young during the Reporting Period or up to the date of this report.



Remuneration Report (Audited) – NSH Group

MESSAGE FROM THE BOARD

The NSH Board is committed to ensuring that strategies and policies are adopted by NSR that align the interests of our Securityholders with operational performances and management. The Board believes that the remuneration practices of NSR should fairly and responsibly reward KMP having regard to their individual performance, the performance of NSH and NSPT and the broader external environment as it relates to KMP reward.

The policy also aims to provide a platform for sustainable value creation for Securityholders by attracting and retaining quality KMP.

COVERAGE OF THIS REPORT

The following remuneration report has been prepared to provide information to Securityholders of the remuneration details of the KMP of NSH involved in the management of the NSPT.

Directors of the Responsible Entity do not receive any remuneration from NSR as KMP. The Responsible Entity receives a fee for management services rendered.

This information has been audited as required by section 308(3C) of the Act.

KMP are defined as *“those persons having authority and responsibility for planning, directing and controlling the major activities of NSH, the Consolidated Group and the NSPT, directly or indirectly, including any director (whether executive or otherwise) of NSH.”*

Key management personnel covered in this report are as follows:

Non-executive and executive directors

Laurence Brindle – Chairman (non-executive)
Anthony Keane – Director (non-executive)
Andrew Catsoulis – Managing Director (executive)

Key Management Personnel – senior executives

Peter Greer – Chief Operating Officer (COO)
Thomas Rice – Chief Financial Officer (CFO)

REMUNERATION GOVERNANCE

Nomination and Remuneration Committee and use of remuneration consultants

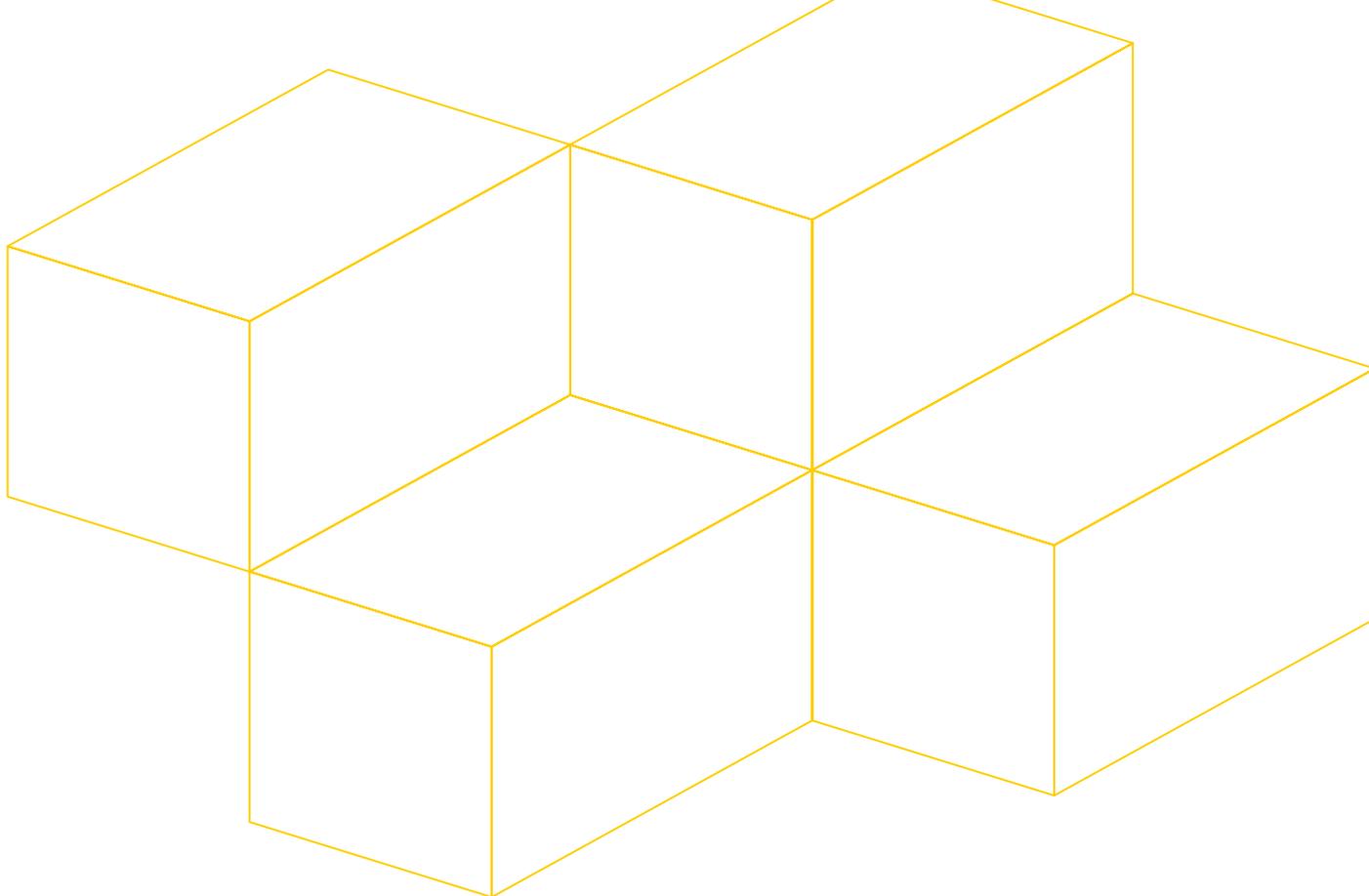
The Nomination and Remuneration Committee's activities are governed by its Charter, a copy of which is available at www.nationalstorage.com.au.

The responsibilities of the Nomination and Remuneration Committee include:

- Determining and reviewing remuneration policies to apply to the Company's Managing Director, senior executives and non-executive Directors;
- Determining the specific remuneration packages for senior executives (including base salary, STIs, LTIs and other contractual benefits);
- Reviewing contractual rights of termination for senior executives;
- Reviewing the appropriateness of the Company's succession planning policies;
- Reviewing management's recommendation of the total proposed LTI awards; and
- Administering the LTI awards.

The deliberations of the Nomination and Remuneration Committee, including any recommendations made on remuneration issues, are considered by the NSH Board. In making its recommendations to the Board, the Nomination and Remuneration Committee takes into account advice from independent remuneration advisers on trends in remuneration for KMP. The independent remuneration advisers consider a range of factors including the specific responsibilities assumed by KMP. No remuneration consultant was utilised during the Reporting Period.

The Remuneration Committee comprises two independent non-executive directors and is chaired by Laurence Brindle. Due to NSR only being formed in December 2013, the Remuneration Committee met once during the Reporting Period. As at the date of this Remuneration Report, the Committee has met an additional 3 times since the conclusion of the Reporting Period.



Principles used to determine the nature and amount of remuneration

The objective of the remuneration policy is to ensure that group remuneration is competitive, reflects responsibilities of the officers and ensures that NSR is able to attract and retain executives and directors with the skills and capabilities required to sustainably deliver NSR's objectives.

The remuneration of directors and senior executives is reviewed annually by the Nomination and Remuneration Committee and the full NSH Board. External analysis and advice is sought by the Committee, where considered appropriate, to ensure that the remuneration for directors and senior executives is competitive in the market place and appropriate for the organisation. KMP remuneration was not reviewed during the Reporting Period, but will be reviewed before the end of the 2014 calendar year.

The policy seeks to align executive reward with the achievement of strategic objectives and the creation of value for Stapled Securityholder. The primary tenets of the policy are:

- Attract and retain high quality executives and to reward the capabilities and experience brought to NSR by those executives.
- Total reward for key executives are to have a significant "at risk" component.
- The "at risk" component for key executives is to include both short term incentives ("STI") and long term incentives ("LTI") which have a strong focus on quantitative measures.
- Provide industry competitive rewards linked to Securityholder returns.
- Provide recognition for contribution, complexity of role and responsibilities of the officer.
- Remuneration policies and structures must be clear and transparent both to the executives and Board of NSR and to Securityholders.

NSR Remuneration Framework

Non-executive directors:

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the non-executive directors and their contribution towards the performance of NSR as well as the complexity of the National Storage Trust and operating business. The remuneration policy seeks to ensure that NSR attracts and retains directors with appropriate experience and qualifications to oversee the operations of NSR on behalf of the Securityholder.

The Constitution of NSH specifies that the amount of the remuneration of the non-executive directors is a

yearly sum not exceeding the sum from time to time determined by the Company in general meeting. Under the ASX Listing Rules, the total amount paid to all NSH non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by NSH's annual general meeting.

The amount initially fixed at the IPO by NSH for the Reporting Period (as disclosed in the PDS) was \$600,000.

Annual NSH non-executive directors' fees and Committee fees currently agreed to be paid by NSH are as follows:

Non-Executive Directors	Base Fee \$	Chair Fee \$	Audit and Risk Committee Fee \$	Remuneration Committee Fee \$	Total \$
Laurence Brindle	70,000	70,000	4,000	5,000	149,000
Anthony Keane	70,000	-	10,000	2,500	82,500

All NSH non-executive directors' fees include superannuation at the required statutory rate.

Key management personnel – executive director and senior executives:

All remuneration paid to executive directors and senior executives comprises four components:

- Base pay and benefits (including superannuation).
- Short-term performance incentives.
- Long-term incentives .
- Other remuneration (if applicable).

Base salary and benefits

The executive director and senior executives are paid a base salary that includes employer contributions to superannuation funds. The remuneration of the Managing Director is reviewed annually by the Nomination and Remuneration Committee and Board. The remuneration of senior executives is reviewed annually by the Managing Director who makes a recommendation to the Nomination and Remuneration Committee. The Committee then considers, but is not obliged to accept, the recommendation of the Managing Director and takes whatever additional steps it determines appropriate to assess the senior executive salaries.

There is no guarantee of base salary increases included in any executive director or senior executive contracts or through the annual review process.

The Managing Director and senior executives can potentially be paid a bonus as part of their remuneration. Whether a bonus is paid and the amount of such a bonus is at the discretion of the Nomination and Remuneration Committee and the Board. Any bonuses paid would fall into the category of "other remuneration".

Short and long term incentives

During the Reporting Period and at the date of this Remuneration Report, the Managing Director was and remains the only executive director of NSH. There were no short and long term incentives paid to the Managing Director or KMP senior executives during the Reporting Period. However, the Managing Director and Chief Operating Officer (the "Incentive Officers") will potentially be eligible for payment of STI's and LTI's for the calendar year ended 31 December 2014 (which includes a portion of the Reporting Period).

STI's agreed with the Incentive Officers reward them for performance against both financial and operational objectives which are considered to be aligned to the interest of NSR Securityholders. The incentives that may potentially be earned are expressed as a percentage of total fixed remuneration. At the end of calendar year 2014, the Nomination and Remuneration Committee will determine the actual STI entitlement of the Incentive Officers against the agreed objectives.

The STI and LTI hurdles included:

1. If the EBITDA hurdle (\$30.8 million) is exceeded, an entitlement to a portion of the STI and LTI incentive is triggered according to a sliding scale from 25% of the incentive to 100%. The EBITDA hurdle is weighted at 30% of the total possible incentive.
2. If the DPU hurdle (8 cents) is exceeded, an entitlement to a portion of the STI and LTI incentive (being 50% of) is triggered according to a sliding scale from 25% of the incentive to 100%. The DPU hurdle is weight at 50% of the total possible incentive.
3. Non-financial hurdles for both STI and LTI comprised of staff retention of senior staff and

executives and performance against the A_REIT average. These combined comprised a potential entitlement of 20% of the total fixed remuneration. The non-financial hurdles are weighted, in total, at 20% of the total possible incentive.

If an LTI is achieved, it will be paid in equal amounts over a 3 year period as a function of the number of Stapled Securities the LTI equates to in the first year the incentive when first multiplied by the price at which the Stapled Security is trading at the end of each relevant financial year over the three year period.

An overview of the remuneration structure for NSR during the Reporting Period is as follows:

Remuneration	Type	Considerations
Base Salary	Fixed	Experience, capabilities and skills, performance.
STI	Variable	Performance against set financial and non-financial hurdles.
LTI	Variable	Performance against set financial and non-financial hurdles. LTI have a deferred payment structure across 3 years.

Non-executive director security holding

All of the non-executive directors hold Stapled Securities in NSR.

Details of remuneration

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

	Short-term Employee benefits	Post-employment Benefits	Total
	Salary and fees	Superannuation	
2014	\$	\$	\$
<i>Non-executive directors</i>			
Laurence Brindle	98,616	8,070	106,686
Anthony Keane	54,603	4,469	59,072
<i>Executive director</i>			
Andrew Catsoulis	249,082	20,722	269,804
<i>Senior executives</i>			
Peter Greer	236,092	19,520	255,612
Thomas Rice	166,622	15,413	182,035
Total	805,015	68,194	873,209

KMP Clawback Agreement

The Managing Director and Chief Operating Officer have agreed, in relation to the Stapled Securities that they hold, to performance hurdles and clawback mechanisms if the performance hurdles are not achieved. The performance hurdles are in place until the earlier of the date the performance hurdles are achieved for 2 consecutive test dates or 5 years. If the performance hurdles are not achieved, any distribution from the NSPT or a dividend from NSH (a "Securities Payment") will be clawed back from the relevant officer.

If a dividend/distribution is declared for a half year, it must be determined if the EPSS of NSR for the relevant period is at least 8.75 cents. The relevant period is the rolling 12 month period ending on the last day of the relevant half year period.

If:

1. the EPSS are less than 8.25 cents then the clawback will be 100% of any distribution or dividend;
2. the EPSS are greater than 8.75 cents then there will be no clawback;

3. the EPSS are greater than 8.25 cents but less than 8.75 cents, the clawback will be calculated using the following formulae:

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

where

CP = the Clawback Proportion

E = the EPSS of NSR for the relevant period

In addition to the above, for the first half year period ending on 30 June 2014, the cash consideration received by each of the Managing Director and the Chief Operating Officer under this agreement shall be reduced by the amount of the respective Securities Payment. In each subsequent half year where there is a clawback amount, the cash consideration will be reduced by the respective clawback amounts.

Voluntary Escrow

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

Service agreements

Remuneration and other terms of employment for the KMP senior executives are formalised in service agreements. The service agreements specify the components of remuneration, benefits and notice periods. Termination benefits are within the limits set by the Corporations Act 2001 such that they do not require Securityholder approval.

Name	Term of Agreement and Notice Period*	Base Salary including Superannuation**	Termination Payments
Andrew Catsoulis	No fixed term 6 months	\$350,000	<ul style="list-style-type: none"> • 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness.
Peter Greer	No fixed term 6 months	\$320,000	<ul style="list-style-type: none"> • 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness.
Thomas Rice	No fixed term 6 months	\$230,000	<ul style="list-style-type: none"> • 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness. • 1 months fixed remuneration plus 1 week for each week of service – capped at 2 months in the event of redundancy

* This notice applies equally to all the executives listed in the table.

** Base salaries are annual salaries for the financial year ended 30 June 2014. They are reviewed annually by the Nomination and Remuneration Committee.

Security Holdings of Directors and Executives

The movement during the Reporting Period in the number of Stapled Securities, directly, indirectly or beneficially held by Directors and KMP senior executives, including parties related to them, is as follows:

	Balance 19 Dec 2013	Granted as Remuneration	On Exercise of Options	Acquired	Balance 30 June 2014
<i>Directors of NSH</i>					
Laurence Brindle	-	-	-	1,020,400	1,020,400
Anthony Keane	-	-	-	102,000	102,000
Andrew Catsoulis	11,454,081	-	-	1,093,082	12,547,163
<i>Directors of The Responsible Entity</i>					
Andrew Cannane	-	-	-	-	-
Christopher Green	-	-	-	-	-
Gillian Larkins	-	-	-	-	-
<i>Executives of NSH</i>					
Peter Greer	5,586,735	-	-	-	5,586,735
Thomas Rice	-	-	-	152,000	152,000
Total	17,040,816	-	-	2,367,482	19,408,298

RELATED PARTY TRANSACTIONS – PRE IPO

Directors' remuneration

No amounts were paid by the Pre-Existing Group to 18 December 2013 directly to the directors. Administration and director remuneration were provided to the Pre-Existing Group by Strategic Storage Consulting Pty Ltd ("SSC"), a related entity to the Pre-Existing Group. SSC received a management fee directly from the Pre-Existing Group. Pre-Existing Group director Geoff McMahon, did not receive any remuneration for his roles as a Non-Executive Director.

Transactions with directors and other related entities

During the year, management fees of \$1,342,491 (2013: \$2,732,169) were paid or payable by the NS Pty Ltd Group. As SSC was acquired by NSH at 30 June 2014 the amount paid by and to the NSR was nil. At 30 June 2013 the NS Pty Ltd Group owed SSC \$222,765 and SSC owed the NS Pty Ltd Group \$1,207,655.

Shareholders' loans

Historically the Pre-Existing Group has made loans to the shareholders, repayable within seven years from the date of disbursement. Such loans were unsecured and the interest rate was the average rate incurred on long-term loans (2013: 7.5%). There are no shareholders loans remaining as they were all extinguished prior to the IPO.

