NATIONAL STORAGE

ANNUAL REPORT
2017/2018

IMPORTANT INFORMATION

ABOUT THIS REPORT

Welcome to National Storage REIT's 2018 Annual Report which reports our performance for the financial year 1July 2017 – 30 June 2018.

The 2018 Reporting Suite includes:

Annual Report – a review of FY18 performance, strategy and governance

Financial Report – FY18 financial accounts and detailed financial performance

Sustainability Report – outlines NSR's approach to sustainability based on the Global Reporting Initiatives (GRI) G4 framework

The 2018 Reporting Suite is available online at www.nationalstorageinvest.com.au
National Storage Holdings Limited ACN 166 572 845 ("NSH" or the "Company")
National Storage Property Trust ARSN 101 227 712 ("NSPT")
together form the stapled entity National Storage REIT ("NSR" or the "Consolidated Group")

RESPONSIBLE ENTITY OF NSPT

National Storage Financial Services Limited (NSFL)
ACN 600 787 246 AFSL 475 228
Level 23, 71 Eagle Street, Brisbane QLD 4000

DISCLAIMER

This is the Annual Report for National Storage REIT which comprises the combined assets and operations of National Storage Holdings Limited (ACN 166 572 845) ("NSH") and the National Storage Property Trust (ARSN 101 227 712) ("NSPT"). This report has been prepared by NSH and NSFL (ACN 600 787 246 AFSL 475 228) as responsible entity for NSPT. National Storage REIT (ASX: NSR) currently has stapled securities on issue on the Australian Securities Exchange ("ASX") each comprising one unit in NSPT and one ordinary share in NSH ("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 NSFL, and which may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements and forecasts contained in this report.

No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved. Similarly, no representation is given that the assumptions upon which forward-looking statements and forecasts may be based are reasonable. These forward-looking statements and forecasts are based on information available to NSH and/or NSFL as of the date of this report. Except as required by law or regulation (including the ASX Listing Rules) each of NSH and NSFL undertake no obligation to update or revise these forward-looking statements or forecasts.

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

CONTENTS

OUR BUSINESS

National Storage is one of Australasia's largest self-storage providers, tailoring self-storage solutions to over 50,000 residential and commercial customers at more than 135 storage centres across Australia and New Zealand.

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

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.

Each National Storage centre reflects our commitment to quality, convenience and service.

At National Storage, you can expect secure, clean and modern premises and a wide range of packaging materials on offer, together with a team of professionals trained in the exacting task of providing efficient storage.

OUR FY18 PERFORMANCE at 30 June 2018

FINANCIAL HIGHLIGHTS

Measure	FY18	FY17	Change
Total Revenue	$139.6m	FY17: $117.5m	↑ 19%
IFRS profit	$145.8m	FY17: $103.4m	↑ 41%
Underlying Earnings (1)	$51.4m	FY17: $45.7m	↑ 12.5%
Underlying Earnings (1) per Stapled Security	9.6cps	FY17: 9.2cps	↑ 4.3%
Distribution per Stapled Security	9.6cps	FY17: 9.2cps	↑ 4.3%

OPERATIONAL HIGHLIGHTS

Measure	FY18	FY17	Change
Number of Centres	135	FY17: 116	↑ 19
Square Metres of Net Lettable Area	703,000	FY17: 622,000	↑ 81,000
Number of Storage Units	73,000	FY17: 65,000	↑ 12%
Like for Like Occupancy (2)	80.8%	FY17: 77.5%	↑ 3.3%
Like for Like Revenue per Available Metre (REVPAM)(2)	$220m	FY17: $212m	↑ 3.8%
Assets Under Management (AUM)	$1.43b	FY17: $1.16b	↑ 23%

CAPITAL STRENGTH

Measure	FY18	FY17	Change
Total Asset Value	$1.71b	FY17: $1.44b	↑ $273m
Gearing	38%	FY17: 37%	↑ 1%
Weight Average Debt Tenor	4.7	FY17: 4.6	↑ 0.1years
Net Tangible Assets per Stapled Security	$1.51	FY17: $1.34	↑13%

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

[2] Same centre 30 June 2016

OUR STRATEGY

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

Acquisitions

execute high quality acquisitions in a fragmented industry

Product &Innovation

explore market opportunities for revenue generation

focus on digital transformation

drive innovation and sustainability at a product and portfolio level

Asset Management

balance occupancy and rate to achieve organic growth and drive revenue growth

leverage management platform and economies of scale to extract value

drive cost efficiencies across the portfolio

Portfolio,Development & Centre Management

focus on development in markets where acquisition is challenging

maximise portfolio potential through expansion of outperforming assets

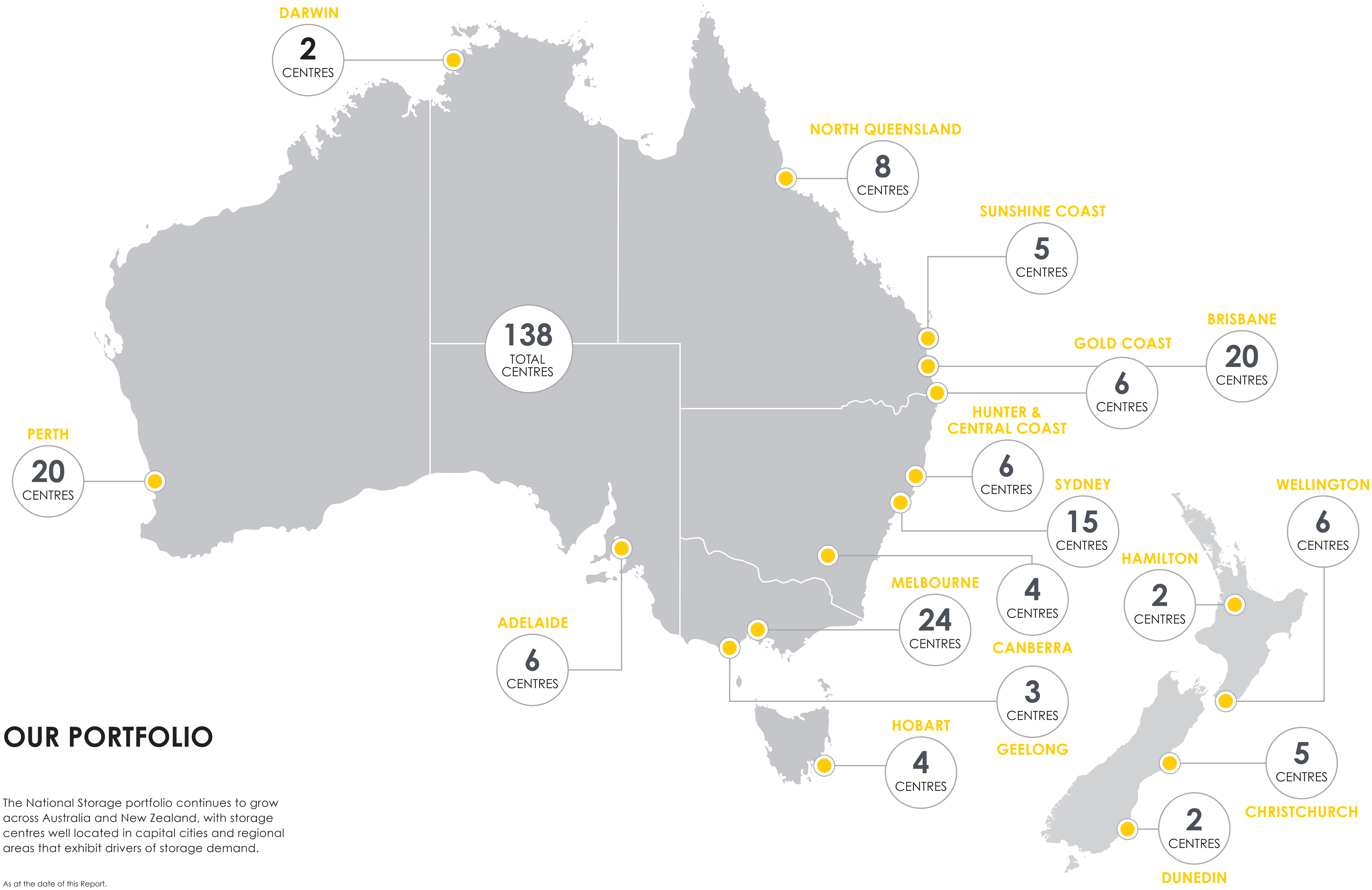
align with investment partners to execute development opportunities