Director related entities

Up to 18 December 2013 the shareholders of National Storage Pty Ltd had an investment (in the same shareholding proportions as National Storage Pty Ltd) in a trust NS APAC (and its trustee NS APAC Pty Ltd) which in turn has a 10% investment in Southern Cross. Southern Cross has an investment in 24 centres operated under the National Storage and Wine Ark brands. This shareholding was sold into NSPT as part of the IPO/stapling.

The previous executive directors (Catsoulis, Greer and Berry) were shareholders in SSC, which was contracted to provide management services to both the Pre-Existing Group and Southern Cross. This shareholding was sold into NSH as part of the IPO/stapling.

RELATED PARTY TRANSACTIONS – AT STAPLING (IPO)

The implementation of the IPO and the ongoing management of NSR necessarily involve a number of related party transactions outlined in the PDS:

Purchase from NSPL vendors:

The purchase prices for the respective acquisitions were as follows:

- (a) \$1,047,000 plus 25,510,204 Shares in NSH for the NSPL Sale;
- (b) 25,510,204 Units in NSPT for the NSIT Sale; and
- (c) \$4,750,000 for the NS APAC Sale.

In respect of the KMPs in their Respective Proportions under the Sale and Purchase Agreement (as detailed in the PDS), they received the following:

- (a) Andrew Catsoulis – 44.90% for Stowaway Self Storage Pty Ltd as trustee for the Catsoulis Development Trust, Stowaway Self Storage Pty Ltd as trustee for the Catsoulis Family Trust and Storcat Pty Ltd as trustee for the Andrew Catsoulis Family Trust – Andrew Catsoulis is a director and company secretary for Stowaway Self Storage Pty Ltd, a director and shareholder of Storcat Pty Ltd and a potential discretionary beneficiary of the Catsoulis Development Trust, the Catsoulis Family Trust and the Andrew Catsoulis Family Trust;
- (b) Peter Greer – 21.90% for Palomere Pty Ltd as trustee for the Peter Edward Greer Family Trust – Peter Greer is the sole director, company secretary and shareholder of Palomere Pty Ltd and a potential discretionary beneficiary of the Peter Edward Greer Family Trust; and

Purchase from SSC vendors:

The purchase price for the company was \$5,828,000.

In respect of the KMPs in their Respective Proportions under the Sale and Purchase Agreement, they received the following:

- (a) Andrew Catsoulis – 35% for Storcat Pty Ltd as trustee for the Andrew Catsoulis Family Trust – Andrew Catsoulis is a director and shareholder of Storcat Pty Ltd and a potential discretionary beneficiary of the Andrew Catsoulis Family Trust;
- (b) Peter Greer – 34.5% for Palomere Pty Ltd as trustee for the Peter Edward Greer Family Trust – Peter Greer is the sole director, company secretary and shareholder of Palomere Pty Ltd and a potential discretionary beneficiary of the Peter Edward Greer Family Trust; and
- (c) Thomas Rice – 9.5% for Saxtom Pty Ltd as trustee for the Saxtom Family Trust – Thomas Rice is the sole director, company secretary and shareholder of Saxtom Pty Ltd and a potential discretionary beneficiary of the Saxtom Family Trust.

RELATED PARTY TRANSACTIONS – POST IPO

As noted in the PDS, on 23 December 2013, an NSR subsidiary trust NSIT purchased a property at 961–963 Marion Rd, Mitchell Park, South Australia for \$1,576,000 from Australian Storage Developments Pty Ltd (“ASD”) which is owned by a KMP and Director of NSH.

The KMP shareholders of ASD comprise:

Andrew Catsoulis – 75% for Storcat Pty Ltd as trustee for the Andrew Catsoulis Family Trust – Andrew Catsoulis is a director and shareholder of Storcat Pty Ltd and a potential discretionary beneficiary of the Andrew Catsoulis Family Trust

Significant Events after Balance Sheet Date

ACQUISITION OF STORAGE CENTRES

On 15 July 2014, NSR acquired a storage centre in Wangara, Western Australia for \$10.9 million. This centre has 580 units and 4,407 sqm of net lettable area.

On 25 July 2014, NSR acquired a storage centre in Port Adelaide, South Australia for \$5.2 million. This centre has 538 units and 4,192 sqm of net lettable area.

NSR has contracted to acquire a centre in Kardinya, Western Australia for \$8 million. Upon completion this centre will comprise approximately 420 units and 4,400 sqm of net lettable area. NSR will receive development management fees for its involvement in the project, completion of which is scheduled for late calendar year 2014.

As these centres are, or will be, recorded as investment properties, they are initially recorded at their purchase price. This value is supported by an independent valuation.

CAPITAL RAISING

As at the date of this Directors' Report, NSR has determined to raise additional capital. This will be undertaken by the following two mechanisms:

1. A Placement Offer, details of which are as follows:

A fully underwritten placement to institutional, professional and sophisticated investors of approximately 36.73 million stapled securities (Placement).

The issue price will be determined in relation to a discount on the last closing price of NSR Stapled Securities on Friday 22 August 2014. Settlement of the Placement is scheduled to occur on Friday, 29 August 2014 with allotment to occur on Monday, 1 September 2014.

The purpose of the capital raising is to provide NSR with financial flexibility to pursue growth consistent with NSR's strategic planning, strengthen its balance sheet and maintain a sound financial position.

2. A Security Purchase Plan ("SPP") pursuant to which NSR will offer to eligible Securityholders the opportunity to acquire up to approximately \$15,000 of Stapled Securities (subject to scaleback).

The issue price of Stapled Securities issued under the SPP will be the lesser of the Placement price and the volume weighted average price of NSR's Stapled Securities during the five trading days before the closing date for applications under the SPP. The SPP is not underwritten.

The SPP will be open to eligible Australian and New Zealand resident Securityholders on the register as at the record date who are eligible to participate under the terms of the SPP. Stapled Securities issued under the SPP will rank equally with existing stapled securities on issue.

INCREASE IN DEBT FACILITY

On 8 July 2014 NSR announced it had negotiated a \$35 million increase to its debt facility with National Australia Bank (NAB) subject to standard conditions precedent. The increase resulted in NSR's debt facility being extended to \$135 million on substantially the same terms previously agreed with NAB, due to mature in December 2016. The facility is intended to be used primarily to fund strategic acquisitions for the portfolio.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the Consolidated Group's or the NSPT Group's operations, the results of those operations, or the Consolidated Group's or the NSPT Group's state of affairs in the future financial periods.

Rounding

The amounts contained in this Directors' Report and in the Financial Report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available under ASIC Class Order 98/0100. The Consolidated Group and NSPT Group are entities 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 65.

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The Directors of NSH are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services conducted during the financial year:

1. Tax compliance	\$180,158
2. Assurance related to the IPO of NSR	\$850,829
3. Other	\$80,175

During the financial year Ernst and Young were appointed as auditor of NSPT in accordance with section 327A of the *Corporations Act 2001*.

Fees Paid to and Interests held in the NSPT by the Responsible Entity or its Associates

Fees paid to the Responsible Entity and its associates out of NSPT property during the year are disclosed in the Statement of Comprehensive Income and are detailed in Note 18 to the financial statements.

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

Interests in the NSPT

The movement in units on issue by the NSPT during the year is set out in note 14 to the financial statements.

This Directors' Report is made on 24 August 2014 in accordance with a resolution of the Board of Directors of National Storage Holdings Limited and is signed for and on behalf of the Directors.



Laurence Brindle
Chairman

National Storage Holdings Limited
Brisbane



Andrew Catsoulis
Managing Director

National Storage Holdings Limited
Brisbane

This Directors' Report is made on 24 August 2014 in accordance with a resolution of the Responsible Entity and is signed for and on behalf of the Responsible Entity.



Christopher Green
Director

The Trust Company (RE Services) Limited
Sydney

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

In relation to our audit of the financial report of National Storage REIT, a stapled entity comprised of National Storage Holdings Limited and National Storage Property Trust and its related entities for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark Hayward
Partner
24 August 2014

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the year ended 30 June 2014

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Revenue from storage rent		39,762	37,386	-	-
Rental revenue		-	-	20,382	18,575
Revenue from sale of goods and services		2,349	2,392	67	-
Other revenue	5	3,557	6,033	181	130
Total revenue		45,668	45,811	20,630	18,705
Salaries and employee benefits expense	6	(6,832)	(4,475)	-	-
Management fees — operational		(1,573)	(2,732)	(2,553)	(907)
Property rates and taxes		(2,766)	(2,374)	(264)	(250)
Repairs and maintenance		(785)	(891)	-	-
Cost of packaging and other products sold		(548)	(557)	-	-
Depreciation and amortisation	6	(300)	(319)	-	-
Finance costs	7	(9,915)	(13,217)	(5,431)	(10,294)
Professional fees		(4,221)	(369)	(3,457)	-
Other operational expenses	6	(5,743)	(4,781)	(293)	(240)
Total operational expenses		(32,683)	(29,715)	(11,998)	(11,691)
Gross operating profit		12,985	16,096	8,632	7,014
Fair value adjustments	6	(4,403)	(15,348)	30,217	468
Impairment		-	(450)	-	-
Net gain/(loss) on disposal of non-current assets	6	(92)	(306)	-	-
Other non-operational expenses		(236)	-	-	-
Share of profit of a joint venture	13	151	-	151	-
Profit/(Loss) before income tax		8,405	(8)	39,000	7,482
Income tax benefit/(expense)	8	7,160	(524)	-	-
Profit/(Loss) after tax		15,565	(532)	39,000	7,482
Profit/(loss) for the year attributable to:					
Members of National Storage Holdings Limited		(17,122)	(532)	39,000	7,482
Non-controlling interest (unit holders of NSPT)		32,687	-	-	-
		15,565	(532)	39,000	7,482
Basic and diluted earnings per stapled security (cents)	20	11.00	(2.09)	21.04	6.31

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Notes	Consolidated Group		NSPT Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
Profit/(Loss) after tax		15,565	(532)	39,000	7,482
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Changes in the fair value of cash flow hedges	15	(393)	-	(393)	-
Income tax relating to this item	15	-	-	-	-
Other comprehensive income for the year, net of tax		(393)	-	(393)	-
Total comprehensive income for the year		15,172	(532)	38,607	7,482
Total comprehensive income for the year attributable to:					
Members of National Storage Holdings Limited		(17,122)	(532)	38,607	7,482
Non-controlling interest (unit holders of NSPT)		32,294	-	-	-
		15,172	(532)	38,607	7,482

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2014

	Notes	Consolidated Group		NSPT Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Current assets					
Cash and cash equivalents	9.1	8,264	382	102	6,710
Trade and other receivables	9.2	3,767	11,709	17,642	-
Inventories	10.1	258	180	-	-
Other current assets	9.3	2,359	2,304	1,053	975
Total current assets		14,648	14,575	18,797	7,685
Non-current assets					
Trade and other receivables	9.2	220	1,122	-	-
Property, plant and equipment	10.2	1,447	931	-	-
Investment properties	10.3	381,301	201,328	305,250	198,810
Investment in joint venture	13	5,077	-	5,077	-
Other non-current assets	9.3	8	109	-	-
Intangibles	10.4	13,896	434	-	-
Total non-current assets		401,949	203,924	310,327	198,810
Total assets		416,597	218,499	329,124	206,495
LIABILITIES					
Current liabilities					
Trade and other payables	9.4	3,326	6,329	15,476	5,025
Borrowings	9.5	-	-	-	109,171
Finance lease liability	9.7	4,330	16,243	-	-
Deferred revenue	10.5	4,952	5,005	-	-
Provisions	10.6	1,069	494	-	-
Other liabilities	9.6	9,306	-	9,306	3,477
Total current liabilities		22,983	28,071	24,782	117,673
Non-current liabilities					
Borrowings	9.5	87,460	-	87,587	-
Finance lease liability	9.7	60,619	153,742	-	-
Other liabilities	9.6	393	-	393	-
Provisions	10.6	588	424	-	-
Deferred tax liability	8	227	7,541	-	-
Total non-current liabilities		149,287	161,707	87,980	-
Total Liabilities		172,270	189,778	112,762	117,673
Net Assets		244,327	28,721	216,362	88,822

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – cont'd

As at 30 June 2014

	Notes	Consolidated Group		NSPT Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
EQUITY					
Non-controlling interest (unit holders of NSPT)		223,368	-	-	-
Contributed equity	14	17,758	2,800	191,499	89,322
Other reserves	15	-	-	(393)	-
Retained earnings/(Accumulated losses)		3,201	25,921	25,256	(500)
Total equity		244,327	28,721	216,362	88,822

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2014

Attributable to securityholders of the National Storage REIT

	Notes	Contributed equity \$'000	Retained earnings / (Accumulated losses) \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2013		2,800	25,921	-	28,721
(Loss)/Profit for the year		-	(17,122)	32,687	15,565
Other comprehensive income/(loss)	9.6	-	-	(393)	(393)
Total comprehensive income/(loss) for the year		-	(17,122)	32,294	15,172
Transactions with owners in their capacity as owners:					
Vendor issue	14	(1,047)	-	(2,800)	(3,847)
Equity uplift upon Stapling	11	-	-	98,203	98,203
Issue of Stapled Units in Public Offering	14	16,860	-	106,944	123,804
Costs associated with Public Offering	14	(1,189)	-	(5,716)	(6,905)
Contingent consideration	14	334	-	3,749	4,083
Dividends/Distribution provided for or paid	17	-	(5,598)	(9,306)	(14,904)
		14,958	(5,598)	191,074	200,434
Balance at 30 June 2014		17,758	3,201	223,368	244,327
Balance at 1 July 2012		2,800	27,353	-	30,153
Loss for the year		-	(532)	-	(532)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the year		-	(532)	-	(532)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		-	(900)	-	(900)
Balance at 30 June 2013		2,800	25,921	-	28,721

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – cont'd

For the year ended 30 June 2014

Attributable to unitholders of the National Storage Property Trust Group

		Contributed equity	Retained earnings / (Accumulated losses)	Other reserve	Total
	Notes	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2013		89,322	(500)	-	88,822
Profit for the year		-	39,000	-	39,000
Other comprehensive income	15	-	-	(393)	(393)
Total comprehensive income/(loss) for the year		-	39,000	(393)	38,607
Transactions with owners in their capacity as owners:					
Vendor payments	14	(2,800)	-	-	(2,800)
Issue of units in Public Offering	14	106,944	-	-	106,944
Costs associated with Public Offering	14	(5,716)	-	-	(5,716)
Contingent consideration	14	3,749	-	-	3,749
Distribution provided for or paid	17	-	(13,244)	-	(13,244)
		102,177	(13,244)	-	88,933
Balance at 30 June 2014		191,499	25,256	(393)	216,362
Balance at 1 July 2012		89,322	(1,260)	-	88,062
Profit for the year		-	7,482	-	7,482
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the year		-	7,482	-	7,482
Transactions with owners in their capacity as owners:					
Distribution provided for or paid	17	-	(6,722)	-	(6,722)
Balance at 30 June 2013		89,322	(500)	-	88,822

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 30 June 2014

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
Notes	\$'000	\$'000	\$'000	\$'000
Operating activities				
Receipts from customers	47,190	44,453	9,849	19,239
Payments to suppliers and employees	(25,463)	(19,218)	(4,277)	(1,442)
Interest and bill discounts received	631	30	104	130
Interest and other finance costs paid	(9,915)	(13,250)	(7,227)	(9,231)
Net cash provided by / (used in) operating activities	9.1	12,443	12,015	(1,551)
Investing activities				
Payment for investment properties	(74,156)	-	(74,156)	(143)
Payments for property, plant and equipment	(838)	(21)	-	-
Proceeds on sale of business	-	2,689	-	-
Acquisition of subsidiary	(5,828)	-	-	-
Investment joint venture	(4,925)	-	(4,925)	-
Net cash provided by / (used in) investing activities	(85,747)	2,668	(79,081)	(143)
Financing activities				
Proceeds from issue of shares	123,804	-	106,943	-
Costs associated with Public Offering	(6,905)	-	(5,716)	-
Dividends/distributions paid/(received) to owners of the parent	(2,077)	-	(5,619)	(6,651)
Repayment of lease principal	(12,552)	(14,752)	-	-
Repayment of borrowings	(109,000)	-	(109,171)	-
Proceeds from borrowings	87,916	-	87,587	-
Loans repaid to share holders	-	(283)	-	-
Net cash provided by / (used in) financing activities	81,186	(15,035)	74,024	(6,651)
Net increase/(decrease) in cash and cash equivalents	7,882	(352)	(6,608)	1,902
Cash and cash equivalents at 1 July	382	734	6,710	4,808
Cash and cash equivalents at 30 June	9.1	8,264	382	102

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

1. CORPORATE INFORMATION

National Storage REIT ("the Consolidated Group" or "NSR") was established during the year for the purpose of establishing 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").

NSH, a new company, was incorporated as the holding company for National Storage Pty Ltd ("NSPL") as part of the reorganisation to facilitate the Initial Public Offering ("IPO") as per the Prospectus and Product Disclosure Statement dated 19 November 2013 ("the PDS"). In order to establish NSR and to facilitate the IPO, units in the NSPT were stapled to the shares of NSH. The stapled securities were quoted on the ASX on 19 December 2013.

For financial reporting purposes, NSH is seen as a continuation of the NSPL entity and the accounting policies for NSPL continue to apply to NSH and the Consolidated Group. The comparative period in this report is the year ending 30 June 2013 for NSPL and its then consolidated group. ("the Pre-Existing Group").

The Cooperation Deed 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 (The Trust Company (RE Services) Limited) of the Trust must at all times act in the best interest of NSR. The stapling arrangement will continue until either the winding up of the Company or the Trust, or either entity terminates the stapling arrangements.

The financial report of NSR for the year ended 30 June 2014 was approved on 24 August 2014, in accordance with a resolution of the Board of Directors of National Storage Holdings Limited.

The financial report of NSPT for the year ended 30 June 2014 was approved on 24 August 2014, in accordance with a resolution of the Board of Directors of The Trust Company (RE Services) Limited as the responsible entity for NSPT.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements have been prepared on a historical cost basis, except for selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Both National Storage Holdings Limited and National Storage Property Trust are for-profit entities for the purpose of preparing the financial statements. The financial statements are presented in Australian Dollars (AUD) and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

The accounting policies applied by NSH Group and the NSPT Group in these Financial Reports are the same as the 30 June 2013 financial report for NSPL and NSPT except for the accounting policies impacted by the new or amended Accounting Standards detailed in this note 2.

The Consolidated Group has elected to utilise CO 05/642 and present the NSPT Group within the financial statements of NSR.

In this note reference to "the group" or "group" is used to refer to the Consolidated Group and to the NSPT Group, unless otherwise indicated.

Deficiency of Net Current Assets NSH Group

As at 30 June 2014, the Consolidated Group had an excess of current liabilities over current assets of \$8,339,000. 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 liability obligations.

This assessment considers the two liabilities noted below:

- Deferred revenue: \$4,952,000 - This represents customer prepayments and as such no future cash outflows are required for this liability.
- Lease liability: \$4,330,000 - Accounting standard AASB 140 Investment Property requires the finance lease liability to be split between current

and non-current. While the corresponding asset is all non-current, the net impact on the Consolidated Group is a deficiency of net current assets. 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 the liabilities to be paid as and when due.

On this basis, the directors of NSH believe the deficiency of the net current assets does not impact the underlying going concern assumption applied in preparing these financial statements.

NSPT Group

As at 30 June 2014, the NSPT Group has an excess of current liabilities over current assets of \$5,985,000. This shortfall is due to the distribution payable \$9,306,000. To service the distribution payment, loans receivable from the NSH Group will be called ahead of the planned payment date of 26 August 2014.

On this basis, the Directors of the Responsible Entity believe the deficiency of the net current assets does not impact the underlying going concern assumption applied in preparing the financial statements for NSPT.

(b) Compliance with IFRS

The consolidated financial statements of the Consolidated Group and the NSPT Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

For the year ended 30 June 2013, the NSPL group prepared tier 1 General Purpose Financial statements (GPFS) in accordance with AASB 101. The Company is applying AASB 1 and has considered the potential impact on its 1 July 2012 balances. There has been no impact (other than the voluntary change in policy, note 2(v)) in adopting AASB 1.

(c) Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as detailed below.

New and amended standards adopted by the group

The group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011–7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 2012–10 *Amendments to Australian Accounting Standards—Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 13 *Fair Value Measurement* and AASB 2011–8 *Amendments to Australian Accounting Standards arising from AASB 13*
- AASB 119 *Employee Benefits (September 2011)* and AASB 2011–10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- AASB 2012–5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*, and
- AASB 2012–2 *Amendments to Australian Accounting Standards—Disclosures—Offsetting Financial Assets and Financial Liabilities*.

The nature and the impact of each new standard and amendment is described below:

The revisions to AASB 11, AASB 13 and AASB 119 were adopted. The adoption of these policies did not result in any adjustments to the amounts recognised in the financial statements. The other standards only affected the disclosures in the notes to the financial statements.

AASB 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 *Consolidated and Separate Financial Statements* (AASB 127) and AASB Interpretation 112 *Consolidation—Special Purpose Entities*. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Consolidated Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Consolidated Group's or NSPT Group's investees held during the period covered by these financial statements.

AASB 11 Joint Arrangements

AASB 11 supersedes AASB 131 *Interests in Joint Ventures* (AAS 131) and AASB Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. AASB 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, AASB 131's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. AASB 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The Consolidated Group's and the NSPT Group's only joint arrangement within the scope of AASB 11 is an investment in Southern Cross Storage Group, which is accounted for as a joint venture using the equity method.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in AASB 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. Neither the NSH Group nor the NSPT Group have any subsidiaries with material non-controlling interests. While the Consolidated Group includes the NSPT Group, owing to the stapling of their individual securities, the NSPT Group equity is considered as a non-controlling interest as the NSH Group does not own the units in NSPT. The NSPT Group is presented within these financial statements. There are no unconsolidated structured entities. AASB 12 disclosures are provided in notes 12–13.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance under Australian Accounting Standards for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards. AASB 13 defines fair value as an exit price. As a result of the guidance in AASB 13, the Consolidated Group

and the NSPT Group re-assessed their policies for measuring fair values, in particular, their valuation inputs such as non-performance risk for fair value measurement of liabilities. AASB 13 also requires additional disclosures.

Application of AASB 13 has not materially impacted the fair value measurements of the Consolidated Group or the NSPT Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy are provided in notes 9.8 and 10.7.

AASB 101 Presentation of Items of Other Comprehensive Income – Amendments to AASB 101

The amendments to AASB 101 introduce a grouping of items presented in Other Comprehensive Income ("OCI"). Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on available for sale (AFS) financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Consolidated Group's and the NSPT Group's financial position or performance.

AASB 119 Employee Benefits (Revised 2011)

The Consolidated Group applied AASB 119 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The application has not resulted in any restatement of comparative amounts. AASB 119 (revised 2011) does not affect the NSPT Group as it does not have any employees.

The Consolidated Group and NSPT Group have elected to apply *AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*, which had a small impact on the impairment disclosures.

Accounting Standards and Interpretations issued but not yet effective.

The Consolidated Group and NSPT Group have not elected to apply any other pronouncements before their operative date in the annual reporting period beginning 1 July 2013 except as disclosed above.

New Australian Accounting Standards and Interpretations have been published that are not compulsory for the 30 June 2014 reporting period. The Consolidated Group's and the NSPT Group's assessment of the impact of the new standards and interpretations that may have affected the financial report, had these standards been early adopted, are set out below.

AASB 9 Financial Instruments

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption.

The new rules for hedge accounting should make it easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

The group has not yet assessed how its own hedging arrangements would be affected by the new rules, and it has not yet decided whether to adopt any parts of AASB 9 early. In order to apply the new hedging rules, the group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*). The group is currently evaluating the impact of the new standard.

The Group does not believe that there will be a material financial impact once the following accounting standards and interpretations are adopted:

Reference	Title	Application date of standard	Application date for Group
AASB 2012–3	Amendments to Australian Accounting Standards – <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014	1 July 2014
Interpretation 21	<i>Levies</i>	1 January 2014	1 July 2014
AASB 1055	<i>Budgetary Reporting</i>	1 July 2014	1 July 2014
AASB 2013–4	Amendments to Australian Accounting Standards – <i>Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]</i>	1 January 2014	1 July 2014
AASB 2013–5	Amendments to Australian Accounting Standards – <i>Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]</i>	1 January 2014	1 July 2014
AASB 2013–7	Amendments to AASB 1038 arising from AASB 10 in relation to <i>Consolidation and Interests of Policyholders [AASB 1038]</i>	1 January 2014	1 July 2014
AASB 1031	<i>Materiality</i>	1 January 2014	1 July 2014
AASB 14	<i>Regulatory deferral accounts</i>	1 January 2016	1 July 2016
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)</i>	1 January 2016	1 July 2016

(d) Basis of consolidation

The Financial Report of NSR as at and for the year ended 30 June 2014 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

The consolidated financial statements of NSPT as at and for the year ended 30 June 2014 comprises the consolidated financial statements of the NSPT Group.

The consolidated financial statements for NSR are prepared on the basis that National Storage Holdings Limited was the acquirer of the National Storage Property Trust. The non-controlling interest is attributable to stapled securityholders presented separately in the statement of profit or loss, the statement of other comprehensive income and within equity in the statement of financial position, separately from parent shareholders' equity. Accordingly, NSPT Group's net result after tax from 19 December 2013 to 30 June 2014 and its contributed equity, reserves and retained earnings at 30 June 2014 is attributed to non-controlling interest in the NSH Group consolidated financial report to 30 June 2014.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (see note 2 (g)).

Intercompany transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the parent entity.

Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see below), after initially being recognised at cost. Neither the Consolidated Group nor the NSPT Group have any associates as at 30 June 2014.

Joint arrangements

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. NSPT has a joint venture that is recognised in both the NSPT Group and the Consolidated Group. Interests in joint ventures are accounted for using the equity method (see below), after initially being recognised at cost in the consolidated statement of financial position.

Equity method

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the group's other comprehensive income. In addition, when there has been a change recognised directly

in the equity of the associate or joint venture, the group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the group's share of profit or loss of associates and joint ventures is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of associates or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the group. When necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over an associate or joint control over the joint venture, the group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Rental and storage revenue

Revenue from the provision of storage space is recognised less any amount contractually refundable to customers over the term of the general agreement. In the NSPT Group rental income from investment properties is recognised on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(f) Income tax

NSPT Group — Trust income tax

Under current Australian income tax legislation trusts within the NSPT Group are not liable to Australian income tax provided securityholders are presently entitled to the taxable income of the trusts and the trusts generally distribute their taxable income.

Consolidated Group

The Consolidated Group comprises taxable and non-taxable entities. A liability for current and deferred tax and tax expense is only recognised in respect of taxable entities that are subject to income tax and potential capital gains tax as detailed below.

Income tax

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax – NSH Group

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Australia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the ATO.

Deferred tax – NSH Group

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liabilities in relation to freehold investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation legislation

National Storage Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements. Accounting for the tax consolidation legislation is only relevant for the individual financial statements of the parent entity (head entity) in the tax consolidated group, but not for the consolidated financial statements. Explanations of how the parent entity accounts for the tax consolidation legislation are included in note 22.

(g) Business combinations

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

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

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

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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

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

(h) Leases

The Consolidated Group leases properties which are classified as investment properties (refer note 10.3). The Consolidated Group also leases various items of plant and equipment. The NSPT Group does not have any finance leases for investment properties or property plant and equipment.

Leased investment properties

Leases of investment property, where the group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases and recognised as leasehold investment properties. Leasehold investment property finance leases are capitalised at the lease's inception at the fair value of the leased property. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The investment properties acquired under finance leases are carried at fair value. Changes in value are presented in profit or loss. (See note 10.3 for further information on investment properties.)

Property, plant and equipment

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 9.7). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 19). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

NSPT Group as lessor

Lease income from operating leases where the group is a lessor is recognised in income less any amount contractually refundable to customers over the term of the general agreement. (See revenue policy note 2 (e)).

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For

the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. (See note 9.2 for further information about the group's accounting for trade receivables and note 16 for a description of the group's impairment policies.)

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(m) Investments and other financial assets

Classification

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at

initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See note 9 for details about each type of financial asset.

Reclassification

The group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss when incurred.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Details on how the fair value of financial instruments is determined are disclosed in note 9.8.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables and held to maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease

can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 16.

Assets classified as available for sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and
- highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions

have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 9.8. Movements in the hedging reserve in equity are shown in note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of

the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(o) Property, plant and equipment

The NSPT Group does not have property, plant and equipment. The term "the group" in this note therefore applies to the Consolidated Group, and in particular the NSH Group.

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss.

Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the

revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Depreciation

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows::

- Leasehold improvements 15 years
- Plant and equipment 2.5 – 20 years

Each asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(p) Investment properties

Freehold investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Investment properties are carried at fair value as determined by a combination of independent valuations and Director valuations. The independent valuations are performed by m3property, an accredited independent valuer. The Directors of NSH review and discuss the valuations with the CFO of NSH Group. The Director valuations are completed by NSH Group Board on behalf of the Responsible Entity for Freehold Properties. The valuations are determined using the same techniques and similar estimates to those used by the independent valuer. Investment properties are independently valued on

a staggered basis every 3 years unless the underlying financing requires a more frequent valuation cycle. For properties subject to an independent valuation report the finance department of NSH verifies all major inputs to the valuation and reviews the results with the independent valuer.

Investment properties are de-recognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Leasehold investment properties

The NSH Group, as lessee, has properties under operating leases that, in accordance with AASB 140 Investment Property, qualify for treatment as investment properties. Under this treatment, for each property, the present value of the minimum lease payments is determined and carried as a lease liability as if it were a finance lease and the fair value of the lease to the NSH Group is recorded at fair value each period as investment property under an operating lease.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an independent valuer or by directors' valuation. Lease payments on these leases are allocated between the principal component of the leases liability and interest expense so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognised in finance costs in the consolidated statements of profit and loss and interest paid is presented within consolidated statements of cash flows.

(a) Intangible assets

Goodwill

Goodwill is measured as described in note 2(g). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

IT software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, employee costs and an appropriate portion of relevant overheads.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset.

IT software is amortised over a period of five years, unless events or changes in circumstances indicate that it might be impaired in which case it is amortised over an appropriate shorter period.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Payables to related parties are carried at the principal amount. No interest is charged on these payables.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(t) Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they relate to a qualifying asset or to upfront borrowing establishment and arrangement costs, which are deferred and amortised as an expense over the life of the facility. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

(u) Provisions

Provisions for legal claims and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Neither the Consolidated Group nor the NSPT Group have any provision for legal claims. In accordance with a lease agreement, the Consolidated Group must restore the leased premises in the Hornsby centre to their original condition upon expiration of the lease. Accordingly, a provision has been recognised for the obligation to remove leasehold improvements from the leased premises (note 10.6).

(v) Employee benefits

The NSPT Group does not have any employees. Therefore this note applies only to the Consolidated Group and where the term "group" is used in this note, it applies only to the Consolidated Group.

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefits obligations

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Retirement benefit obligations

All employees of the group can direct the group to make contributions to a defined contribution plan of their choice. Contributions to defined contribution superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(w) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Group and the NSPT Group. Stapled securities are classified as equity. Incremental costs directly attributable to the issue of securities are shown in equity as a deduction, net of tax, from the proceeds.

(x) Cash dividend and non-cash distribution to securityholders

The Consolidated Group and the NSPT Group recognise a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Company or the Responsible Entity. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

(y) Earnings per stapled security (EPSS)

Basic earnings is calculated as net profit attributable to stapled securityholders, adjusted to exclude costs of servicing equity (other than distributions) divided by the weighted average number of stapled securities on issue during the period under review.

Diluted EPSS is calculated as net profit attributable to stapled securityholders, adjusted for:

- costs of servicing equity (other than distributions)
- the after tax effect of dividends and interest associated with dilutive potential stapled securities that have been recognised as expenses
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential stapled securities

divided by the weighted average number of stapled securities and dilutive potential stapled securities, adjusted for any bonus element.

(z) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(aa) Rounding of amounts

The Company and NSPT are of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(bb) Parent entity financial information

The financial information for the parent entities, National Storage Holdings Limited ("NSH") and National Storage Property Trust ("NSPT"), disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of NSH and NSPT.

Tax consolidation legislation

NSH and its wholly-owned entities have implemented the tax consolidation legislation.

The head entity, NSH, and the controlled entities that are in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone tax payer in its own right.

In addition to its own current and deferred tax amounts, NSH also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate NSH for any current tax payable assumed and are compensated by NSH for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to NSH under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments.

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

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(cc) Fair value measurement

The Consolidated Group and the NSPT Group measure financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 9.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For further details on fair value refer to notes 9.8 and 10.7.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Consolidated Group's and the NSPT Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Judgements

In the process of applying the Consolidated Group's and the NSPT Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

*Significant judgement:
classification of joint arrangement*

The Consolidated Group and the NSPT Group have a 10% interest in a joint arrangement known as The Southern Cross Group which consists of Southern Cross Operations Pty Ltd and Southern Cross Property Trust. Joint control of the joint venture has been contractually structured whereby the parties to the agreement have agreed to an equal number of director positions with equal votes and participation in decision making. The Southern Cross Group is considered a joint venture as it is a separate vehicle, being the consolidation of Southern Cross Operations Pty Ltd and Southern Cross Property Trust (refer to note 13).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Consolidated Group and the NSPT Group based their assumptions and estimates on parameters available when the consolidated financial statements for both groups were prepared. Existing circumstances and assumptions about the future developments, however, may change due to market changes or circumstances arising beyond the control of the Groups. Such changes are reflected in the assumptions when they occur.