undertake portfolio recycling opportunities to maximise value

Capital Management

maintain an efficient capital structure

Develop multiple revenue streams to maximise returns



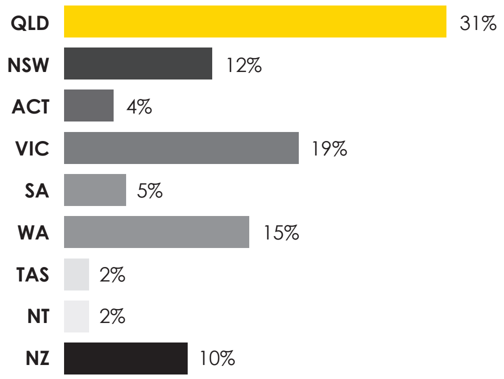
OUR PORTFOLIO

The National Storage portfolio continues to grow across Australia and New Zealand, with storage centres well located in capital cities and regional areas that exhibit drivers of storage demand.

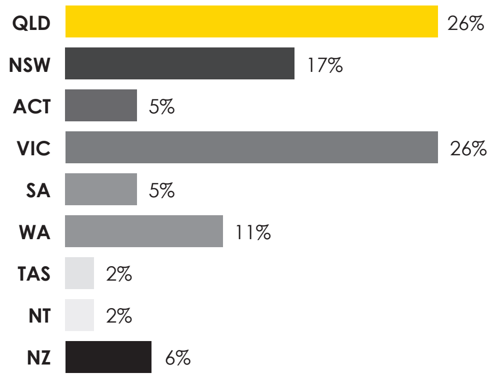
As at the date of this Report.

PORTFOLIO STATISTICS

PORTFOLIO DIVERSIFICATION BY NLA



PORTFOLIO DIVERSIFICATION BY VALUE



PORTFOLIO BY NLA	JUNE 2018
North Queensland	45,200
Sunshine Coast	23,100
Gold Coast	37,500
Brisbane	112,300
Sydney	80,900
Canberra	27,900
Melbourne	115,100
Geelong	12,400
Adelaide	35,500
Tasmania	13,200
Perth	104,800
Darwin	15,200
Central Coast NSW	12,300
Christchurch	18,100
Auckland	-
Hamilton	7,400
Wellington	18,600
Dunedin	23,800
TOTAL	703,300

FY18 PORTFOLIO COMPOSITION	NUMBER OF CENTRES
Freehold	114
Leasehold	16
Managed	3
Licensed	2
TOTAL	135

PORTFOLIO VALUATION

NSR Portfolio Value $1.43 billion
Weighted Average Cap Rate 7.34%

CHAIRMAN'S & MANAGING DIRECTOR'S REPORT

Now in our fifth year since listing in December 2013 National Storage REIT ("NSR") has continued to execute its core business plan with considerable success, creating ongoing value accretion for its security holders. As at June 30, 2018 our share price has increased to over $1.64 per security, with a distribution of 9.6 cps announced for FY2018. This means that since its IPO NSR has provided a total return for its original security holders of over 100%. As at June 30, 2018 our market capitalisation had increased to approximately $920 million, with total assets under management approaching $1.5 billion all of which are significant achievements for our company. Growth in underlying earnings has increased for the period ending June 30, 2018 by 13% to $51.4 million, supported by strong same centre REVPAM growth of 4%.

We have made a number of advancements in FY18 spanning all four key focus areas of our business – organic growth, acquisitions, developments and technology / innovation.

First, in terms of organic growth, we have achieved organic occupancy growth of 4% across the portfolio, totalling 25,000m^2 of new additional occupied space. This growth has been achieved without undermining our robust existing rate per square metre. This strong improvement in occupancy takes our total centre occupancy across the same centre portfolio* to approximately 81%. We are particularly pleased to see REVPAM continuing to grow - having increased from $212 to $220 during FY18.

Our second key focus area lies in the continued execution of our consolidation strategy through acquisition of existing high quality storage centres in key markets. In FY18 we acquired 19 storage centres totalling $155m in value across existing and new markets in both Australia and New Zealand. These acquisitions have assisted in strengthening our coverage in locations including Townsville, Newcastle, Darwin, Gold Coast and Perth. These important additions to our portfolio will provide improved coverage for our network of residential and business customers as well as synergies and operating efficiencies to existing National Storage centres in nearby locations. Our portfolio now sits at 138 centres, having more than doubled since our IPO in December 2013.

Third, our development team has worked hard to increase the pace of new developments and expansions, with a number of new projects underway across the entire portfolio. In this regard we now have four "phase 1" developments at various stages of construction (being Brooklyn, Bundall, Croydon and Milton) with another 6 centres identified and under planning for execution as part of phase 2, with these phase 2 projects scheduled to commence later this year. These ongoing development and expansion activities will add approximately 50,000m^2 of additional net lettable area to the portfolio in areas of high storage demand, further consolidating NSR's position as a leader in these markets. We are continuing to work with our joint venture partners to explore new opportunities to add value to the NSR portfolio and to maximise the value of our assets. These projects, undertaken both on balance sheet and through third party joint venture, seek to balance NTA accretion and long term revenue generation, driving growth in earnings per share.

Finally, we are utilising advances in technology and innovation to continue to improve our business efficiency and to enhance the customer experience for our growing platform of more than 50,000 business and residential storage customers. This year NSR has introduced paperless move-ins to more than half of the centres in its portfolio, saving time and cost for both customers and staff. We have also introduced a new sales funnel designed to maximise conversion of enquiries into sales. Our strong focus on data analytics and revenue management, utilising the most sophisticated resources available, continues to

*Excludes NZ portfolio and development assets.

assist us to obtain an optimal mix of rate per square metre and occupancy on a centre by centre basis.

Our prudent approach to capital management has seen NSR undertake a major debt refinance in June this year. With the support of all current financiers, NSR's overall facility has been increased from AU$617 million to AU$715 million, with average weighted tenor increasing to 4.7 years. Financial covenants in loan documentation have remained consistent with ICR at 2 times cover and the gearing covenant at 55%. The targeted gearing ratio range remains between 25% and 40%.

NSR has released its second sustainability report – noting a number of important achievements in FY18. As foreshadowed in the 2017 report, NSR is nearing completion of phase one of its solar PV program (involving an initial tranche of 56 storage centres). This has resulted in over 1.3MW of installed solar panels, predicting a decreased electricity usage of around 2GWh per year, or approximately $400,000 in expected cost savings for FY19. Phase 2 of the solar project rollout is close to activation with a further 40 sites to be completed in FY19. Upon completion of phase 2 NSR will have over 100 storage centres (including its pre-existing installations) with solar PV. This means NSR will be one of the largest privately held multi-site producers of solar electricity in Australia.

NSR remains committed to its objectives of diversity and gender equality at all levels of the organisation. In its most recent WGEA report, NSR's Australian workforce comprised 53.5% females and over 27% female representation across the management team. Our team consistently delivers exceptional outcomes across multiple areas of our business. Our ongoing focus on our core values of "Teamwork, Care and Excellence" mean that throughout our organisation at all levels of the business, our team remains committed to the continued growth and the success of our enterprise.

Our brand development and exposure continues to build with people viewing our brand during FY18 over 70 million times. We are fortunate to have ongoing sponsorship arrangements with organisations of the calibre of Richmond Football Club in the AFL, Brisbane Broncos in the NRL and the Wellington Hurricanes in the Super Rugby competition. We are also pleased to be involved as sponsors of cricket via the Big Bash League ("BBL") through our sponsorship of the Men's and Women's Brisbane Heat teams in the BBL and WBBL. Our sponsorship of GWS Netball and the Brisbane Broncos Women's team (the latter in its inaugural year of NRL competition) demonstrates our broad commitment to sponsorship activities across multiple platforms. We continue our strong support for not-for-profit and charitable organisations with more than 80 not-for-profit organisations providing in excess of $3 million in in-kind support for these community initiatives.

The National Storage "success story" is borne out of the hard work of a highly capable team of individuals, including its senior executives, general managers and a valued group of employees across the whole organisation. We remain well placed to capitalise on opportunities across the self-storage industry. These include executing on the combined strategies of continued organic growth, making high quality acquisitions and value adding through new development, expansion and redevelopment opportunities. In addition, the implementation of technological innovations is designed to further drive scalability and efficiency out of the existing business whilst continuing to improve both the experiences of our employees and customers. These initiatives will enable us to continue to develop multiple revenue streams so as to deliver growing returns for our investors.

These successes could not be achieved without the ongoing support and guidance of our highly capable Board and the relentless pursuit of excellence by the entire National Storage team. We thank you all – you are the heart and soul of our company. Finally, we are deeply appreciative of the support we receive from our valued security holders and we look forward to working with you in the year ahead with a great sense of anticipation and enthusiasm.

Yours sincerely

Laurence Brindle
Chairman

Andrew Catsoulis
Managing Director

*Excludes NZ portfolio and development assets

INVESTMENT PARTNERS

National Storage continues to work with its investment partners and potential new investment partners to assess options for future acquisition, development and redevelopment opportunities.

PERTH DEVELOPMENT PORTFOLIO

The Perth Development Portfolio is a construction and management arrangement with one of Perth's leading self-storage construction companies, Parsons Group. This venture continues to reinforce the National Storage brand as a prominent player in the Perth market. Various sites in and around Perth have been identified as part of the arrangement, whereby Parsons Group constructs quality self-storage centres branded National Storage. The arrangement will see some centres acquired by NSR on completion and others managed by Parsons Group under the guidelines of the National Storage operating platform. The partnership to date has delivered centres at Jandakot, Butler and Perth Airport. NSR acquired Jandakot and Butler during FY17 and Perth Airport during FY18. A further site at Yanchep has just been completed with an additional centre under construction at Fremantle. Other sites are currently in due diligence and planning stages. NSR retains certain rights to purchase the assets under this arrangement.

AUSTRALIA PRIME STORAGE FUND

NSR is a cornerstone investor in the Australia Prime Storage Fund (APSF) with an equity interest of 24.9%. APSF was established to facilitate the development and ownership of premium self-storage centres in select major cities around Australia. APSF focuses its activity in inner city markets where there is demand for a premium storage product, developing new institutional grade assets with state-of-the-art facilities and freehold tenure.

The strategy underpins APSF's mandate to maximise absolute investment returns over the investment term.

NSR's involvement serves to grow market share for the National Storage brand. NSR provides assistance and advice to the Fund on a range of matters including site identification, selection and acquisition, feasibility and input into design and development.

On completion of construction, assets are integrated onto the National Storage operating platform and managed as part of the National Storage portfolio. NSR holds certain rights to purchase the assets upon termination of the Fund, or earlier sale.

The existing centre of National Storage Albion continued to be managed by NSR on behalf of APSF during FY18 and is performing to expectations.

National Storage Kelvin Grove completed construction and opened in November 2017. The centre has achieved strong growth and is performing well against expectations.

In the second half of FY18 NSR successfully completed the acquisition of National Storage Carrara from APSF.

APSF has a development permit and is about to commence construction of a further centre at Canterbury, Victoria. Canterbury is an inner-city suburb approximately 10km east of Melbourne's CBD. It is expected that this development will be completed in early FY20.

LEYSHON GROUP

In March 2017, National Storage entered into arrangements with long term investment partner Leyshon Group to acquire a high-quality site on Bundall Road, Bundall on the Gold Coast. Construction has commenced on a multi-level state-of-the-art storage centre comprising 7,000m^2 of net lettable area with completion expected in early 2019. The remaining building that forms part of the site houses approximately 1,800m^2 and will be enhanced and retained.

In January 2018, NSR furthered the arrangement with Leyshon Group through the acquisition of a site at Dorsey St, Milton in Brisbane's inner-west. The 1,862m^2 site was acquired with development approval to construct a multi-level, state-of-the-art self-storage facility comprising 4,600m^2 net lettable area. Construction has commenced and is expected to be completed in early 2019.

SPACER

In October 2017, National Storage invested in Spacer, the online "Marketplace for Space". National Storage strives to be a leader in industry evolution with its digital transformation and identified an opportunity in partnering with Spacer given the rapid growth of the sharing economy. The Spacer platform is an online marketplace for storage, parking and warehousing leveraging existing infrastructure and assets. The investment was a strategic decision to stay ahead of any impacts of disruption and technology on the storage industry. It also provides National Storage with additional marketing benefits.

THE YEAR IN REVIEW

ASSET MANAGEMENT

Revenue per Available Square Metre (REVPAM) is the key operational metric for the NSR portfolio. The Operations Management Team maintain a focus on driving REVPAM using a balanced approach to rate per square metre and occupancy growth on an individual centre and unit type basis. At 30 June 2018, REVPAM on a like-for-like basis (all owned centres at June 2017) was $220/sqm (June 2017: $212/sqm). Occupancy across the portfolio on a like-for-like basis increased to 80.8% (June 2017: 77.5%).

A continued focus on active revenue management delivered growth across FY18. The progressive implementation of an advanced multiple signal revenue management modelling system, together with a storage specific data analytics platform continues to deliver efficiencies and enhance scalability across the operating platform. FY18 saw the introduction of the value pricing module selling similar units at multiple price points to price sensitive and service sensitive customers, empowering customers to choose whether they want to pay more to obtain a unit for which they decide that they have greater preference.

Further enhancements were made to the management structure across storage operations over the FY18 period. As the portfolio continues to grow, the NSR operating model continues to evolve in order to meet the challenges of trading environments, and to optimise operating performance. Partnerships with ParcelPoint, Australia's largest network of locations for parcel collection, and U-Haul, a leading national trailer rental provider continue to work to drive foot traffic and generate awareness of centres in local areas. ParcelPoint locations increased from 92 to 107 during the year, with more than 37,000 collections and returns. U-Haul rented more than 1,400 trailers from National Storage centres across Australia. Ancillary income streams including packaging sales, insurance and vehicle/trailer hire continue to increase across FY18.

ACQUISITIONS

National Storage has successfully completed 19 acquisitions in FY18 and continues to pursue high quality acquisitions across Australia and New Zealand. The ability to acquire and integrate strategic accretive acquisitions is one of National Storage's major competitive advantages and a cornerstone of its growth strategy. This active growth strategy also strengthens and scales the National Storage operating platform which drives efficiencies across the business.

REGION	NLA (Sqm)	PURCHASE PRICE
New South Wales Morisset North Wyong	7,300	$11.9m
New Zealand Ngauranga Te Rapa	7,900	NZ$21.3m
Northern Territory Darwin	8,800	$14.0m
Queensland Carrara[1] Hope Harbour Milton (development site) Marcoola Robina Townsville (5 Centres)	45,200	$83.9m
Victoria Geelong Mornington	7,300	$10.9m
Western Australia Jandakot (Property) Perth Airport[1]	11,000	$15.1m
Total[2]	**87,500**	**$155.3m**

[1] Developing Centres
[2] AUD/NZ 1.10

WINE ARK

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

Wine Ark's growing customer base and calendar of wine events, hosted in bespoke event spaces in Alexandria NSW, Brisbane City QLD and Hawthorn VIC, contributed to a 20% growth in wine sales across the Wine Ark business. This increase in wine sales continues to drive capacity into both managed cellarage and private wine vaults.