Fair value of contingent consideration

The fair value of the contingent consideration (note 9.3) has been determined using a discounted cash flow analysis using expected future cash flows of the Consolidated Group. The valuation requires management of NSH to make certain assumptions about unobservable inputs to the valuation model.

Revaluation of investment properties carried at fair value

Investment properties are held for lease to customers wanting self-storage facilities. They are carried at fair value. Changes in fair value are presented in profit or loss under fair value adjustments. Information about the valuation of investment properties is provided in note 10.7.

Impairment of non-financial assets – intangibles (goodwill)

An impairment exists when the carrying value of an asset or cash-generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is

based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Consolidated Group is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 10.4.

Deferred income tax

Deferred tax assets are recognised by the NSH Group for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

4. SEGMENT INFORMATION

The Consolidated Group has identified its operating segments based on the internal reporting that is reviewed and used by the Consolidated Group's chief decision makers, being the Directors of National Storage Holdings Limited.

The Consolidated Group operates wholly within one business and geographic segment being the operation and management of storage centres in Australia.

The operating results presented in the statements of profit or loss represent the same segment information as reported to the Chief Executive Officer and the Chief Operating Officer of National Storage Holdings Limited.

The Consolidated Group does not have any individual customer which represents greater than 10% of total revenue.

5. OTHER REVENUE

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Other revenue					
Interest revenue	7	37	316	104	130
Transaction facilitation fees		24	131	-	-
Coupon fee (pre-stapling)		1,333	2,818	-	-
Management fees		1,147	163	-	-
Proceeds from sale of storage centres		-	2,410	-	-
Other revenue		1,016	195	77	-
Total other revenue		3,557	6,033	181	130

6. EXPENSES AND OTHER INCOME

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Depreciation and amortisation					
Depreciation of non-current assets	10.2	223	244	-	-
Amortisation of intangible assets	10.4	77	75	-	-
		300	319	-	-
Other operational expenses					
Advertising and marketing		567	597	-	-
Bank charges		317	289	-	-
Electricity		973	894	-	-
Insurance		631	405	41	-
Communications costs		452	182	-	-
Other		2,803	2,414	252	240
Total other operational expenses		5,743	4,781	293	240
Net loss from sale of non-current assets					
Disposal of property, plant and equipment		92	306	-	-
Employee benefits expense					
Included in <i>salaries and employee benefits expense</i> in profit or loss					
Wages and salaries		5,538	3,441	-	-
Post-employment benefits		573	346	-	-
Other employee costs		721	688	-	-
Total employee benefits expense		6,832	4,475	-	-
Minimum lease payments recognised as an operating lease expense		148	-	-	-

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
In 2013 a management fee was paid to SSC. SSC recovered their rental costs through this management fee. Therefore there are no comparative minimum lease payments for 2013.					
Fair value adjustments					
Investment property – loss/(gain)	10.3	2,307	15,348	(32,141)	(468)
Contingent consideration at fair value through profit or loss – loss/(gain)	9.8	2,096	-	1,924	-
		4,403	15,348	(30,217)	(468)

7. FINANCE INCOME AND EXPENSES

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Finance income					
Bank interest		37	31	51	130
Interest income from related parties		-	285	53	-
Total finance income	5	37	316	104	130
Finance costs					
Interest on borrowings		1,352	-	5,310	11,882
Related party interest**		-	-	1,285	-
Finance charges on finance leases		8,563	13,217	-	-
Net gain on financial instruments at fair value through profit or loss*	9.6	-	-	(1,164)	(1,588)
		9,915	13,217	5,431	10,294

*Net gain on financial instruments at fair value through profit or loss relates to an interest rate swap that was not designated as a hedging instrument. This interest rate swap was closed out during the year ended 30 June 2014.

**The related party interest relates to pre-stapling interest costs.

8. INCOME TAX

Under current tax legislation, NSPT is not liable to pay income tax provided its taxable income and taxable realised gains are fully distributed to unit holders. Therefore, this note applies **only** to the Consolidated Group and does not apply to the NSPT Group.

	Consolidated Group	
	2014	2013
	\$'000	\$'000
Income tax expense/(benefit)		
Current tax	-	-
Deferred tax	(7,160)	524
	(7,160)	524
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(Loss) from continuing operations	8,405	(8)
Deduct profit/(loss) before tax from Trust	32,687	-
Accounting profit/(loss) before income tax	(24,282)	(8)
Tax at the Australian tax rate of 30% (2013 – 30%)	(7,285)	(2)
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Goodwill impairment	-	135
Prepayments	45	11
Prior year unders/overs	(42)	321
Other	122	59
Income tax expense/(benefit)	(7,160)	524
Amounts recognised directly in equity		
<i>Deferred tax related to items recognised in other comprehensive income during the year:</i>		
Net loss on revaluation of cash flow hedge	-	-
Income tax charged to other comprehensive income	-	-
Deferred tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	2,472	1,128
Decrease/(increase) in deferred tax assets acquired	155	-
(Decrease)/increase in deferred tax liabilities	(9,787)	(604)
	(7,160)	524

	Consolidated Group	
	2014	2013
	\$'000	\$'000
Deferred tax assets and liabilities		
Deferred tax liability		
<i>The balance comprises temporary differences attributable to:</i>		
Prepayments	3	48
Accrued income	-	14
Formation Expenses	-	10
Revaluations of investment properties to fair value	51,310	60,398
Coupon fee receivable	-	630
	51,313	61,100
Deferred tax assets		
<i>The balance comprises temporary differences attributable to:</i>		
Lease liability	47,935	50,978
Employee benefits	433	209
Accrued expenses	46	10
Deferred revenue	-	215
Carry forward losses	2,364	1,069
Difference between book and tax depreciation	-	939
Formation expenses	234	34
Lease incentive	-	39
Provision for doubtful debts	10	-
Provision for make-good	64	66
Deferred tax assets expected to be recovered after more than 12 months	51,086	53,559
Net deferred tax liability	227	7,541

The Consolidated Group offsets tax assets and liabilities if, and only, if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax asset and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Consolidated Group has tax losses recognised as a deferred tax asset, which arose in Australia, of \$7,881,400 (2013: \$3,563,847) that are available indefinitely for offsetting against future taxable profits of the Consolidated Group.

Tax consolidation

National Storage Pty Ltd and its then wholly-owned controlled entities implemented the tax consolidation legislation as of 1 July 2003. As a result of corporate reorganisation in December 2013, National Storage Holdings Limited became the new head entity of the tax consolidation group. Members of the new tax consolidation group include National Storage Ltd, National Storage (Operations) Pty Ltd, National Storage Investments Pty Ltd and Wine-Ark Pty Ltd. Members of the tax consolidation group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote. (See note 22 for further details on the tax consolidation.)

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

This note provides information about the Consolidated Group's and the NSPT Group's financial instruments including:

- an overview of all financial instruments held by the both groups
- specific information about each type of financial instrument
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Consolidated Group and the NSPT Group hold the following financial instruments:

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial assets					
<i>At amortised cost</i>					
Cash and cash equivalents	9.1	8,264	382	102	6,710
Trade and other receivables	9.2	3,767	12,831	17,642	-
Other assets *	9.3	308	128	46	-
		12,339	13,341	17,790	6,710
<i>At fair value through profit or loss</i>					
Other assets *	9.3	1,097	-	1,007	-
Total financial assets		13,436	13,341	18,797	6,710
Financial liabilities					
<i>At amortised cost</i>					
Trade and other payables **	9.4	3,326	6,329	15,476	5,025
Borrowings	9.5	87,460	-	87,587	109,171
Finance leases	9.7	64,949	169,985	-	-
		155,735	176,314	103,063	114,196
<i>Derivative not designated as hedge – at fair value through profit or loss</i>					
Other liabilities	9.6	-	-	-	1,796
<i>Derivatives used for hedging – at fair value through other comprehensive income</i>					
Other liabilities	9.6	393	-	393	-
Total financial liabilities		156,128	176,314	103,456	115,992

* excluding prepayments.

**excluding non-financial liabilities

Other liabilities includes a distribution payable of \$9,306,090 that is not included in this table, and \$1,681,000 for NSPT in 2013.

Exposure to various risks associated with the financial instruments is discussed in note 16. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset mentioned above.

9.1 CASH AND CASH EQUIVALENTS

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current assets				
Cash on hand	42	18	21	-
Cash at bank	8,222	364	81	6,710
	8,264	382	102	6,710

The above figures reconcile to the amounts of cash shown in the statements of cash flows at the end of the financial year.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash flow reconciliation of net profit after tax to net cash flows from operations

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss) after income tax	15,565	(532)	39,000	7,482
<i>Adjust for non-cash items:</i>				
Rental income recognised on straight line basis	-	-	-	611
Depreciation	223	244	-	-
Amortisation of intangible asset	77	75	-	-
Amortisation on borrowing costs	-	-	-	1,276
Fair value adjustment to investment properties	2,307	15,348	(32,141)	143
Fair value adjustment of contingent consideration	2,096	-	1,924	-
Impairment – investment property	-	-	-	(611)
Impairment – intangible asset	(126)	450	-	-
Net (gain)/loss on financial instruments at fair value through profit or loss	-	-	-	(1,588)
(Profit)/loss on disposal of plant and equipment	100	(2,105)	-	-
Share of profit of joint venture	(151)	-	(151)	-
<i>Changes in operating assets and liabilities:</i>				
(Increase)/decrease in receivables	(902)	(3,171)	(11,393)	-
(Increase)/decrease in related party loan	(731)	-	-	-
(Increase)/decrease in inventories	(78)	(11)	-	-
(Increase)/decrease in investment properties	(524)	-	(143)	-
(Increase)/decrease in other assets	1,041	232	212	(790)
Increase/(decrease) in payables	646	(98)	2,220	-
Increase/(decrease) in deferred revenue	(53)	832	-	-
Increase/(decrease) in borrowings	(456)	-	-	-
Increase/(decrease) in deferred tax liabilities	(7,374)	523	-	2,173
Increase/(decrease) in other liabilities	-	-	(1,079)	-
Increase/(decrease) in provisions	783	228	-	-
Net cash provided by/(used in) operating activities	12,443	12,015	(1,551)	8,696

Non-cash investing and financing activities

On 24 October 2013 the Directors of National Storage Pty Ltd declared a final franked dividend for 2013 of \$2,799 per share. This amount was offset against the loans owed by the former shareholders of National Storage Pty Ltd. There were no other non-cash investing and financing activities.

9.2 TRADE AND OTHER RECEIVABLES

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current					
Trade receivables		697	565	-	-
Provision for doubtful debts		(44)	-	-	-
		653	565	-	-
Other receivables		2,041	2,459	827	-
Loans to related parties	18	1,073	3,087	16,815	-
Loans to former National Storage Pty Ltd shareholders	18	-	5,598	-	-
		3,767	11,709	17,642	-
Non-current					
Other receivables		220	1,122	-	-
Total current and non-current		3,987	12,831	17,642	-

Further information relating to related parties and key management personnel is set out in note 18.

Classification as trade and other receivables

Trade receivables are amounts due from customers for storage rental, goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Other current receivables

In the NSPT Group, other receivables include \$818,000 clawback receivable upon the payment of the distribution and \$9,000 GST receivable. In the Consolidated Group, other receivables includes \$890,000 clawback receivable, \$453,000 GST receivable, \$300,000 design fee receivable, \$84,000 commercial rent receivable and \$314,000 sundry receivables.

Impairment of receivables

The provision for impairment (doubtful debts) of receivables represents an estimate of trade debtors that have become impaired as a result of an inability to collect the amount of rent owing after customers goods have been sold.

As at 30 June 2014 and 30 June 2013 the NSPT Group trade receivables were not impaired and there was no provision for impaired trade receivables.

At 30 June 2014, the Consolidated Group trade receivables of an initial value of \$44,000 (2013: Nil) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables.

	Individually impaired	Collectively impaired	Total
	\$'000	\$'000	\$'000
At 1 July 2013	-	-	-
Charge for the year	-	44	44
Utilised	-	-	-
Unused amounts reversed	-	-	-
At 30 June 2014	-	44	44

The age of trade receivables that were past due but not impaired was as follows:

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
1 to 3 months	588	560	-	-
3 to 6 months	62	5	-	-
Over 6 months	47	-	-	-
	697	565	-	-

Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss in relation to impaired receivables:

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Impairment losses				
- individually impaired receivables	-	-	-	-
- movement for provision in impairment	44	-	-	-
Reversal of previous impairment losses	-	-	-	-

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the non-current receivables, the fair values are also not significantly different to their carrying amounts.

Refer to note 16 for more information on the Consolidated Group's and NSPT Group's risk management policy, the credit quality of trade receivables and credit risk.

9.3 OTHER ASSETS

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current				
Deposits	308	128	46	-
Contingent consideration at fair value through profit or loss (FVTPL)	1,097	-	1,007	-
Prepayments	954	2,176	-	975
Total current other assets	2,359	2,304	1,053	975
Non-current				
Prepayments	8	109	-	-
Total non-current other assets	8	109	-	-
Total current and non-current	2,367	2,413	1,053	975

Contingent consideration at FVTPL

The Vendor Stapled Securities (refer note 14 (d)) are subject to voluntary escrow and distribution "claw back" arrangements based on the performance of National Storage REIT with the following effects:

- 100% of the distributions paid in relation to the Vendor Stapled Securities for the distribution period ending 30 June 2014 was "clawed back"; and for subsequent distribution periods:
- if the earnings per stapled security (EPSS) of National Storage REIT for a 12 month period is less than or equal to 8.25 cents then all of the distributions paid in relation to the Vendor Stapled Securities will be "clawed back";
- if the EPSS of National Storage REIT is greater than 8.25 cents and is less than or equal to 8.75 cents for a 12 month period then a proportion of the distributions paid in relation to the Vendor Stapled Securities will be "clawed back"; and

- if the EPSS of National Storage REIT is greater than 8.75 cents for a 12 month period then no distribution paid in relation to the Vendor Stapled Securities will be "clawed back".

The above arrangements will lapse and the Vendor Stapled Securities will become fully transferable at the earlier of:

- the EPSS of National Storage REIT for a 12 months period being greater than 8.75 cents for two consecutive testing periods;
- 3 years in respect of Vendor Stapled Securities issued to non-executive NS Vendors; and
- 5 years in respect to Vendor Stapled Securities issued to executive NS Vendors who will continue as senior managers of National Storage REIT.

Refer to note 9.8 for more information on the valuation of the contingent consideration.

9.4 TRADE AND OTHER PAYABLES

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current					
Trade payables		1,032	1,067	21	623
Other payables and accruals		2,248	1,447	678	442
Related party payables	18	46	3,815	14,777	2,149
Deferred rent liability		-	-	-	1,811
Total trade and other payables		3,326	6,329	15,476	5,025

Further information relating to related parties is set out in note 18.

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

9.5 BORROWINGS

	Consolidated Group		NSPT Group	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current				
Bank finance facility	-	-	-	109,171
Total current borrowings	-	-	-	109,171
Non-current				
Bank finance facility	87,916	-	87,916	-
Non-amortised borrowing costs	(456)	-	(329)	-
Total non-current borrowings	87,460	-	87,587	-
Total current and non-current	87,460	-	87,587	109,171

Secured liabilities and assets pledged as security

National Australia Bank (NAB) – secured finance facility

The NSPT Group and the Consolidated Group have a \$100,000,000 finance facility with National Australia Bank (NAB). The facility is for a three year term and expires on 23 December 2016, at which time the principal is due. The facility is a variable interest rate loan at BBSY plus a margin in the range of 1.50% and 4.10%, depending on the gearing ratio. The facility is secured by a mortgage over certain of the Consolidated Group's and the NSPT Group's freehold investment properties with a carrying value of \$305,250,000, and the Consolidated Group's leasehold investment properties with a carrying value of \$76,051,000. The loan is also secured by a negative pledge that imposes certain restrictions on the pledging of assets for other security.

National Australia Bank (NAB) – secured overdraft facility

The NSPT Group and the Consolidated Group have a \$3,000,000 bank overdraft facility, with NAB. The facility was undrawn at balance date. The overdraft facility is secured by a mortgage over the Consolidated Group's and the NSPT Group's freehold investment properties with a carrying value of \$305,250,000, and the Consolidated Group's leasehold investment properties with a carrying value of \$76,051,000.

Compliance with loan covenants

The Consolidated Group and the NSPT Group have complied with the financial covenants of their borrowing facilities during the 2014 and 2013 reporting periods. (See note 17 for bank covenant details.)

Fair value

The fair value of borrowings approximates carrying value.

Details of the exposure to risk arising from current and non-current borrowings are set out in note 16.

9.6 OTHER LIABILITIES

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current					
Distribution payable	17	9,306	-	9,306	1,681
Financial liabilities (derivatives)		-	-	-	1,796
		9,306	-	9,306	3,477
Non-current					
Financial liabilities (derivatives)	9.8	393	-	393	-
Total other liabilities		9,699	-	9,699	3,477

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

At 30 June 2014, the Consolidated Group and the NSPT Group had an interest rate swap agreement in place with a notional amount of \$30,000,000 (2013: \$Nil) whereby the Consolidated Group and the NSPT Group pay a fixed rate of interest of 3.42% and receive interest at a variable rate equal to BBSY plus a margin on the notional amount. The swap is being used to hedge the exposure to changes in cash flows arising from its secured variable interest rate loan and has been designated as a cash flow hedge and is recognised through other comprehensive income.