Throughout FY18 Wine Ark continued to strengthen its relationship and involvement in the greater wine trade supporting the Wine Communicators of Australia, Sommeliers Association of Australia, Wine Australia and Commanderie de Bordeaux (Australian Chapter).

During FY18 Wine Ark provided pivotal logistics on behalf of Wine Australia for Vinexpo. Vinexpo Hong Kong is the most influential wine and spirits trade fair in the Asia Pacific. The three-day show brought together thousands of trade professionals from all over the world, who assembled at the Hong Kong Convention and Exhibition Centre to showcase their products and educate buyers. This year, Australia headlined the 20th anniversary event as 'Country of Honour', with the largest-ever showcase of 151 exhibitors representing over 225 wine brands from 51 regions.

Wine Australia is the governing body of wine in Australia and invests in research and development (R&D), marketing, disseminating knowledge, encouraging adoption and protecting the reputation of Australian wine. Wine Australia has centralised its wine storage, logistics and consolidation requirements for Australian and International Tasting activities within Wine Ark's national cellars. It is important for Wine Australia to showcase Australian wine that has been stored in optimum conditions to demonstrate the best of Australian wine, its finest characters and vibrancy.

MARKETING & CUSTOMER EXPERIENCE

Growing awareness, engagement and conversion were once again key drivers of the marketing strategy in FY18.

The importance of delivering an engaging and user friendly online experience has seen the business invest in ongoing digital improvements, including the development of a new online booking platform. Due to launch in early FY19, this new booking process will provide an enhanced customer journey, help drive higher conversion rates and further improve data security. Initial feedback from the trial phase of the paperless booking project has been a significant reduction in time spent at the initial sign up and a strong uplift in customers choosing to set up autopay. As we continue to implement paperless move-ins across other service related areas in operations, we will see more improved customer experience resulting in much better customer satisfaction and overall operations efficiency.

Year on year, the volume of traffic coming to the National Storage website continues to grow. A consistent focus on search engine optimisation initiatives has resulted in further improvements in the volume of traffic arriving on the website through organic, rather than paid channels.

Our sponsorship portfolio continues to be an important focus, driving above-the-line brand awareness and differentiation in both Australia and New Zealand.

The breadth of codes supported by National Storage ensures we are reaching a broad demographic of people and building a positive association with the brand. A recent survey taken with sponsored team fans shows that 69% of respondents were 'very likely' or 'likely' to purchase from a sponsor rather than a non-sponsor.

Keeping the customer at the forefront of all activity has seen us once again achieve strong rankings through independent review websites. In FY18 we achieved a ranking of 8.7 out of 10, a slight uplift from 8.6 out of 10 in FY17.

SUSTAINABILITY

This year will see the release of National Storage's second standalone sustainability report. The report can be found online at www.nationalstorage.com.au and details performance across environmental, social and governance aspects based on the Global Reporting Initiative framework.

The overall vision and strategy for National Storage is to ensure we set realistic and achievable goals whilst ensuring rigorous and appropriate sustainability targets in the short, medium and long-term. These targets are designed to manage any potentially significant economic, environmental, and social impacts that National Storage causes, contributes to, or that may be directly linked to our service delivery, products or as a result of relationships with others, including our suppliers and communities.

NSR's key stakeholders have been identified and prioritised according to the level of sustainability impact we believe our operations have on their day to day activities, and, in turn, their sustainability impact on day to day activities. These impacts span our identified material economic, social and environmental sustainability risks.

In preparation for this report, the GRI Reporting Principles were incorporated into a review as follows:

- A review of stakeholders and associated engagement throughout the reporting year was conducted, but not specifically for compilation of this report (GRI Principle 'Stakeholder Inclusiveness')
- Economic, social and environmental impacts of National Storage operations were identified and reviewed (GRI Principle 'Sustainability Context')
- Economic, social and environmental impacts were assessed and ranked in terms of risk to the organisation and stakeholders (GRI Principle 'Materiality')
- The GRI and other topics included in this report are those that have been identified as material to National Storage and its stakeholders in FY18 (GRI Principle 'Completeness') and are:

ECONOMIC	SOCIAL	ENVIRONMENTAL	GENERAL
Economic Performance	Employment	Materials	Data Management Systems
Anti-Corruption	Labour / Management Relations	Energy	Cyber Security
Anti-Competitive Behaviour	Occupational Health and Safety	Emissions	Governance / Shareholder Rights
Access to Markets	Training and Education	Effluents and Waste	Technology / Connectivity
Maintenance of Investments	Diversity and Equal Opportunity	Land Remediation	
	Non-Discrimination	Natural Hazards	
	Local Communities		
	Customer Health and Safety		
	Customer Privacy		
	Socio-economic Compliance		
	Ageing population/Changing demographics		
	Changes in consumer expectations		

BOARD OF DIRECTORS

LAURENCE BRINDLE

Independent Non-executive Chairman
BCom BE (Hons) MBA

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

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

ANTHONY KEANE

Independent Non-executive Director
BSc (Maths) GradDipCorpFin

Anthony is an experienced finance and business executive with an extensive background in banking and business management. Prior to accepting his directorship with National Storage, Anthony held numerous leadership roles with a major trading bank principally in business, corporate and institutional banking. He is actively involved in the business community through Non-Executive Director and Advisory Board roles, and finance advisory consultancies.

He is a Director of Queensland Symphony Orchestra Pty Ltd, Chairman of Oncore Group Holdings Pty Ltd, and a Director of EMvision Medical Devices Ltd.

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.

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

HOWARD BRENCHLEY

Independent Non-executive Director
BEc

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

In 1998 Howard was instrumental in establishing the funds management business of APN Property Group Limited. During this period he was responsible for the establishment and operations of a number of funds investing both directly and indirectly in real estate. Howard is currently a non-executive director of the ASX-listed APN Property Group Limited (APD) and is also a non-executive director of APN Funds Management Limited, responsible entity for ASX-listed Industria REIT (IDR) and Convenience Retail REIT (CRR). Until July 2017, APN Funds Management Limited was also responsible entity for Generation Healthcare REIT (GHC).

Howard is a member of the Audit and Risk Committees.

STEVEN LEIGH

Independent Non-executive Director
Grad Dip Proj Mgmt

Steven Leigh joined QIC Global Real Estate in 1991 and was a key member of the senior executive team that acquired and created through development a portfolio of high quality retail and commercial assets in Australia, USA and the UK. Steven has had significant experience in the wholesale funds management business through various market cycles and conditions and has a strong background in retail, commercial and industrial property with a particular focus on shopping centre acquisitions and redevelopments.

After time as the Managing Director of Trinity Limited, and later Head of Australia for LaSalle Investment Management, Steven re joined QIC as Managing Director QIC Global Real Estate in 2012 where he is responsible for the group's $12bn plus property portfolio.

Steven was a certified practising valuer and holds a Graduate Diploma in Project Management from the Queensland University of Technology. Steven is an associate member of the Australian Property Institute.

Steven is a member of the Remuneration and Nomination Committees

Andrew 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 20 years of specific self-storage industry expertise including in the areas of acquisition, development, integration and operation of 'greenfield' and developed self-storage centres. Andrew was instrumental in the successful acquisition and integration of the original portfolio and led the company through the IPO.

ANDREW CATSOULIS

Managing Director
BA, LLB, Grad Dip Project Mgmt (Hons)

Claire was appointed as the principal company secretary of National Storage on 26 November 2015 and was appointed Executive Director on 18 July 2017. She holds legal and international business qualifications and is admitted as a solicitor of the Supreme Court of Queensland. Claire has over ten years' experience in corporate and commercial law in private practice, having practiced in the litigation, resources and corporate areas of two large law firms. Prior to joining National Storage, Claire spent four and a half years as Corporate Counsel and Company Secretary at Rio Tinto Coal Australia. During this time, in addition to providing legal services to the business, she was responsible for the corporate governance and ASX compliance of one of Rio Tinto's listed subsidiaries as well as managing the corporate secretarial responsibilities of approximately 60 subsidiaries within the group and providing joint venture support. Claire has also worked in corporate compliance with the Australian Securities and Investments Commission.

Claire is a Graduate of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

CLAIRE FIDLER

Executive Director and Company Secretary
LLB (Honours) B Bus (Intl Bus) GAICD, FGIA

SENIOR EXECUTIVES

Stuart joined National Storage in late 2014, with extensive experience in the energy sector in coal and gas fired power generation. He has held wide ranging finance and commercial management roles, including as Commercial Manager for Energy Developments Limited. Prior to this, Stuart was commercial manager on the delivery of a multi-site gas fired power generation project and micro LNG plant.

He has significant experience in project financing, mergers and acquisitions and project development. Stuart holds a Bachelor of Business, is a Certified Practising Accountant and is a graduate of the Australian Institute of Company Directors.

STUART OWEN

Chief Financial Officer
BBus, CPA, GAICD

Patrick holds both legal and accounting qualifications and is admitted as a solicitor of the Supreme Court of Queensland. He has practiced as a solicitor for over 18 years in both fields. During his time in private practice, Patrick has had significant experience in corporate, property, commercial, taxation and transactional work. In addition to private practice, Patrick held senior finance roles and was the general counsel and company secretary of the Super A-Mart Group for over eight years where he was extensively involved in the operations of the company. Patrick was appointed Chief Risk Officer of National Storage REIT in June 2016, in addition to his role as General Counsel and a Company Secretary of NSR.

Patrick is a Fellow of the Governance Institute of Australia.

PATRICK ROGERS

General Counsel and Chief Risk Officer
LLB, BBus (Accty), FGIA

Andrew Catsoulis
Managing Director
BA, LLB, Grad Dip Project Mgmt (Honours)

Claire Fidler
Executive Director and Company Secretary
LLB (Honours) BBus (Intl Bus) GAICD, FGIA

See page 28.

CORPORATE GOVERNANCE

The boards of NSH and NSFSL share the same members. NSH and NSFSL have their own constitutions. The relationship between NSH and the Responsible Entity is governed by a Cooperation Deed and Management Agreement. These documents facilitate common processes and governance for NSR. Through the Board Charter, the NSH Board is charged with the function of providing overall strategic guidance and effective oversight of management of NSR.

GOVERNANCE FRAMEWORK

The NSH and Responsible Entity Boards and NSH management are committed to high standards of corporate governance and to ensure NSH acts in the best interests of the Stapled Entity and its Securityholders as a whole, 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, Chief Risk Officer and the Board to ensure that it reflects changes in the law. In its ongoing commitment to solid corporate governance, NSR further strengthened its enterprise risk systems during FY18. The NSH Board's obligations are discharged through a number of mechanisms including meetings and its committees. During the financial year ended 30 June 2018, the NSH Board has convened the following committees as part of its corporate governance framework:

COMMITTEE	CHAIR	MEMBERS
Audit	Anthony Keane	Laurence Brindle, Howard Brenchley
Risk	Anthony Keane	Laurence Brindle, Howard Brenchley
Nomination	Laurence Brindle	Anthony Keane, Steven Leigh
Remuneration	Laurence Brindle	Anthony Keane, Steven Leigh

NSH committees are governed by their respective Charters.

The NSH Policies provide for an Investment Committee and a Diversity Committee. The Board has determined that the Investment Committee and Diversity Committee functions be undertaken by the full Board at this time. An important component of the NSR corporate governance structure is the ASX Corporate Governance Principles and Recommendations (the "ASX Recommendations"). The NSH Board considers that as at the date of this statement, the governance practices adopted by NSR comply with the third edition of the ASX Recommendations.

BOARD & MANAGEMENT RESPONSIBILITY

NSR's compliance with the ASX Recommendations are detailed in the NSR Corporate Governance Statement, Appendix 4G and all NSR governance Policies and Charters, full copies of which can be found in the Governance section of the website at www.nationalstorageinvest.com.au. NSFSL became the responsible entity for the NSPT in November 2015. The majority of the board of NSFSL have been determined to be external directors and therefore a compliance committee has not been convened. NSPT is a registered managed investment scheme and the rights and obligations of the Responsible Entity as a responsible entity of NSPT and NSPT Unitholders are governed by the constitution of NSPT. As the responsible entity of NSPT, the Responsible Entity must comply with all obligations set out in the constitution and the Corporations Act. The Responsible Entity is also subject to duties including duties to act in the best interests of NSPT Unitholders, act honestly, exercise care and diligence, and treat NSPT Unitholders of the same class equally. In order to ensure compliance with the constitution and the Corporations Act, the Responsible Entity has in place a compliance plan which sets out the measures it will apply in operating NSPT. The role of the NSH Board is to provide overall strategic guidance for NSR and effective oversight of management. It is responsible for monitoring the financial performance of NSR and the performance of the Managing Director and senior executive team.

The NSH Board ensures the activities of NSR comply with its constitutions, from which NSH Board derives its authority to act, and with legal and regulatory requirements. The responsibility for the daily operation and management of NSR is delegated to the Managing Director who undertakes this task in accordance with the strategy, policies and plans approved by the NSH Board. The Managing Director has authority to subdelegate to the senior management team.

BOARD COMPOSITION & INDEPENDENCE

The current NSH Board is comprised of six Directors, being four non-executive Directors (one of whom is the Chairman), the Managing Director and an Executive Director. Detailed information about the Directors is set out on pages 26 - 29. The NSH Board considers that its current members have an appropriate balance of skills, independence and experience to discharge their obligations and effectively chart the strategy of NSR. The NSH Board considers that it is appropriate and in the best interests of NSR and the stapled securityholders to periodically review the size of the Board and its skill set to ensure that it remains appropriate for NSR.

The Boards of NSH and NSFSL, as responsible entity, consider that all of the current non-executive Directors, being the Chairman Mr Laurence Brindle, Mr Anthony Keane, Mr Howard Brenchley and Mr Steven Leigh to be independent.

COMPANY SECRETARIES

Ms Claire Fidler is the principal Company Secretary of NSH and NSFSL. Mr Patrick Rogers is an additional Company Secretary for each of NSH and NSFSL.

Detailed information on Ms Fidler and Mr Rogers is contained on page 29 and 30 in this report.

RISK MANAGEMENT

NSR's operations expose it to risks. A summary of potential risks is set out on pages 39 and 40 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.