At 30 June 2013, the NSPT Group had an interest rate swap agreement in place with a notional amount of \$109,490,000 whereby the NSPT Group paid a fixed rate of interest of 4.89% and received interest at a variable rate equal to BBSW. The NSPT Group elected not to account for this instrument as an effective hedge; as such, the movement in fair value of \$1,164,000 (2013: \$1,588,000) has been recognised in finance costs. This interest rate swap was closed out during the year ended 30 June 2014.

9.7 FINANCE LEASES

The NSPT Group does not have any finance lease liabilities.

The Consolidated Group has finance leases for investment properties and various items of plant and machinery. These leases have terms of renewal but no purchase options. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments are as follows:

	2014		2013	
	Minimum payments \$'000	Present value of payments \$'000	Minimum payments \$'000	Present value of payments \$'000
Consolidated Group				
Within one year	9,098	4,330	28,554	16,243
After one year but not more than five years	38,923	19,557	138,483	98,560
More than five years	55,124	41,062	73,442	55,182
Minimum lease payments	103,145	64,949	240,479	169,985
Future finance charges	(38,196)	-	(70,494)	-
Recognised as a liability/present value of minimum lease payments	64,949	64,949	169,985	169,985

9.8 FINANCIAL INSTRUMENTS FAIR VALUE MEASUREMENT

Fair value hierarchy

This note explains the judgements and estimates made in determining the fair values of the financial instruments, as detailed in notes 9.1 to 9.7 above, that are recognised and measured at fair value 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 three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Notes	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000
Consolidated Group					
At 30 June 2014					
<i>Financial assets</i>					
Derivative – contingent consideration	9.3	-	-	1,097	1,097
Total financial assets		-	-	1,097	1,097
<i>Financial liabilities</i>					
Derivative used for hedging – Interest rate swap	9.6	-	393	-	393
Total financial liabilities		-	393	-	393
NSPT Group					
At 30 June 2014					
<i>Financial assets</i>					
Derivative – contingent consideration	9.3	-	-	1,007	1,007
Total financial assets		-	-	1,007	1,007
<i>Financial liabilities</i>					
Derivative used for hedging – Interest rate swap	9.6	-	393	-	393
Total financial liabilities		-	393	-	393

There were no transfers between levels of fair value hierarchy during the year ended 30 June 2014.

The policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

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.

Valuation techniques used to determine fair values

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.

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents changes in level 3 for the periods ended 30 June 2014.

	2014 Contingent Consideration	
	Consolidated Group	NSPT Group
Notes	\$'000	\$'000
Opening balance 1 July 2013	-	-
Derivative – contingent consideration initially recognised in contributed equity	4,083	3,749
Distribution receivable (clawback)	(890)	(818)
Derivative – contingent consideration subsequently recognised in profit or loss in fair value adjustments	6 (2,096)	(1,924)
Closing balance 30 June 2014	1,097	1,007

Valuation inputs and relationships to fair value

Derivative financial asset – contingent consideration

As part of the purchase agreement with the previous owners of National Storage Pty Ltd, a distribution clawback was entered into.

The fair value of the contingent consideration has been determined using a discounted cash flow analysis using expected future cash flows of the Consolidated Group. The valuation requires management of NSH to make certain assumptions about unobservable inputs to the model including a discount rate of 8.5% and initial stapled net profit

after tax per the financial statements of \$15,122,000. A 2% change in the discount rate would not have any material effect on the fair value. An increase of 2% in the stapled net profit after tax would decrease fair value by \$120,000. A decrease of 2% in the stapled net profit after tax would increase fair value by \$305,000.

There were no significant inter-relationships between unobservable inputs that materially affect fair values.

10. NON-FINANCIAL ASSETS AND LIABILITIES

This note provides information about the group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability
- inventories (note 10.1)
- property, plant and equipment (note 10.2)
- investment properties (note 10.3)
- intangible assets (note 10.4)
- deferred revenue (note 10.5)
- provisions (note 10.6)

The note also includes information about determining the fair value of the non-financial assets and liabilities, including judgements and estimation uncertainty involved.

10.1 INVENTORIES

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Finished goods – at cost	258	180	-	-
Total Inventories	258	180	-	-

Inventories recognised as an expense during the year ended 30 June 2014 amounted to \$548,000 (2013: \$557,000). These were included in *cost of packaging and other products sold*.

10.2 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
At cost	4,251	3,542	-	-
Accumulated depreciation	(2,804)	(2,611)	-	-
Total property, plant and equipment	1,447	931	-	-

Reconciliation of the carrying amounts for each class of property, plant and equipment at the beginning and end of the current financial period are shown below:

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Plant and equipment				
Carrying amount at beginning of the year	931	1,460	-	-
Additions	509	340	-	-
Disposals	(100)	(625)	-	-
Additions through acquisition of entities	330	-	-	-
Depreciation	(223)	(244)	-	-
Carrying amount at end of the year	1,447	931	-	-

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

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Leasehold plant and equipment at cost	48	14	-	-
Accumulated depreciation	(12)	(5)	-	-
Carrying amount	36	9	-	-

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

10.3 INVESTMENT PROPERTIES

	Notes	Consolidated Group		NSPT Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
Investment properties at valuation					
Leasehold investment properties	10.7	76,051	201,328	-	-
Freehold investment properties	10.7	305,250	-	305,250	198,810
		381,301	201,328	305,250	198,810
Leasehold investment properties					
Opening balance		201,328	205,441	-	-
Elimination through stapling		(95,403)	-	-	-
Fair value adjustment arising on stapling		(20,515)	-	-	-
Additions		-	11,235	-	-
Net loss from fair value adjustment		(9,359)	(15,348)	-	-
Closing balance		76,051	201,328	-	-
Freehold investment properties					
Opening balance		-	-	198,810	184,342
Acquired through stapling		203,003	-	-	-
Fair value adjustment arising on stapling		20,515	-	20,515	-
Change in fair value of investment properties		7,052	-	11,626	468
Building improvements of investment properties		524	-	143	-
Property acquisitions		74,156	-	74,156	143
Reclassification of leased asset receivable		-	-	-	13,857
Closing balance		305,250	-	305,250	198,810
Unrealised gains/(losses) for the period included in profit or loss (recognised in fair value adjustments)	6	(2,307)	(15,348)	32,141	468

Adjustment upon stapling

In December 2013 the National Storage REIT was formed by the stapling of the shares in NSH and the units in NSPT. In the 2013 financial year the NS Group had leasehold investment properties where the lessor/owner/landlord was NSPT. The effect of stapling was that the Consolidated Group reclassified these leasehold investment properties to freehold investment properties residing within NSPT.

Upon stapling, a fair value adjustment of \$20,515,000 was recognised to increase the value associated with the property portfolio.

NSPT recognised a fair value adjustment of \$4,193,000 to reflect the fair value of its properties prior to stapling; this is included within the \$11,626,000 of fair value adjustments presented above.

Property acquisitions

The freehold property portfolio was increased in 2014 following the acquisition of the following properties:

Centre	Acquired	\$'000
Artarmon, NSW	23 December 2013	38,493
Marion, SA	23 December 2013	1,667
Townsville, QLD	28 May 2014	17,838
Mulgrave, VIC	28 June 2014	7,452
Moorabbin, VIC	30 June 2014	8,706
Total		74,156

Significant estimate

Leasehold and freehold investment properties are held for lease to customers wanting self-storage facilities. They are carried at fair value. Changes in fair value are presented in profit or loss under fair value adjustments. Information about the valuation of leasehold investment properties is provided in note 10.7 below.

Leasing arrangements

The Consolidated Group leasehold and freehold investment properties are largely leased to customers under short-term lease with most rentals payable monthly in advance. Most leases can be terminated by either party giving not less than 7 days' notice to the other party.

The NSPT Group's investment properties are leased to entities within the NSH Group under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	NSPT Group	
	2014	2013
	\$'000	\$'000
Minimum lease receivable under non-cancellable finance leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	25,586	19,761
Later than one year but not later than 5 years	145,603	85,154
Later than 5 years	13,114	24,021
	184,303	128,936

Contractual obligations

The Consolidated Group is required to restore the leased premises in the Hornsby centre to their original condition at the end of lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements (refer to note 10.7).

Leasehold and freehold investment properties pledged as security

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

10.4 INTANGIBLES

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Goodwill					
Opening net book amount		129	579	-	-
Arising on stapling	11	7,005	-	-	-
Acquisition of entity	11	6,384	-	-	-
Impairment charge		-	(450)	-	-
Other		24	-	-	-
Closing net book amount		13,542	129	-	-
Software					
Opening net book amount		305	375	-	-
Additions		126	5	-	-
Amortisation	6	(77)	(75)	-	-
Closing net book amount		354	305	-	-
Total					
Opening net book amount		434	954	-	-
Arising on stapling		7,005	-	-	-
Acquisition of entity		6,384	-	-	-
Additions		126	5	-	-
Impairment charge		-	(450)	-	-
Amortisation		(77)	(75)	-	-
Other		24	-	-	-
Closing net book amount		13,896	434	-	-

Software amortisation and useful life

Significant estimate

Software is an asset with an estimated limited useful life of 5 year and is therefore amortised over 5 years. The estimate of 5 years is based on the expected technical obsolescence of the software. However, the actual life may be shorter or longer than 5 years, depending on technical innovations that occur in the future.

Impairment testing of goodwill

Goodwill arising on stapling (\$7,005,000) and on acquisition of entity (Strategic Storage Consulting Pty Ltd (SSC)) (\$6,384,000)

Goodwill arising on stapling and on the acquisition of SSC have been allocated to the listed company NSH. Management have determined that the listed group is the appropriate cash generating unit against which to allocate these intangible assets. The goodwill arising on stapling is allocated to the listed group (NSR) owing to the synergies arising from

combining the portfolios of the NSH Group and the NSPT Group. The goodwill arising on the acquisition of SSC is allocated to the listed group owing to the transfer of the management functions and associated revenues and expenses of this entity to the Consolidated Group. SSC no longer generates its own cash but provides a service to the listed group.

The recoverable amount of the listed group has been determined based on the fair value less costs of disposal method using the fair value quoted on an active market. As at 30 June 2014 NSR had 244,897,096 stapled securities quoted on the Australian Securities Exchange (ASX) at \$1.27 per security providing a market capitalisation of \$311,019,312. 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 be in excess of the carrying amount.

Hornsby goodwill

Goodwill acquired through business combinations has been allocated to the Hornsby business operation.

The Consolidated Group performed an impairment test at 30 June 2014. The recoverable amount of the Hornsby CGU has been determined based on the fair value less cost of disposal, using a calculation based on the capitalisation of earnings methodology, as utilised in the determination of valuation of investment properties.

Key assumptions used in value-in-use calculations

The calculation of fair value less cost of disposal calculation for the Hornsby business unit is most sensitive to the following assumptions:

Primary Capitalisation Rate	20%
Secondary Capitalisation Rate	13%
Maximum sustainable occupancy	80%

A change of 3% in the primary and secondary capitalisation rates did not have a material effect on the fair value of the Hornsby CGU. A change of 5% in the maximum sustainable occupancy did not have a material effect on the fair value of the Hornsby CGU.

10.5 DEFERRED REVENUE

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Deferred storage rent revenue	4,952	4,288	-	-
Prepaid coupon fee	-	717	-	-
	4,952	5,005	-	-

Deferred storage rent revenue is funds received in advance from customers for rental storage in future periods. Once the period is past, and the service is deemed to be provided, it is recognised as revenue.

10.6 PROVISIONS

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current				
Annual leave	707	412	-	-
Long service leave	362	82	-	-
	1,069	494	-	-
Non-current				
Make good provision	214	221	-	-
Long service leave	374	203	-	-
	588	424	-	-
Reconciliation of movement in make good provision				
Opening balance	221	-	-	-
Additional provisions raised/(amortised) during the year	(7)	221	-	-
Amounts used	-	-	-	-
Closing balance	214	221	-	-

The Consolidated Group is required to restore the leased premises in the Hornsby centre to their original condition at the end of lease term. A provision has been recognised for the present value of the estimated expenditure required to remove

any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

10.7 NON-FINANCIAL ASSETS FAIR VALUE MEASUREMENT

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 9.8.

	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated Group					
At 30 June 2014					
<i>Investment properties</i>					
Leasehold	10.3	-	-	76,051	76,051
Freehold	10.3	-	-	305,250	305,250
		-	-	381,301	381,301
NSPT Group					
At 30 June 2014					
<i>Investment properties</i>					
Leasehold	10.3	-	-	-	-
Freehold	10.3	-	-	305,250	305,250
		-	-	305,250	305,250

Recognised fair value measurements

The Consolidated Group's and the NSPT Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. There were no transfers in and out of Level 3.

Fair value measurements using significant unobservable inputs (Level 3)

Valuation techniques used to determine level 3 fair values and valuation process

Investment properties, principally storage buildings, are held for rental to customers requiring self-storage facilities. They are carried at fair value. Changes in fair values are presented in profit or loss as fair value adjustments.

Investment properties are carried at fair value as determined by a combination of independent valuations and Director valuations. The independent valuations are performed by m3property, an accredited independent valuer. The Directors review and discuss the valuations with the CFO of NSH Group. The Director valuations are completed by NSH Group Board on behalf of the Responsible Entity for Freehold Properties. The valuations are determined using the same techniques and similar estimates to those used by the independent valuer. Investment properties are independently valued on a staggered basis every 3 years unless the underlying financing requires a more frequent valuation cycle. For properties subject to an independent valuation report the finance department of NSH verifies all major inputs to the valuation and reviews the results with the independent valuer.

The table below details the percentage of the number of investment properties subject to internal and external valuations during as at 30 June 2014:

	Consolidated Group		NSPT Group	
	External valuation %	Internal valuation %	External valuation %	Internal valuation %
Leasehold	10%	90%	-	-
Freehold	19%	81%	19%	81%

Valuation inputs and relationship to fair value

The tables and narrative below provide information on the significant unobservable inputs in Level 3 valuations. In the table below freehold applies to both the Consolidated Group and to the NSPT Group. Leasehold applies to only the Consolidated Group as the NSPT Group does not have any leasehold investment properties.

Description	Valuation technique	Significant unobservable inputs	Range
Investment properties – leasehold	Capitalisation method	Capitalisation rate – Primary	10% to 40%
		Capitalisation rate – Secondary	11% to 50%
		Sustainable occupancy	75% to 93%
		Stabilised average EBIT	\$405,038
Investment properties – freehold	Capitalisation method	Capitalisation rate – Primary	9% to 11.6%
		Capitalisation rate – Secondary	9.8% to 13.8%
		Sustainable occupancy	65% to 94.5%
		Stabilised average EBIT	\$980,526

Under the income capitalisation method, a property's fair value is estimated based on the stabilised average earnings before interest and tax (EBIT) generated by the property, which is divided by the capitalisation rate (the investor's required rate of return). The capitalisation rate is derived from recent sales of similar properties. The capitalisation rate adopted reflects the inherent risk associated with the property. For example, if the lease expiry profile of a particular property is short, the capitalisation rate is likely to be higher to reflect additional risk to income. The higher capitalisation rate then reduces the valuation of the property.

The stabilised average EBIT is derived from a property's revenues less property operating expenses adjusted for items such as average lease up costs, long-term vacancy rates, forecast non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items. Generally, an increase in stabilised average EBIT will result in an increase in fair value of an investment property. An increase in the vacancy rate will result in a reduction of the stabilised average EBIT.

Investment properties are valued on a highest and best use basis. The current use of all of the investment properties (self-storage) is considered to be the highest and best use.

The following table presents the sensitivity analysis of fair value at 30 June 2014:

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	1% / (1%)	(360) / 770	1% / (1%)	(22,330) / 27,460
	Secondary	2% / (2%)	(200) / 500	2% / (2%)	(6,210) / 8,670
Sustainable occupancy	5% / (5%)	1,540 / (1,330)	5% / (5%)	12,250 / (12,650)	
Stabilised average EBIT	5% / (5%)	760 / (450)	5% / (5%)	11,180 / (11,490)	

11. BUSINESS COMBINATIONS

Stapling of National Storage Holdings Limited and National Storage Property Trust

On 19 December 2013, the shares in NSH and the units in NSPT were stapled pursuant to a stapling deed. Under AASB 3, it was deemed that NSH gained control over NSPT by way of stapling with no ownership.

The Consolidated Group has measured the non-controlling interest at fair value.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of NSPT as at the date of acquisition were:

	Fair value recognised on acquisition
	\$'000
Assets	
Cash at Bank	50
Prepayments	137
Investment properties – freehold	203,003
	203,190
Liabilities	
Trade and other payables	(2,502)
Bank Loan	(109,490)
	(111,992)
Net identifiable assets at fair value	91,198
Non-controlling interests measured at fair value	(98,203)
Goodwill arising on acquisition	7,005
Purchase consideration transferred	-

The Consolidated Group has measured the non-controlling interest at fair value with reference to the underlying assets and liabilities of the statement of financial position. The major component of assets is investment properties which were subject to a Director's valuation at 19 December 2013 which were supported by external valuations performed by m3property. The bank loan was recognised at fair market value at acquisition date.

Transaction costs of \$165,000 were expensed during the period and are included in other operational expenses.

From the date of acquisition NSPT has contributed revenue of \$9,400,000 and net profit of \$9,100,000 (excluding fair value adjustments) for the Consolidated Group in the reporting period. If the combination had taken place at the beginning of the period, revenue from continued operations would have been \$20,630,000 and the profit from continuing operations would have been \$8,632,000 (excluding fair value adjustments).

As part of the reorganisation to facilitate the Initial Public Offering and Listing on the ASX, specific vendors entered into "claw back" arrangements if certain performance hurdles are not achieved by the Consolidated Group. If the performance hurdles are not achieved, any distribution from NSPT or a dividend from NSH will be clawed back from the relevant securityholder.

The goodwill of \$7,005,000 arises due to the recognition of the stapling portfolio value of the NSPT property. The portfolio value was determined by an independent valuer. The goodwill was assessed for impairment at 30 June 2014.

Acquisition of Strategic Storage Consulting Pty Ltd

On 19 December 2013, the Consolidated Group acquired 100% of shares of Strategic Storage Consulting Pty Ltd.

Provisional assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Strategic Storage Consulting Pty Ltd as at the date of acquisition were:

	Provisional fair value recognised on acquisition
	\$'000
Plant and equipment	282
Other receivables	2,284
	2,566
Liabilities	
Other payables	(3,122)
	(3,122)
Net identifiable assets at fair value	(556)
Goodwill arising on acquisition	6,384
Purchase consideration transferred	5,828
Analysis of cash flows on acquisition	
Cash paid	5,828
Transaction costs of the acquisition (expensed and included in other operational expenses)	33
Net cash outflow on acquisition	5,861

None of the trade debtors were impaired and all were collected in full.

The goodwill of \$6,384,000 comprises the intangible assets associated with the business, including but not limited to reputation and operational procedures.

Fair values measured on a provisional basis

The property plant and equipment, and goodwill recognised upon acquisition of Strategic Storage Consulting Pty Ltd have been measured on a provisional basis. If new information obtained within one year of the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the accounting for the acquisition will be revised.

The acquired entity contributed revenues of \$1,553,000 and net loss of \$101,000 to the Consolidated Group for the period 19 December 2013 to 30 June 2014. If the acquisition had occurred on 1 July 2013, consolidated revenue and profit for the year ended 30 June 2014 would have been \$2,519,000 and net loss of \$258,000 respectively.

Acquisition of NS APAC Trust

On 19 December 2013, the NSPT Group, and consequently the Consolidated Group, acquired NS APAC Trust.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of NS APAC Trust as at the date of acquisition were:

	Fair value recognised on acquisition
	\$'000
Investment in joint venture – (Southern Cross Storage Group)	4,750
	4,750
Net identifiable assets at fair value	4,750
Goodwill arising on acquisition	-
Purchase consideration transferred	4,750
Analysis of cash flows on acquisition	
Cash paid	4,750
Transaction costs of the acquisition (expensed and included in other operational expenses)	25
Net cash outflow on acquisition	4,775

There was no goodwill arising on acquisition.

The acquired entity contributed net profit of \$151,000 to the NSPT Group and the Consolidated Group for the period 19 December 2013 to 30 June 2014. If the acquisition had occurred on 1 July 2013, consolidated profit for the year ended 30 June 2014 would have been \$239,064.

This acquisition of the joint venture is equity accounted under AASB 11 *Joint Arrangements*. Therefore only the Consolidated Group's and the NSPT Group's share of net profit is recognised in the consolidated accounts (see note 13 for further details).

12. INFORMATION RELATING TO SUBSIDIARIES

The holding entities

The ultimate holding company of the NSH Group is National Storage Holdings Limited. NSH was incorporated on 1 November 2013. As at 30 June 2013, the holding company was National Storage Pty Ltd (refer note 1).

The holding entity of the NSPT Group is National Storage Property Trust.

These two entities are domiciled in Australia and through a stapling agreement are jointly quoted on the ASX under the ticker NSR.

The consolidated financial statements of the NSH Group as at 30 June 2014 include:

Name of Controlled Entity	Place of incorporation	% Equity interest
National Storage Pty Ltd	Australia	100
National Storage (Operations) Pty Ltd	Australia	100
National Storage Investments Pty Ltd	Australia	100
Wine Ark Pty Ltd	Australia	100
Strategic Storage Consulting Pty Ltd ⁽¹⁾	Australia	100

⁽¹⁾ Acquired on 19 December 2013.

The consolidated financial statements of the NSPL Group as at 30 June 2013 include:

Name of Controlled Entity	Place of incorporation	% Equity interest
National Storage (Operations) Pty Ltd	Australia	100
National Storage (Properties) Pty Ltd	Australia	100
NS Victoria Pty Ltd	Australia	100
National Storage Investments Pty Ltd	Australia	100
Wine Ark Pty Ltd	Australia	100

The consolidated financial statements of the NSPT Group include:

Name of Controlled Entity	Place of domicile	% Equity interest	
		2014	2013
NS APAC Trust	Australia	100%	-
National Storage Investment Trust	Australia	100%	100%
National Storage Victoria Property Trust	Australia	100%	100%

Joint venture

The NSPT Group has a 10% interest in Southern Cross Storage Group (2013: 0%).

13. INTEREST IN A JOINT VENTURE

On 19 December 2013 the NSPT Group (and as a result the Consolidated Group) acquired a 10% interest in Southern Cross Storage Group which consists of Southern Cross Operations Pty Ltd and Southern Cross Property Trust. The Southern Cross Storage Group owns storage centres and businesses operated under the National Storage brand and is managed by NSH subsidiary National Storage Operations Pty Ltd. Southern Cross Storage Group entities are not listed on any public exchange. The principle place of business of the joint venture is Australia. The Consolidated Group's and the NSPT Group's interest in the Southern Cross Group is accounted for using the equity method in the consolidated financial statements.

Summarised financial information

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

Significant judgement: classification of joint arrangement

Joint control of the joint venture has been contractually structured whereby the parties to the agreement have agreed to an equal number of director positions with equal votes and participation in decision making. The Southern Cross Storage Group is considered a joint venture as it is a separate vehicle, being the consolidation of Southern Cross Operations Pty Ltd and Southern Cross Property Trust.

	2014
	\$'000
Summarised statement of financial position	
Current assets	
Cash and cash equivalents	2,848
Other current assets	9,084
Total current assets	11,932
Non-current assets	216,619
Total assets	228,551
Current liabilities	
Financial liabilities (excluding trade payables)	161
Other current liabilities	17,161
Total current liabilities	17,322
Non-current liabilities	
Financial liabilities (excluding trade payables)	107,457
Other non-current liabilities	166
Total non-current liabilities	107,623
Total liabilities	124,945
Net assets	103,606
Summarised statement of profit or loss for the year ended 30 June 2014	
Revenue	25,143
Interest income	94
Depreciation and amortisation	(4,032)
Interest expense	(7,039)
Other expenses	(11,251)
Profit before tax	2,915
Income tax expense	-
Profit for the year from continuing operations	2,915
Less pre-acquisition profit	(1,561)
Profit attributable to the Consolidated and NSPT Group	1,354
Accounting policy alignment adjustment ***	1,354
	2,708
Consolidated Group's and NSPT Group's share in % *	5.6%
Reconciliation to carrying amounts	
Opening investment in joint venture	-
Acquisition of joint venture	4,750
Contribution to investment during the period	176
Share of profit for the period **	76
Share of accounting policy alignment adjustment	75
Carrying amount	5,077
Dividends/distributions received from joint venture	-

* The NSPT Group and the Consolidated Group have an agreement with the joint venture that the profits of the joint venture will be distributed under certain conditions. Under the terms of the *Southern Cross Investors Agreement* the payment of progressive operating returns are subject to a preference shares/units, whereby certain hurdles have to be met before NS APAC will receive any payment. At the conclusion of the investment period NS APAC is entitled to returns on a similar basis. The percentage share of profit is therefore not directly reflective of percentage of equity share.

** NSPT acquired NS APAC Trust on 19 December 2013.

*** Southern Cross measures investment properties under the cost method. An adjustment has been made to align this accounting policy with the Consolidated Group's and NSPT Group's accounting policy which measures investment properties at fair value.

The joint venture had no contingent liabilities or capital commitments as at 30 June 2014 or 2013.

14. CONTRIBUTED EQUITY

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
Notes	\$'000	\$'000	\$'000	\$'000
Issued and Paid Up Capital				
Ordinary shares	17,758	2,800	-	-
Units	-	-	191,499	89,322
	17,758	2,800	191,499	89,322
Movements in securities				
	Number of shares	\$'000	Number of units	\$'000
Opening balance 1 July 2012				
- A Class ordinary shares (a)	1,000	1	-	-
- Ordinary shares	1,000	2,799	-	-
- Units	-	-	93,055,632	89,322
Balance 30 June 2013	2,000	2,800	93,055,632	89,322
Restructure distribution (b)	93,055,632	-	-	-
Public offering (c)	126,329,260	16,860	126,331,260	106,944
Vendor issue (d)	25,510,204	(1,047)	25,510,204	(2,800)
	244,897,096	18,613	244,897,096	193,466
Less: Transaction costs associated with Public Offering	-	(1,189)	-	(5,716)
Contingent consideration (e)	-	334	-	3,749
Balance 30 June 2014	244,897,096	17,758	244,897,096	191,499

(a) The A Class ordinary shares were converted into ordinary shares on 19 December 2013. All shares in the Company on issue from this date are ordinary shares.

(b) The restructure distribution relates to the issue of shares in NSH to existing eligible NSPT unitholders as part of the initial restructure required to take place in order to implement the stapling of the NSH shares and NSPT units. The shares were issued to provide an equivalent number of shares and units for stapling. These stapled securities were issued to existing share and unit holders prior to the Public Offer. The restructure distribution did not provide any additional capital.

(c) On 23 December 2013, \$123,804,000 was raised from the Public Offering of 126,329,260 stapled securities at 98 cents each. Securityholders received an equal number of shares in NSH and units in NSPT.

(d) The owners of the National Storage Group who sold 100% of their interest in National Storage Group to NSH received 25,510,204 stapled

securities as part payment. These securities are subject to escrow arrangements and distribution "claw back" based on the achievement of future performance hurdles for National Storage REIT for up to 3 years (with respect to securities issued to non-executive vendors) and for up to 5 years (with respect to securities issued to executive vendors). Refer to note 9.3 for further details.

(e) The contingent consideration is the initial fair value of the derivative financial asset recognised in relation to the claw-back referred to in note 9.8 above. The fair value of the contingent consideration has been determined using a discounted cash flow analysis using expected future cash flows of the Consolidated Group (see note 9.8 for further details).

As at 30 June 2014 there were 244,897,096 stapled securities on issue equivalent to the number of NSH shares and NSPT units on issue at that date. The issued units of NSPT are not owned by the Company (NSH) and therefore are shown under non-controlling interest in the statement of financial position.

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 (as the case may be). 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.

Security buy-back

There is no current on or off market buy-back.

15. OTHER RESERVES

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
Notes	\$'000	\$'000	\$'000	\$'000
Cash flow hedge				
Opening balance 1 July 2013	-	-	-	-
Revaluation – gross*	-	-	(393)	-
Closing balance 30 June 2014	-	-	(393)	-

*Gross revaluation excludes deferred tax as tax does not apply to the NSPT Group under current legislation.

The cash flow hedge is not included in the Consolidated Group as it is included in non-controlling interest in the consolidated statement of financial position. This owing to the issued units of NSPT not being owned by the Company (NSH) and therefore equity, including reserves, is shown under non-controlling interest in the statement of financial position.

Cash flow hedge

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income, as described in note 2(n). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

16. FINANCIAL RISK MANAGEMENT

This note explains the Consolidated Group's and NSPT Group's exposure to financial risks and how these risks could affect future financial performance.

The Consolidated Group's and the NSPT Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the business. Both Groups use, when necessary, derivative financial instruments such as interest rate swaps to hedge certain market risk exposures.

Risk management for the NSH Group and the NSPT Group is carried out by the NSH Board and the key management personnel of NSH.

The Board of Directors of NSH analyses, on behalf of the Consolidated Group and NSPT Group, interest rate exposure and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts.

Derivatives

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Consolidated Group and the NSPT Group have the following derivative financial instruments:

	Notes	Consolidated Group		NSPT Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
Non-current liabilities					
Interest rate swap contract – cash flow hedge	9.6	-	-	(393)	-
Current assets					
Contingent consideration	9.3	1,097	-	1,007	-

Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

The Consolidated Group's and NSPT Group's accounting policy for cash flow hedges is set out in note 2(n). For hedged forecast transactions that result in the recognition of a non-financial asset, the groups have elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

Fair value measurement

For information about the methods and assumptions used in determining fair values of derivatives refer to note 9.8.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

Neither the Consolidated Group nor the NSPT Group are exposed to foreign currency risk or to price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Consolidated Group's and the NSPT Group's exposure to the risk of changes in market interest rates relate primarily to their long-term debt obligations with floating interest rates.

The Consolidated Group and the NSPT Group manage interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The policy is to keep a minimum of between 0% and 50% of borrowings at fixed rates of interest, dependant on the terms of individual loans. To manage this interest rate swaps are entered into, in which it is agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2014, after taking into account the effect of interest rate swaps, approximately 34.1% of the Consolidated Group's borrowings are at a fixed rate of interest (2013: nil). The fixed interest rate is 3.42% (2013: nil) and variable rates are between 1.50% and 4.10% above the 90 day bank bill rate of 2.76% (2013: nil). At 30 June 2014, after taking into account the effect of interest rate swaps, approximately 34.1% of the NSPT Group's borrowings are at a fixed rate of interest (2013: 100%). The fixed interest rate is 3.42% (2013: 4.89%) and variable rates are between 1.50% and 4.10% above the 90 day bank bill rate of 2.76% (2013: 7.14%).

The contract requires settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contract is settled on a net basis.

As at the end of the reporting period, the Consolidated Group and the NSPT Group had the following variable rate borrowings and interest rate swap contract outstanding:

	2014			2013		
	Weighted average interest rate	Balance	% of total loans	Weighted average interest rate	Balance	% of total loans
	%	\$'000	%	%	\$'000	%
Consolidated Group						
Bank loans	4.19%	87,916	100%	-	-	-
Interest rate swaps (notional principal amount)	3.42%	(30,000)		-	-	-
Net exposure to cash flow interest rate risk		57,916	65.9%		-	-
NSPT Group						
Bank loans	4.19%	87,916	100%	7.14%	109,171	100%
Interest rate swaps (notional principal amount)	3.42%	(30,000)		4.89%	(109,490)	
Net exposure to cash flow interest rate risk		57,916	65.9%		(319)	(0.3%)

An analysis by maturities is provided below in this note. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss in relation to interest rate swaps.

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current liabilities				
(Loss)/gain recognised in profit or loss	-	-	1,164	1,588

Interest rate sensitivity

Based on the simulations performed, the annual impact on profit or loss of a one per cent shift in interest rates, with all other variables held constant, is estimated to be a maximum increase or decrease of \$579,000 (2013: \$nil) for the Consolidated Group and a maximum increase or decrease of \$579,000 (2013: \$11,000) for the NSPT Group. The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a reduced volatility compared to prior years.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Consolidated Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and other financial instruments.

The NSPT Group has the same risk as the Consolidated Group except that trade debtors relate mostly to the Consolidated Group entity, National Storage Operations Pty Ltd, with only two other customers that are well known businesses that have not defaulted on any payments.

Trade receivables

The exposure to credit risk for trade and other receivables is influenced mainly by the individual characteristics of each customer. The Consolidated Group's customer credit risk is managed by requiring customers to pay monthly rentals in advance. The Directors are of the opinion that customer credit risk is reduced through a contractual lien over the contents stored in the rented units. The terms of the storage agreement provide for the auction of the customer's stored contents to recover any unpaid amounts. Outstanding customer receivables are regularly monitored and any credit concerns highlighted to senior management.

At 30 June 2014 and 30 June 2013 the Consolidated Group has no significant concentrations of credit risk with respect to trade receivables, whether through exposure to individual customers, specific industry sectors and/or regions within Australia.

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

At 30 June 2014 and 30 June 2013 the NSPT Group's only significant concentration of credit risk with respect to trade receivables, was the Consolidated Group entity National Storage Operations Pty Ltd with an outstanding balance of \$8,585,032 (2013: \$Nil) (refer note 18).

The Consolidated Group's and the NSPT Group's maximum exposure to credit risk, without taking into account the value of any collateral or other security, in the event that other parties fail to perform their obligations under financial instruments for each class of reporting recognised financial asset at the reporting date is the carrying amount of those assets as indicated in the statement of financial position.