DIRECTORS' REPORT

KEY HIGHLIGHTS

Group	FY18	FY17	Change	
Total Revenue	$139.6m	$117.5m	19%	▲
IFRS profit after tax	$145.8m	$103.4m	41%	▲
Earnings per stapled security	27.15cps	20.70cps	31%	▲
Underlying earnings(1)	$51.4m	$45.7m	12.5%	▲
Underlying earnings per stapled security(1)	9.6cps	9.2cps	4.3%	▲
Net operating cashflow	$77.0m	$65.1m	18%	▲
Distribution per security	9.6cps	9.2cps	4.3%	▲

Portfolio	At June 2018	At June 2017	Change	
Number of Centres owned/managed & licenced (Total)	130/5 (135)	113/3 (116)	17/2 (19)	▲
Like for like occupancy (2)	80.8%	77.5%	3.3%	▲
New Zealand occupancy	84.7%	78.2%	6.5%	▲
Like for like Revenue per available metre (REVPAM)(2)	$220	$212	3.8%	▲
Weighted Average Primary Cap Rate	7.30%	7.86%	(0.56%)	▼
Assets Under Management (AUM)(3)	$1.43b	$1.16b	23%	▲
Portfolio Valuation Uplift	$112m	$73m	$39m	▲
Acquisitions / Centres(4,5)	$155m/17	$132m/11	$23m/6	▲
NLA (sqm)	703,000	622,000	13%	▲

Balance Sheet	At June 2018	At June 2017	Change	
Total Assets(5)	$1.71b	$1.44b	$273m	▲
Debt drawn(5)	$600m	$485m	$115m	▲
Interest Rate Hedges(5)	$319m	$266m	$53m	▲
Gearing	38%	37%	1%	▲
Weight average cost of debt	3.8%	3.7%	0.1%	▲
Weight average debt tenor (years)	4.7	4.6	0.1	▲
NTA	$1.51	$1.34	13%	▲
Successfully completed $715m refinance				

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 Australia's largest self-storage owner/operator, with 138 self-storage centres under operation, management or licence, tailoring storage solutions to over 50,000 customers across Australia and New Zealand. NSR has grown its portfolio of owned, managed and licenced centres from 62 centres in December 2013 to 138 centres at the date of this Directors' Report, with a further three centres expected to settle by mid-September 2018. NSR now manages over 74,000 storage units across approximately 713,000 sqm of net lettable area around Australia and New Zealand. Assets Under Management (AUM) have increased to $1.43 billion as at 30 June 2018.

Of the 138 self-storage properties in the NSR portfolio, ownership is as follows:

- 117 self-storage centres owned by NSPT
- 16 self-storage centres operated as long-term leasehold centres (Leasehold Centres)
- 3 third party managed centres
- 2 licenced branding rights centres in New Zealand

The National Storage core product offering covers self-storage, business storage, hard stand/vehicle storage and wine storage at National Storage's climate controlled storage facilities branded "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 Underlying earnings is a non-IFRS measure (unaudited), see table within Operating Results for reconciliation
2 Same centre 30 June 2017 (86 centres), excluding developing centres
3 Investment properties net of finance lease liability
4 Excluding transaction costs
5 NZD/AUD exchange rate of 1.10

BUSINESS STRATEGY

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

The key drivers of the business are:

- Asset management – driving an appropriate balance between rental rate and occupancy growth and actively pursuing other business development initiatives in complementary areas such as wine storage, document storage and mini-logistics for SMEs;
- Portfolio management – acquiring and integrating quality self-storage assets into the NSR portfolio;
- Centre Management – effective operation of individual self-storage assets and the expansion of the National Storage Centre Management platform (revenue from third parties);
- Development management – development / refurbishment / redevelopment of new and existing centres and actively managing portfolio recycling opportunities;
- Capital management – maintaining an appropriate and efficient capital structure with a focus on risk minimisation and the development of long term sustainable and growing revenue streams; and
- Product and innovation – exploring opportunities for revenue generation across new sales channels, digital strategies and ancillary product ranges.

Further details on these key business drivers can be found elsewhere in the National Storage 2018 Annual Report.

REVIEW AND RESULTS OF OPERATIONS

The Financial Statements of NSR are prepared in compliance with Australian Accounting Standards and the requirements of the *Corporations Act Cth 2001*.

OPERATING RESULTS

IFRS Profit after tax for the Reporting Period was $145.8 million with EPS of 27.15 cents. Underlying earnings(6), increased by 12.5% to $51.4 million. NSR also delivered solid growth of 4.3% in underlying earnings(6) per stapled security to 9.6cps for the 2018 financial year.

	FY18	FY17
IFRS Profit after tax	$145.8m	$103.4m
Plus tax expense/(benefit)	($2.0m)	$4.2m
Plus business combination, restructure and other non-recurring costs	$1.3m	$17.0m
Plus contracted gain in respect of sale of investment property	$2.7m	$1.5m
Less fair value adjustment	($92.4m)	($76.8m)
Less finance lease diminution	($4.0m)	($3.6m)
Underlying Earnings(6)	**$51.4m**	**$45.7m**

Total revenue rose by 19% to $139.6 million. Occupancy across the June 2018 portfolio (excluding New Zealand and developing centres) increased to 80.8%, up from 77.5% at 30 June 2017. New Zealand occupancy increase to 84.7%, up from 78.2% at 30 June 2017. These are pleasing results and demonstrates that the continued focus on driving increased occupancy is delivering results. Revenue per available metre (REVPAM) increased by 3.8% to $220/sqm from $212/sqm at June 2017 delivering continued strong revenue growth.

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

CASH MANAGEMENT

Cash and cash equivalents as at 30 June 2018 were $21.3 million compared to $23.2 million at 30 June 2017. Net operating cashflow for the year increased to $77.0 million (2017: $65.1 million).

On 13 December 2017 NSR announced a fully underwritten $50 million institutional placement of new stapled securities in NSR and a non-underwritten Security Purchase Plan (SPP) to eligible securityholders in Australia and New Zealand. The purpose of the equity raising was to execute acquisition opportunities and strengthen the NSR balance sheet. The SPP closed on 2 February 2018 raising a further $9.5 million.

An interim distribution of 4.7 cents per stapled security ($25.8 million) was paid on 27 February 2018 with an estimated final distribution of 4.9 cents per stapled security ($27.4 million) declared on 21 June 2018 with an estimated payment date of 29 August 2018, delivering a 4.3% increase in the total distribution for the year to 9.6 cents per stapled security.

During the reporting period NSR once again offered the Distribution Reinvestment Plan (DRP) which enables eligible securityholders to receive part or all of their distribution by way of securities rather than cash.

For the December 2017 interim distribution approximately 18% of eligible securityholders (by number of securities) elected to receive their distributions as securities totalling approximately $4.6million. The DRP price was set at $1.4472 which resulted in 3,232,481 new securities being issued.

The June 2018 final distribution has seen approximately 23% of eligible securityholders (by number of securities) elect to receive their distributions as securities totalling approximately $6.3million. The price of the DRP securities will be determined on a 10-day volume weighted average market price (VWAP) commencing on and including 6 August 2018 less a 2.0% discount.

NSR's finance facilities are on a "Club" arrangement with a selection of major Australian banks and a major Australian superannuation fund. The Consolidated Group's borrowing facilities are AUD $605 million and NZD $121 million. As at the reporting date AUD equivalent of approximately $115 million was undrawn and available. NSR actively manages its debt facilities and continues to increase when and where required to ensure adequate capacity for future acquisitions and working capital requirements. The weighted average debt tenor as at the reporting date is 4.7 years, up from 4.6 years as at 30 June 2017. NSR's target gearing range remains 25%-40% to provide flexibility and the ability to act on acquisition opportunities.

NSR maintains interest rate hedges in accordance with NSR's hedging policy which is reviewed on a regular basis. Additional interest rate hedges were entered into during the year to continue the prudent management of NSR's interest rate risks. As at the reporting date interest rate hedges totalling A$763 million were in place with expiry dates ranging from 0.5 years to 8.5 years.

ACQUISITIONS AND INVESTMENTS

NSR considers its ability to acquire and integrate quality assets to be one of the key drivers of its growth strategy. During the course of the Reporting Period, the dedicated acquisitions team continued to identify, facilitate and transact on acquisitions that were considered appropriate for the portfolio.

The successful execution of NSR's acquisition strategy has seen 20 new centres acquired to the date of this Directors' Report, valued at $168 million(7) with three additional centres valued at $42 million expected to settle by mid-September 2018. Further, a combined process was undertaken by both external valuers and the Directors to revalue the 30 June 2017 NSR owned centres as at 30 June 2018 (based on valuations and methodologies from independent valuers (m3 Property, Urbis and Landmark White)), which yielded an increase in valuation of 9.6% from $1,168 million to $1,280 million.