Refer note 9.2 for a summary of the Consolidated Group's and the NSPT Group's exposure to credit risk relating to receivables at the end of the financial year.

Cash and cash equivalents

The Consolidated Group's and the NSPT Group's credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum exposure to credit risk for the components of the statement of financial position at 30 June 2014 and 2013 is the carrying amounts as indicated in the statement of financial position.

Guarantees

Credit risk also arises in relation to financial guarantees given to certain parties. (Refer to notes 19 and 20 for details). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

Liquidity Risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions. NSH on behalf of the Consolidated Group and the NSPT Group has established a number of policies and processes for managing liquidity risk. These include:

- Continuously monitoring cash flows on a daily basis as well as forecasting cash flows on a medium and long-term basis.
- Monitoring the maturity profiles of financial assets and liabilities in order to match inflows and outflows.
- Maintaining adequate reserves and support facilities.
- Monitoring liquidity ratios and all constituent elements of working capital.
- Maintaining adequate borrowing and finance facilities.

Financing arrangements

The Consolidated Group and the NSPT Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
Notes	\$'000	\$'000	\$'000	\$'000
Floating rate				
Expiring within one year (bank overdraft)	3,000	-	3,000	-
Expiring beyond one year (bank loan)	12,084	-	12,084	-
	15,084	-	15,084	-

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The secured bank loan may be drawn at any time and is subject to annual review. Further details of the bank loan are detailed in note 9.5 and note 17.

Maturity of financial liabilities

The tables below analyse the financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date. The groupings are split into all non-derivative financial liabilities and net gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of cash flows. As amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments, these balances will not necessarily agree with the amounts disclosed on the statement of financial position.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Consolidated Group	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2014						
<i>Non-derivatives</i>						
Trade and other payables	-	3,280	-	-	-	3,280
Borrowings	-	930	2,762	93,470	-	97,162
Finance leases	-	2,275	6,823	38,923	55,124	103,145
Distribution payable	-	9,306	-	-	-	9,306
Total non-derivatives	-	15,791	9,585	132,393	55,124	212,893
<i>Derivatives</i>						
Inflows	-	(208)	(599)	(1,357)	-	(2,164)
Outflows	-	259	767	1,543	-	2,569
Total derivatives	-	51	168	186	-	405
	-	15,842	9,753	132,579	55,124	213,298
At 30 June 2013						
<i>Non-derivatives</i>						
Trade and other payables	-	2,514	3,815	-	-	6,329
Borrowings	-	-	-	-	-	-
Finance leases	-	7,196	21,358	138,483	73,442	240,479
Total non-derivatives	-	9,710	25,173	138,483	73,442	246,808
<i>Derivatives</i>						
Total derivatives	-	-	-	-	-	-
	-	9,710	25,173	138,483	73,442	246,808

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
NSPT Group	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2014						
<i>Non-derivatives</i>						
Trade and other payables	-	698	6,547	-	-	7,245
Borrowings	-	930	2,762	93,470	-	97,162
Distribution payable	-	9,306	-	-	-	9,306
Total non-derivatives	-	10,934	9,309	93,470	-	113,713
<i>Derivatives</i>						
Inflows	-	(208)	(599)	(1,357)	-	(2,164)
Outflows	-	259	767	1,543	-	2,569
Total derivatives	-	51	168	186	-	405
	-	10,985	9,477	93,656	-	114,118
At 30 June 2013						
<i>Non-derivatives</i>						
Trade and other payables	-	5,025	-	-	-	5,025
Distribution payable	-	1,681	-	-	-	1,681
Borrowings	-	111,916	-	-	-	111,916
Total	-	118,622	-	-	-	118,622

17. CAPITAL MANAGEMENT

The Consolidated Group's and the NSPT Group's objectives, when managing capital, are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to securityholders and to maintain an optimal structure to reduce the cost of capital. The primary objective of the Group's capital management is to maximise the securityholder value. The Responsible Entity has outsourced capital management for the NSPT Group to NSH under a management agreement effective from 19 December 2013.

In order to achieve this overall objective, the Consolidated Group's and the NSPT Group's capital management strategy, amongst other things, aims to ensure that they meet financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

The Consolidated Group and the NSPT Group manage their capital structure and make adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Consolidated Group and the NSPT Group may adjust the dividend/distribution payment to securityholders, return capital to securityholders or issue new securities. The Consolidated Group and the NSPT Group monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Consolidated Group's and NSPT's policy is to keep the gearing ratio between 20% and 40%. Net debt includes interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	Notes	Consolidated Group		NSPT Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Interest bearing loans	9.5	87,916	-	87,916	109,171
Less: cash and short term deposits	9.1	(8,264)	(382)	(102)	(6,710)
Net Debt		79,652	(382)	87,814	102,461
Total equity		244,327	28,721	216,362	88,822
		323,979	28,339	304,176	191,283
		25%	-	29%	54%

The increased gearing ratio in the Consolidated Group arises largely from increased borrowings. The improved ratio in the NSPT Group is attributable to a decrease in borrowings associated with repayment of the previous NSPT loan facility post IPO.

Risk management

Loan covenants

Under the terms of the major borrowing facilities, NSH and NSPT are required to comply with the following financial covenants:

- The gearing ratio must not be more than 50%.
- The ratio of EBITDA to finance costs must equal or exceed 2 times.

Both the Consolidated Group and the NSPT Group have complied with these covenants throughout the reporting period. As at 30 June 2014, the ratio of the Consolidated Group's EBITDA to finance cost was 7.41 times. The gearing ratio as at 30 June 2014 is as disclosed above.

Dividends and distribution

	Notes	Consolidated Group	
		2014 \$'000	2013 \$'000
Ordinary share dividends			
<i>Recognised amounts</i>			
National Storage Pty Ltd final franked dividend for 2013 of \$2,799 per share declared by the Directors of National Storage Pty Ltd on 24 October 2013. This amount was offset against the loans owed by the former shareholders of National Storage Pty Ltd.		5,598	-
National Storage Pty Ltd franked dividend for of \$450 per share paid in the 2013 financial year.		-	900
		5,598	900
<i>Unrecognised amounts</i>			
The directors have not declared a final dividend. A distribution has been declared as noted below.		-	

Dividends and distribution

	NSPT Group	
	2014	2013
Notes	\$'000	\$'000
Unit distributions		
<i>Distributions paid</i>		
National Storage Property Trust distribution of 2.223 cents paid on 19 December 2013	2,077	-
National Storage Property Trust distribution of 2 cents paid on 31 October 2013 (2013: 5.418 cents)	1,861	5,041
Distribution of 1.806 cents per unit provided for in the National Storage Property Trust 2013 financial year and paid on 31 July 2013	-	1,681
Distribution of 3.8 cents per unit provided for in the National Storage Property Trust 2014 financial year payable on 26 August 2014	9,306	-
	13,244	6,722
<i>Distributions proposed and not recognised as a liability</i>		
There are no proposed distributions not recognised as a liability for the year ended 30 June 2014.	-	

Franking credit balance

There is no final dividend recommended after 30 June 2014. Any existing franking credits therefore remain unused.

	Consolidated Group	
	2014	2013
	\$'000	\$'000
Ordinary share dividends		
<i>Recognised amounts</i>		
Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%)	1,649	3,773

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

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

18. RELATED PARTY TRANSACTIONS

This related party's note is separated into two time periods as the related parties changed upon stapling on 19 December 2013. As such this note is presented in two sections: pre-stapling and stapled entity.

Pre-Stapling – up to 18 December 2013

National Storage Pty Ltd

Directors

The following persons were directors during the reporting period

	Appointed	Resigned
Andrew Catsoulis	13 January 2000	
Peter Greer	13 January 2000	19 December 2013
Michael Berry	13 January 2000	19 December 2013
Geoff McMahon	13 January 2000	19 December 2013
Laurie Brindle	1 November 2013	
Anthony Keane	1 November 2013	

APN National Storage Property Trust (now known as NSPT)

The Responsible Entity of APN National Storage Property Trust was APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acted as the manager of the Trust.

Transactions with related parties took place at arms length and in the ordinary course of business. The following related party transactions took place during the period:

- Investment management fees of \$2,423,103 (2013: \$854,000) were paid to the Responsible Entity.
- Registry and accounting fees of \$9,292 (2013: \$62,000) were paid to the Responsible Entity.

Key management personnel

The NSPT did not employ personnel in its own right. However it was required to have an incorporated Responsible Entity to manage the activities of the NSPT and personnel of this entity are considered the Key Management Personnel of the NSPT.

The names of the key management personnel of the Responsible Entity up to 19 December 2013 were:

- Christopher Aylward
- Howard Brenchley (Director)
- Clive Appleton
- Geoff Brunsdon (Chairman and Independent Non Executive Director)
- Michael Johnstone (Independent Non Executive Director)
- John Freemantle (Chief Financial Officer)
- Jennifer Horrigan (Non Executive Director)

The positions noted above for the NSPT's key management personnel are the positions held within the Responsible Entity and not the NSPT itself.

Key management personnel compensation

Key management personnel were paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Trust to the Responsible Entity did not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Trust itself.

Holdings of units by related parties

Related parties were able to purchase and sell units in the Trust in accordance with their respective constitutions and product disclosure statements. Details of units held in the Trust by related parties are set out below:

	Number of Units Held at	
	30 June 2014	30 June 2013
Responsible entity and its associates		
APN Unlisted Property Fund	-	5,687,656
APN Direct Property Fund	-	7,652,164

Stapled Entity – from 19 December 2013

Ultimate parent company/holding entity

National Storage Holdings Limited is the ultimate parent company of the Consolidated Group. The holding entity of the NSPT Group is National Storage Property Trust.

Key management personnel compensation

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$	\$	\$	\$
Short-term employee benefits	805,015	-	-	-
Post-employment benefits	68,194	-	-	-
Long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	873,209	-	-	-

There are no amounts for 2013 as key management personnel were paid by an entity outside of the Consolidated Group.

Detailed remuneration disclosures are provided in the remuneration report which is included in the Directors' Report.

Transactions with former Directors of National Storage Pty Ltd at stapling and listing

The implementation of the Transaction and the ongoing management of the National Storage REIT necessarily involve a number of related party transactions outlined in the Prospectus:

Purchase from National Storage Pty Ltd vendors:

The purchase prices for the respective acquisitions were as follows:

- (a) \$1,047,000 plus 25,510,204 Shares in NSH for the NSPL Sale;
- (b) 25,510,204 Units in NSPT for the NSIT Sale; and
- (c) \$4,750,000 for the NS APAC Sale.

In respect of the former Directors in their Respective Proportions under the Sale and Purchase Agreement, they received the following:

- (a) Michael Berry – 4.00% for Green 9 Pty Ltd as trustee for the Michael Berry Family Trust – Michael Berry is the sole director, company secretary and shareholder of Green 9 Pty Ltd and a potential discretionary beneficiary of the Michael Berry Family Trust ; and
- (b) Geoff McMahon 29.20% for Leyshon Equities Pty Ltd, – Geoff McMahon is a director and company secretary of Leyshon Equities Pty Ltd.

Purchase from Strategic Storage Consulting Pty Ltd vendors:

The purchase price for the company was \$5,828,000.

In respect of the former Directors in their Respective Proportions under the Sale and Purchase Agreement, they received the following:

- 21% for Green 9 Pty Ltd as trustee for the Michael Berry Family Trust - Michael Berry is the sole director, company secretary and shareholder of Green 9 Pty Ltd and a potential discretionary beneficiary of the Michael Berry Family Trust; and

Premier Self Storage Pty Ltd received \$2,800,000 for an Asset Sale – Geoffrey McMahon is a director and company secretary of Premier Self Storage Pty Ltd and was also a director of NSPL. Premier Self Storage Pty Ltd is a related body corporate of Leyshon Equities Pty Ltd who was a NS Vendor.

Transactions with former Directors of National Storage Pty Ltd subsequent to stapling and listing

As noted in the Product Disclosure Statement, on 23 December 2013, an NSR subsidiary trust NSIT purchased a property at 961–963 Marion Rd, Mitchell Park, South Australia for \$1,576,000 from Australian Storage Developments Pty Ltd which is owned by a KMP and former Director of National Storage Pty Ltd.

The shareholders who were former directors and are not KMP of ASD comprise:

- Michael Berry – 25% for Green 9 Pty Ltd as trustee for the Michael Berry Family Trust – Michael Berry is the sole director, company secretary and shareholder of Green 9 Pty Ltd and a potential discretionary beneficiary of the Michael Berry Family Trust.

Responsible Entity

On 19 December 2013 the Trust Company (RE Services) Limited became the responsible entity of the National Storage Property Trust, in doing so it became a related party.

Directors

The Directors of the Responsible Entity in office during the Reporting Period and continuing as at the date of these financial statements are set out below.

Andrew Cannane	Director (appointed 31 March 2011)
Christopher Green	Director (appointed 7 March 2014)
Gillian Larkins	Director (appointed 7 March 2014)
David Grbin	Director (appointed 22 July 2008, resigned 7 March 2014)
Rupert Smoker	Director (appointed 18 December 2013, resigned 7 March 2014) Alternate Director for John Atkin, David Grbin and Andrew Cannane (appointed 20 February 2013, resigned 18 December 13)
John Atkin	Director (appointed 27 January 2009, resigned 18 December 2013)
Anna O'Sullivan	Alternate Director for Andrew Cannane (appointed 7 March 2014) and Alternate Director for Christopher Green (appointed 7 March 2014)
Joanne Hawkins	Alternate Director for Gillian Larkins (appointed 7 March 2014)
Glenn Foster	Alternate Director for Gillian Larkins (appointed 7 March 2014)

Directors' remuneration

Payments made from the NSPT to the Responsible Entity did not include any amounts attributable to the compensation of these Directors in respect of services rendered to NSPT.

Transactions with the Responsible Entity

During the year, the Responsible Entity and its associates were paid \$143,441 for responsible entity and custodian services.

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	2014	1,147,271	-	1,028,712	-
	2013	2,572,866	-	2,361,750	3,473,580
National Storage APAC Trust	2014	-	-	-	-
	2013	-	-	348,339	118,564
Former shareholders of NSPL	2014	-	-	-	-
	2013	285,996	-	5,598,138	-
The Trust Company (RE Services) Limited and its associates *	2014	-	130,306	-	-
	2013	-	-	-	-
Australian Storage Developments	2014	-	-	-	5,794
	2013	-	-	-	-
Southern Cross Storage Trust	2014	-	-	44,465	40,000
	2013	-	-	-	-

* not related parties in prior year or pre-stapling

Transaction with Related Parties – NSPT

		Revenue from related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		\$	\$	\$	\$
National Storage Holdings Limited	2014	-	-	8,230,421	-
	2013	-	-	-	-
Southern Cross Storage Trust	2014	-	-	-	40,000
	2013	-	-	-	-
National Storage (Operations) Limited	2014	20,431,395	1,284,814	8,585,032	14,736,943
	2013	18,575,000	-	-	2,149,000
APN Funds Management Limited	2014	-	2,423,104	-	-
	2013	-	916,000	-	-
The Trust Company (RE Services) Limited and its associates	2014	-	143,441	-	-
	2013	-	-	-	-

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended

30 June 2014, the Consolidated Group has not recorded any impairment of receivables relating to amounts owed by related parties (2013: \$Nil). This assessment was undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

19. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

Non-cancellable operating leases

The NSH Group leases offices expiring within 5 years. The lease has an escalation clause and a right of renewal. The NSPT Group does not have any operating lease commitments.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated Group	
	2014	2013
	\$'000	\$'000
Within one year	251	-
Later than one year but not later than five years	887	-
Later than five years	-	-
	1,138	-

Finance lease commitments

For details of finance lease commitments see note 9.7.

Contingent liabilities

Guarantees

For information about guarantees given by entities within the group, including the parent entity, please refer to notes 22 and 23.

20. EARNINGS PER STAPLED SECURITY (EPSS)

Basic EPSS is calculated as net profit attributable to stapled securityholders, adjusted to exclude costs of services equity (other than distributions) divided by the weighted average number of stapled securities on issue during the year.

Diluted EPSS is calculated as net profit attributable to stapled securityholders, adjusted for:

- Costs of servicing equity (other than distributions);
- The after tax effect of dividends and interest associated with dilutive potential stapled securities that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential stapled securities;

divided by the weighted average number of stapled securities and dilutive potential stapled securities, adjusted for any bonus element.

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	cents	cents	cents	cents
Basic and diluted earnings per stapled security	11.00	(2.09)	21.04	6.31
Reconciliation of earnings used in calculating earnings per stapled security				
Basic and diluted earnings per security	\$'000	\$'000	\$'000	\$'000
Net profit/(loss) attributable to members of National Storage REIT	15,565	(532)	39,000	7,482
Weighted average number of securities:	No. of securities	No. of securities	No. of securities	No. of securities
Weighted average number of securities for basic and diluted earnings per stapled security	141,514,780	25,510,204	185,365,653	118,565,836

21. AUDITOR'S REMUNERATION

During the year the following fees were paid for services provided by the auditor of the parent entity:

	Consolidated Group		NSPT Group	
	2014	2013	2014	2013
	\$	\$	\$	\$
Ernst and Young				
An audit or review of the financial report of the entity and any other entity in the Consolidated Group	274,789	22,278	10,300	-
Other services in relation to the entity and any other entity in the Consolidated Group				
Tax compliance	180,158	46,505	-	-
Assurance related to the IPO of NSR	850,829	-	-	-
Other	80,175	-	-	-
Total remuneration of Ernst and Young	1,385,951	68,783	10,300	-
Deloitte				
An audit or review of the financial report of the entity and any other entity in the Consolidated Group	-	-	-	25,328
Other services in relation to the entity and any other entity in the Consolidated Group	-	-	-	15,905
Total remuneration of Deloitte	-	-	-	41,233
Total auditors' remuneration	1,385,951	68,783	10,300	41,233

22. INFORMATION RELATING TO THE PARENT COMPANY

Summary financial information

The individual financial statements for National Storage Holdings Limited (2013: National Storage Pty Ltd), the parent entity, show the following aggregate amounts:

	NSH		NSPT	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current assets	7,775	6,936	27,181	12,034
Total assets	16,602	15,878	302,102	220,734
Current liabilities	290	11,819	10,274	6,155
Total liabilities	495	11,819	98,190	131,912
Issued capital	17,758	2,800	191,499	89,322
Cash flow hedge reserve	-	-	(393)	-
Retained earnings	(1,651)	1,259	12,806	(500)
	16,107	4,059	203,912	88,822
Profit or (loss) for the year	(1,651)	(46)	23,984	7,482
Total comprehensive income	(1,651)	(46)	24,377	7,482

The Consolidated Group discloses the parent entity National Storage Holdings Limited in 2014 and the parent entity National Storage Pty Ltd in 2013.

Guarantees entered into by the parent entity

The Consolidated Group parent entity has provided financial guarantees in respect of bank overdrafts and loans of subsidiaries amounting to \$87,916,000 (2013: \$nil), secured by registered mortgages over the freehold and leasehold investment properties of the subsidiaries.

The Consolidated Group parent entity has also provided bank guarantees of \$1,213,000 in the event of lease payment default to third party lessors.

The NSPT Group parent entity has provided financial guarantees in respect of bank overdrafts and loans of subsidiaries amounting to \$87,916,000 (2013: \$109,171,000), secured by registered mortgages over the freehold properties of the subsidiaries.

In addition, there are cross guarantees given by National Storage Holdings Limited (NSH), National Storage Operations Pty Ltd and National Storage Pty Ltd as described in note 23. No deficiencies of assets

exist in any of these companies. No liability was recognised by the parent entity or the Consolidated Group in relation to this guarantee, as the fair value of the guarantee is immaterial.

Contingent liabilities of the parent entity

The parent entities of the Consolidated Group and the NSPT Group did not have any contingent liabilities as at 30 June 2014 or 30 June 2013. For information about guarantees given by the parent entities, please see above.

Contractual commitments for the acquisition of property, plant or equipment

The parent entities of the Consolidated Group and the NSPT Group did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2014 or 30 June 2013.

23. DEED OF CROSS GUARANTEE

National Storage Holdings Limited (NSH), National Storage Operations Pty Ltd and National Storage Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Set out below is a consolidated statement of comprehensive income and statement of financial position of the entities that are members of the Closed Group.

Consolidated statement of comprehensive income

	2014	2013
	\$'000	\$'000
Profit from continuing operations before income tax	(25,285)	125
Income tax expense	7,315	(524)
Profit after tax	(17,970)	(399)
Retained earnings at the beginning of the year	27,444	28,723
Dividends provided for or paid	(5,598)	(900)
Other – transfer to reserves	-	-
Retained earnings at the end of the year	3,876	27,424

Consolidated statement of financial position

	2014	2013
	\$'000	\$'000
Current assets		
Cash and cash equivalents	7,415	331
Trade and other receivables	9,214	12,224
Inventories	258	180
Other current assets	1,329	2,303
Total current assets	18,216	15,038
Non-current assets		
Trade and other receivables	220	1,123
Property, plant and equipment	1,186	913
Investment properties	171,033	201,328
Investment in joint venture	7,685	1,857
Other non-current assets	136	1,332
Intangibles	483	434
Deferred tax asset	-	-
Total non-current assets	180,743	206,987
Total assets	198,959	222,025
LIABILITIES		
Current liabilities		
Trade and other payables	10,660	8,475
Finance Lease Liability	10	16,244
Deferred revenue	4,952	5,001
Provisions	1,069	345
Total current liabilities	16,691	30,065
Non-current liabilities		
Finance Lease Liability	159,821	153,741
Provisions	588	454
Deferred tax liability	225	7,541
Total non-current liabilities	160,634	161,736
Total Liabilities	177,325	191,801
Net Assets	21,634	30,224
EQUITY		
Non-controlling interest	-	-
Contributed equity	17,758	2,800
Other reserve	-	-
Retained profits/(Accumulated losses)	3,876	27,424
Total equity	21,634	30,224

24. EVENTS AFTER REPORTING PERIOD

ACQUISITION OF STORAGE CENTRES

On 15 July 2014, NSR acquired a storage centre in Wangara, Western Australia for \$10.9 million. This centre has 580 units and 4,407 sqm of net lettable area.

On 25 July 2014, NSR acquired a storage centre in Port Adelaide, South Australia for \$5.2 million. This centre has 538 units and 4,192 sqm of net lettable area.

NSR has contracted to acquire a centre in Kardinya, Western Australia for \$8 million. Upon completion this centre will comprise approximately 420 units and 4,400 sqm of net lettable area. NSR will receive development management fees for its involvement in the project, completion of which is scheduled for late calendar year 2014.

As these centres are, or will be, recorded as investment properties, they are initially recorded at their purchase price. This value is supported by an independent valuation.

CAPITAL RAISING

As at the date of this financial report, NSR has determined to raise additional capital. This will be undertaken by the following two mechanisms:

1. A Placement Offer, details of which are as follows:

A fully underwritten placement to institutional, professional and sophisticated investors of approximately 36.73 million stapled securities (Placement).

The issue price will be determined in relation to a discount on the last closing price of NSR Stapled Securities on Friday 22 August 2014. Settlement of the Placement is scheduled to occur on Friday, 29 August 2014 with allotment to occur on Monday, 1 September 2014.

The purpose of the capital raising is to provide NSR with financial flexibility to pursue growth consistent with NSR's strategic planning, strengthen its balance sheet and maintain a sound financial position.

2. A Security Purchase Plan ("SPP") pursuant to which NSR will offer to eligible Securityholders the opportunity to acquire up to approximately \$15,000 of Stapled Securities (subject to scaleback).

The issue price of Stapled Securities issued under the SPP will be the lesser of the Placement price and the volume weighted average price of NSR's Stapled Securities during the five trading days before the closing date for applications under the SPP. The SPP is not underwritten.

The SPP will be open to eligible Australian and New Zealand resident Securityholders on the register as at the record date who are eligible to participate under the terms of the SPP. Stapled Securities issued under the SPP will rank equally with existing stapled securities on issue.

INCREASE IN DEBT FACILITY

On 8 July 2014 NSR announced it had negotiated a \$35 million increase to its debt facility with National Australia Bank (NAB) subject to standard conditions precedent. The increase resulted in NSR's debt facility being extended to \$135 million on substantially the same terms previously agreed with NAB, due to mature in December 2016. The facility is intended to be used primarily to fund strategic acquisitions for the portfolio.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the Consolidated Group's or the NSPT operations, the results of those operations, or the Consolidated Group's or the NSPT 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:

1. In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Group for the year ended 30 June 2014 are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b); and
- (c) with reference to note 2(a) in the financial statements, there are reasonable grounds to believe that the Consolidated Group will be able to pay its debts as and when they become due and payable.

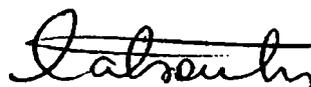
2. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the Board,



Laurence Brindle
Chairman

24 August 2014
Brisbane



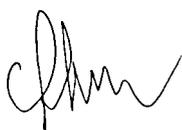
Andrew Catsoulis
Managing Director

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of The Trust Company (RE Services) Limited, the Responsible Entity states that:

1. In the opinion of the Responsible Entity:
 - (a) the financial statements and notes of the NSPT Group for the year ended 30 June 2014 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the NSPT Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001;
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b); and
 - (c) with reference to note 2(a) in the financial statements, there are reasonable grounds to believe that NSPT will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors of The Trust Company (RE Services) Limited by the Chief Executive Officer and Chief Financial Officer of the NSR Group in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the Responsible Entity,



Christopher Green
Director

24 August 2014
Sydney

INDEPENDENT AUDITOR'S REPORT



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

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

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

Report on the financial report

We have audited the accompanying financial report of National Storage REIT comprising National Storage Holdings Limited and National Storage Property Trust and the entities they controlled during the year which comprises the consolidated statements of financial position as at 30 June 2014, consolidated statements of profit or loss, the consolidated statements of other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declarations of National Storage Holdings Limited and National Storage Property Trust and the entities they controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of National Storage Holdings Limited and the Directors of the Responsible Entity of National Storage Property Trust are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

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

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INDEPENDENT AUDITOR'S REPORT – CONT'D



Opinion

In our opinion:

- a. the financial report of National Storage REIT is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of National Storage Holdings Limited and National Storage Property Trust and consolidated entities' financial positions as at 30 June 2014 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the tabled companies are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of National Storage REIT for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Mark Hayward
Partner
Brisbane
24 August 2014

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Stapled Security Holder Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 July 2014:

(a) Distribution of equity securities

Analysis of numbers of ordinary fully paid stapled security holders by size of holding:

Holding	Securities
1 - 1,000	61
1,001 - 5,000	201
5,001 - 10,000	225
10,001 - 100,000	781
100,001 - And over	102
Total	1,370

There were 22 holders of less than a marketable parcel of stapled securities.

(b) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Stapled securities	
	Number held	Percentage of issued securities
HSBC Custody Nominees (Australia) Limited	54,772,247	22.37
J P Morgan Nominees Australia Limited	37,073,249	15.14
National Nominees Limited	25,669,155	10.48
Citicorp Nominees Pty Limited	24,854,785	10.15
Clarence Property Corporation Ltd (Westlawn Property A/C)	7,497,600	3.06
Leyshon Equities Pty Ltd	7,448,980	3.04
BNP Paribas Noms Pty Ltd (DRP)	6,612,889	2.70
Storcat Pty Ltd (Andrew Catsoulis Family A/C)	6,173,469	2.52
Palomere Pty Ltd (Peter Edward Greer Family A/C)	5,586,735	2.28
RBC Investor Services Australia Nominees Pty Limited (Bkcust A/C)	3,583,537	1.46
Stowaway Self Storage Pty Ltd (Catsoulis Development A/C)	3,469,388	1.42
UBS Wealth Management Australia Nominees Pty Ltd	2,928,500	1.20
RBC Investor Services Australia Nominees Pty Limited (Aprn A/C)	2,654,867	1.08
HSBC Custody Nominees (Australia) Limited - A/C 2	2,148,900	0.88
Stowaway Self Storage Pty Ltd (Catsoulis Family A/C)	1,811,224	0.74
Sandhurst Trustees Ltd (LMA A/C)	1,609,287	0.66
Green 9 Pty Ltd (Michael Berry Family A/C)	1,020,408	0.42
Brindle Super Pty Ltd (The Brindle Super Fund A/C)	1,020,400	0.42
Moat Investments Pty Ltd (Moat Investment A/C)	1,000,000	0.41
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	810,767	0.33
	197,746,387	80.76

Unquoted equity securities

There are no unquoted securities.

(c) Substantial shareholders

Substantial securityholders are set out below:

	Number held	Percentage
Commonwealth Bank	30,407,939	12.42
Milford Asset Management	19,387,306	7.92
Cohen & Steers Inc	16,642,159	6.80
Bennelong Funds Management Group	15,943,780	6.51
Andrew Catsoulis	12,547,163	5.12

(d) Voting rights

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

(e) Escrowed securities

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

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

Details of the escrow period for the escrow for Storcat Pty Ltd and Palomere Pty Ltd are set out on page 59 (Note Storcat Pty Ltd equates to the Managing Director and Palomere Pty Ltd equates to the Chief Operating Officer). The escrow provisions for the remaining escrowed stapled security holders are the same as for Storcat Pty Ltd and Palomere Pty Ltd other than the period is three years not five years.

Investor Relations

National Storage REIT is listed on the Australian Securities Exchange under the code NSR.

NATIONAL STORAGE REIT SECURITIES

A stapled security comprises:

- one share in National Storage Holdings Limited; and
- one unit in the National Storage Property Trust;
- stapled and traded together as one stapled security.

CONTACT DETAILS

All changes of name, address, TFN, payment instructions and document requests should be directed to the registry.

SECURITIES REGISTRY

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001 Australia

Telephone: 1300 850 505 (Australia only)
International: +61 3 9415 4000
Facsimile: +61 3 9473 2500
Email: web.queries@computershare.com.au

ELECTRONIC INFORMATION

By registering your email address, you can elect to receive via email notifications and announcements, distribution statements, taxation statements and annual reports.

SECURE ACCESS TO YOUR SECURITYHOLDING

You will need to have your securityholder reference number or holder identification number (SRN/HIN) available to access your holding details.

Online

You can access your securityholding information via the Investor Centre section of the corporate website, www.nationalstorageinvest.com.au, or via the Investor Centre link on the registry's website at www.computershare.com.au.

To view your securityholding, you will need your SRN/HIN and will be asked to verify your registered postcode (inside Australia) or your country of residence (outside Australia).

Phone

You can confirm your holding balance, request forms and access distribution and trading information by phoning: 1300 850 505 (Australia only) or calling +61 3 9946 4471 (outside Australia).

DISTRIBUTION DETAILS

NSR intends to distribute 90% to 100% of underlying net profits after tax each year.

Distributions are expected to be paid within eight weeks following the end of each semi-annual distribution period, which occur in June and December each year.

To ensure timely receipt of your distributions, please consider the following:

Direct Credit

NSR encourages securityholders to receive distribution payments by direct credit.

If you wish to register for direct credit or update your payment details, log in to your holding online or telephone the registry for assistance.

Tax File Number (TFN)

You are not required by law to provide your TFN, Australian Business Number (ABN) or exemption status. However, if you do not provide your TFN, ABN or exemption, withholding tax at the highest marginal rate for Australian resident members may be deducted from distributions paid to you.

If you wish to update your TFN, ABN or exemption status, log in to your holding online or telephone the registry for assistance.



UNPRESENTED CHEQUES

If you believe you have unpresented cheques, please contact the registry and request a search to assist in recovering your funds.

If you wish to register for direct credit or update your payment details, log in to your holding online or telephone the registry for assistance.

ANNUAL TAXATION STATEMENT AND TAX GUIDE

The Annual Taxation Statement and Tax Guide are dispatched to securityholders in August each year.

INVESTOR FEEDBACK

If you have any fund specific queries or feedback please telephone NSR Investor Relations on 1800 683 290. Please direct any complaints in writing to NSR Company Secretary at GPO Box 3639, Brisbane QLD 4001, Australia.

NSR CALENDAR

February

Half Year Results released

Distribution paid for six months ended 31 December

August

Full Year Results released

Distribution paid for the six months ended 30 June

Annual tax statements released

September

Annual Report released

Notice of Annual General Meeting released

October / November

Annual General Meeting

The dates listed above are indicative only and subject to change.

Corporate Directory

National Storage Holdings Limited ACN 166 572 845 (“NSH” or the “Company”)

National Storage Property Trust ARSN 101 227 712 (“NSPT”)

form the stapled entity National Storage REIT (“NSR” or the “Consolidated Group”)

Responsible Entity of NSPT

The Trust Company (RE Services) Limited
ACN 003 278 831 AFSL 235 150
Level 15, 20 Bond Street
Sydney NSW 2000

Directors – NSH

Laurence Brindle
Anthony Keane
Andrew Catsoulis

Directors – The Responsible Entity

Andrew Cannane
Christopher Green
Gillian Larkins

Alternate Directors:

Anna O’Sullivan (for Andrew Cannane and
Christopher Green)
Joanne Hawkins and Glenn Foster (for Gillian Larkins)

Company Secretary – NSH

Patrick Rogers

Company Secretary – The Responsible Entity

Glenda Charles, Thornton Christensen, Sylvie Di
Marco and Joanne Hawkins

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).

Auditors

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

National Storage History

National Storage was established in December 2000, following the merger of Stowaway Self Storage, National Mini Storage and Premier Self Storage. The union consolidated over 30 years of industry experience, creating a network of centres with the capacity to deliver tailored storage solutions for residential and commercial needs across Australia.

Since then, National Storage has enjoyed partnerships with a number of private and institutional investors, amalgamating over thirty individual storage brands whilst undertaking eight tranches of acquisitions to grow the business to over 60 centres to December 2013.