7 Excluding transaction costs. Includes Jandakot freehold property and Milton development site.

Region	NLA (Sqm)	Purchase Price
New South Wales Morisset North Wyong	7,300	$11.9m
New Zealand Ngauranga Te Rapa	7,900	NZ$21.3m
Northern Territory Darwin	8,800	$14.0m
Queensland Carrara[1] Hope Harbour Milton (development site) Marcoola Robina Townsville (5 Centres)	45,200	$83.9m
Victoria Geelong Mornington	7,300	$10.9m
Western Australia Jandakot (Property) Perth Airport[1]	11,000	$15.1m
Total[2]	**87,500**	**$155.3m**

1 - Developing Centres

2 - AUD/NZ 1.10

INVESTMENT IN JOINT VENTURES

NSR is a cornerstone investor in the Australian Prime Storage Fund (APSF or the fund) with an equity interest of 24.9%. The fund was established to facilitate the development and ownership of premium self-storage centres in major cities around Australia. NSR is entitled to a number of fees associated with the provision of various services including acquisition, design and development, centre management and fund support services. The fund has two operational centres at Albion and Kelvin Grove in South East Queensland after having sold its Carrara centre to National Storage in February 2018. APSF has been awarded development approval and is about to commence construction of a further centre at Canterbury in Victoria.

In March 2017 NSR entered into arrangements with long term investment partner Leyshon Group to acquire a high quality site on Bundall Road, Bundall on the Gold Coast. Construction has commenced on a multi-level state-of-the-art storage centre comprising 7,000m^2 of net lettable area, with completion expected in early 2019. The remaining retail building that forms part of the site houses approximately 1,800m^2 and will be enhanced and retained.

In January 2018, NSR furthered the arrangement with Leyshon Group through the acquisition of a site at Dorey St, Milton in Brisbane's inner-west. The 1,862m^2 site was acquired with development approval to construct a multi-level, state-of-the-art self-storage facility comprising 4,600m^2 net lettable area. Construction has commenced and is expected to be completed in early 2019.

NSR has been appointed to manage the Bundall and Milton projects and generates income from providing a range of services including design and development, project management and corporate administration.

LIKELY DEVELOPMENTS

NSR continues to utilise its position as Australia's first ASX listed, fully integrated, sector specific, self-storage REIT to continue to bring quality independently owned storage centres across Australia and New Zealand under NSR's ownership and/or management structure. In accordance with its stated strategy, NSR continues to seek high-quality acquisition opportunities; to evaluate its existing portfolio for development or re-development or portfolio recycling opportunities; and further develop and refine its third party management offerings.

DIVIDENDS AND DISTRIBUTIONS

NSR has paid or declared distributions totalling 9.6 cents per stapled security for the Reporting Period, comprising:

- A final distribution of 4.9 cents per stapled security for the 6 months to 30 June 2018. The distribution is expected to be paid on 29 August 2018 and is expected to contain a tax deferred component.
- A distribution of 4.7 cents per stapled security for the period 1 July 2017 to 31 December 2017 which was paid on 26 February 2018 which included a tax deferred component.

OPTIONS OVER STAPLED SECURITIES

No options over issued stapled securities or interests in a Controlled Entity have been granted in NSR during the Reporting Period. There are no options in stapled securities outstanding as at the date of this report.

ENVIRONMENTAL REGULATION

NSR's operations are not regulated by any environmental law of the Commonwealth or a State or Territory that is enacted specifically for NSR. However, as part of its operations, 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 recognises that its operating activities and strategic goal of delivering securityholder growth and returns expose it to potential risks. The identification, management and where possible elimination or mitigation of those risks is a key operating function of NSR. NSR management takes a pro-active approach to risk and the importance of a strong risk culture. This culture is instilled and lead by the Board and the senior executive team so as to form a core tenet of the organisation.

Risk is managed centrally by management to minimise potential adverse effects on the financial performance of NSR and protect long-term securityholder value, and its broader Corporate reputation.

The Chief Risk Officer is responsible for management of NSR's risk function and in turn reports to the Managing Director and the Risk Committee. The Risk Committee is charged with risk oversight and reports to the full Board. The full Board is then actively involved in the ultimate review of and determination of risk to within sensible tolerances.

Potential risks faced by NSR and its mitigation strategies include but are not limited to:

RISK
Strategic Risk - Poor development and or execution of business strategy by the executive management team can lead to the risk of loss and or poor performance. To mitigate this risk, strategies are developed by the relevant responsible executive or senior officer. These are then reviewed and discussed, as appropriate, by other executive officers and approved by the Managing Director. Strategic decisions of a significant nature are further put before the Board and discussed in detail and require Board approval. The senior executive team meet a number of times a year to discuss strategy and ensure that it remains current and appropriate. This allows management to ensure it is employing strategies that are updated for changes in the operating environment of the business.
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. NSR mitigates the potential impacts of fluctuating economic conditions by seeking to maintain a strong and conservative balance sheet and financial position.
Operational Risk - Risk of loss due to its overall operations and management of other risks exists as a function of any operating business. NSR aims to ensure that the necessary processes, training and supervision is in place and effected to eliminate such loss wherever possible. The risk of loss from system failures is reduced through system backups and disaster recovery (contingency) procedures, which aim to ensure the maintenance of NSR's critical data availability.

RISK
General commercial property risks - Risks commonly associated with commercial property investment apply equally to NSR, including levels of occupancy, capital expenditure requirements, development and refurbishment risk, environmental or compliance issues, changes to government and planning regulations, including zoning and damage caused by flood or other extreme weather (to the extent that it is not or could not be insured against). NSR utilises a comprehensive due diligence process when acquiring centres to mitigate or eliminate risk where possible.
Tenure - Storage agreements are typically month to month and there is no guarantee customers will renew or that other customers will be found to take their place upon departure. To mitigate this risk, customer relationships are carefully managed to maximise duration of stay and highly developed marketing and management systems are in place to maximise conversion of new customer enquiries.
Competition - Entry by new competing storage centres or discounting by existing storage centres may adversely impact upon occupancy and rental rates on a centre specific basis. While there are barriers to entry for new competition, NSR constantly monitors its competitors' activities to ensure pricing and terms remain competitive.
Valuations - Valuations ascribed to NSR's assets will be influenced by a number of ongoing factors including supply and demand for self-storage centres and general property market conditions. Valuations represent only the analysis and opinion of qualified experts at a certain point in time. There is no guarantee that a property will achieve a capital gain on its sale or that the value of the property will not fall as a result of the assumptions on which the relevant valuations are based proving to be incorrect.
Property liquidity - Self storage centres are property based illiquid assets and subject to supply and demand factors dependent upon prevailing market conditions. As a result it may not be possible for NSR to dispose of assets in a timely or price accretive fashion should the need to do so arise.
Future acquisitions and expansions - NSR may consider opportunities to make further acquisitions of self-storage assets. NSR may also develop and expand the lettable area at a number of NSR's centres. The rate at which NSR is able to expand will reflect market forces and the availability of capital at the time. Forecast distributions may be affected by such actions. The risks faced by NSR in relation to any future development projects will depend on the terms of the transaction at the time. There can be no assurance that NSR will successfully identify, acquire and integrate further self-storage assets, or successfully implement acquisitions on time and on budget. Furthermore, there is no guarantee that any acquisition will perform as expected. Future acquisitions may also expose NSR to unanticipated business risks and liabilities.
Personnel risk - NSR relies upon the expertise and experience of the senior management team. As a consequence, if the services of key personnel were no longer available this may have an adverse impact on the financial performance of NSR. However, NSR's senior management team are considered internally to be stable and committed and succession planning is undertaken periodically by the NSH Board and Managing Director.
Interest rate fluctuations and derivative exposure - unfavourable movements in interest rates could lead to increased interest expense to the extent that these rates are not hedged. NSR uses derivative instruments to hedge a percentage of its exposure to interest rates however the interest rate movements could still result in an adverse effect on financial performance.
Workplace health and safety - There is a risk that liability arising from occupational health and safety matters at a property in NSR's portfolio may be attributable to NSR as the registered proprietor. To the extent that any liabilities may be incurred by NSR, this may impact upon the financial position and performance of NSR (to the extent not covered by insurance). In addition, penalties may be imposed upon NSR which may have an adverse impact on NSR. NSR has a dedicated focus on Health and Safety including comprehensive reporting to assist in the mitigation or elimination of such risks and keep our team members, customers and contractors safe.
Insurance risk - There is no certainty that appropriate insurance will be available for all risks on acceptable commercial terms or that the cost of insurance premiums will not continue to rise. Some risks are not able to be insured at acceptable premiums. Examples of losses that are generally not insured against include war or acts of terrorism and natural phenomena. If any of NSR's assets are damaged or destroyed by an event for which NSR does not have cover, or a loss occurs which is in excess of the insured amounts, NSR could incur a capital loss and lost income which could reduce returns for holders of stapled securities. Any failure by the company or companies providing insurance (or any reinsurance) may adversely affect NSR's right of recovery under its insurance.
Funding - NSR's ability to raise funds from either debt or equity sources in the future depends on a number of factors, including the state of debt and equity markets, the general economic and political climate and the performance, reputation and financial strength of NSR. Changes to any of these underlying factors could lead to an increase in the cost of funding, limit the availability of funding, and increase the risk that NSR may not be able to refinance its debt and/or interest rate hedges before expiry or may not be able to refinance them on substantially the same terms as the existing facility or hedge instruments. If alternative financing is not available, this could adversely affect NSR's ability to acquire new properties and to fund capital expenditure, and NSR may need to realise assets at less than valuation, which may result in financial loss to NSR.

RISK
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.
Environmental issues - Unforeseen environmental issues may affect the properties in the property portfolio owned by NSR. These liabilities may be imposed irrespective of whether or not NSR is responsible for the circumstances to which they relate. NSR may also be required to remediate sites affected by environmental liabilities. The cost of remediation of sites could be substantial. If NSR is not able to remediate the site properly, this may adversely affect its ability to sell the relevant property or to use it as collateral for future borrowings. Material expenditure may also be required to comply with new or more stringent environmental laws or regulations introduced in the future, for example in relation to climate change.
Data Loss – during the course of effecting its operations, NSR is required to handle data from various sources. As a result, there is the possibility that data could be either damaged or lost. This creates the risk of potential legal exposure from both commercial third parties and regulators depending on the nature and the extent of any possible loss or damage to the data.

DIRECTORS

NATIONAL STORAGE HOLDINGS LIMITED

The NSH Directors in office during the Reporting Period, or appointed prior to the date of this Directors' Report, and continuing as at the date of this Directors' Report are set out below.

NAME	POSITION
Laurence Brindle	Non-Executive Chairman (Appointed 1 November 2013)
Andrew Catsoulis	Managing Director (Appointed 1 November 2013)
Anthony Keane	Non-Executive Director (Appointed 1 November 2013)
Howard Brenchley	Non-Executive Director (Appointed 21 November 2014)
Steven Leigh	Non-Executive Director (Appointed 21 November 2014)
Claire Fidler	Executive Director (Appointed 18 July 2017)

NATIONAL STORAGE FINANCIAL SERVICES LIMITED (NSFSL)

NSFSL was appointed as responsible entity on 10 November 2015. The Directors of NSFSL in office during the Reporting Period, or appointed prior to the date of this Directors' Report, and continuing as at the date of this Directors' Report are set out below.

NAME	POSITION
Laurence Brindle	Non-Executive Chairman (appointed 18 July 2014)
Andrew Catsoulis	Managing Director (appointed 18 July 2014)
Anthony Keane	Non-Executive Director (appointed 18 July 2014)
Howard Brenchley	Non-Executive Director (appointed 8 September 2015)
Steven Leigh	Non-Executive Director (appointed 8 September 2015)
Claire Fidler	Executive Director (appointed 18 July 2017)

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Boards of National Storage Holdings Limited and National Storage Financial Services Limited

Laurence Brindle, Independent Non-executive Chairman
BCom, BE (Hons), MBA

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

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

Andrew Catsoulis, Managing Director
BA, LLB, Grad Dip Proj Mgmt (Hons)

Andrew is a qualified lawyer who has been admitted to the Supreme Court of Queensland. He has had extensive experience in the fields of finance, commercial and property law during his tenure at major law firms both in Australia and overseas. He is also a qualified project manager and has considerable property development experience both within the storage industry and in broader markets. A founder of the original National Storage business, he has over 20 years of specific self-storage industry expertise including in the areas of acquisition, development, integration and operation of 'greenfield' and developed self-storage centres. Andrew was instrumental in the successful acquisition and integration of the original pre-existing Group portfolio and led the Company through the IPO and planned and negotiated the acquisition of the Southern Cross portfolio in 2016.

Anthony Keane, Independent Non-executive Director
BSc (Maths), Grad Dip Corp Fin

Anthony is an experienced finance and business executive with an extensive background in banking and business management. Prior to accepting his directorship with National Storage, Anthony held numerous leadership roles with a major trading bank principally in business, corporate and institutional banking. He is actively involved in the business community through Non-Executive Director and Advisory Board roles, and finance advisory consultancies. He is a Director of Queensland Symphony Orchestra Pty Ltd, Chairman of Oncore Group Holdings Pty Ltd, and a Director of EMvision Medical Devices Ltd. 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.

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

Howard Brenchley, Independent Non-executive Director
BEc

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

In 1998 Howard was instrumental in establishing the funds management business of APN Property Group Limited. During this period he was responsible for the establishment and operations of a number of funds investing both directly and indirectly in real estate.

Howard is currently a non-executive director of the ASX-listed APN Property Group Limited (APD) and is also a non-executive director of APN Funds Management Limited, responsible entity for ASX-listed Industria REIT (IDR) and Convenience Retail REIT (CRR). Until July 2017, APN Funds Management Limited was also responsible entity for Generation Healthcare REIT (GHC).

Howard is a member of the Audit and Risk Committees.

Steven Leigh, Independent Non-executive Director
Grad Dip Proj Mgmt

Steven joined QIC Global Real Estate in 1991 and was a key member of the senior executive team that acquired and or created through development a portfolio of high quality retail and commercial assets in Australia, USA and the UK. Steven has had significant experience in the wholesale funds management business through various market cycles and conditions and has a strong background in retail, commercial and industrial property with a particular focus on shopping centre acquisitions and redevelopments.

After time as the Managing Director of Trinity Limited, and later Head of Australia for LaSalle Investment Management, Steven re-joined QIC as Managing Director QIC Global Real Estate in 2012 where he is responsible for the group's $12bn plus property portfolio. Steven was a certified practising valuer and holds a Graduate Diploma in Project Management from the Queensland University of Technology. Steven is an associate member of the Australian Property Institute.

Steven is a member of the Remuneration and Nomination Committees.

Claire Fidler, Executive Director
LLB (Hons), B Bus (Int), GAICD, FGIA

Claire was appointed as an executive director on 18 July 2017 after acting as the principal company secretary of National Storage since 26 November 2015. She holds legal and international business qualifications and is admitted as a solicitor of the Supreme Court of Queensland. Claire has over 10 years' experience in corporate and commercial law in private practice, having practiced in the litigation, resources and corporate areas of two large law firms. Prior to joining National Storage, Claire was Corporate Counsel and Company Secretary at Rio Tinto Coal Australia. During this time, in addition to providing legal services to the business, she was responsible for the corporate governance and ASX compliance of one of Rio Tinto's listed subsidiaries as well as managing the corporate secretarial responsibilities of over 50 subsidiaries within the group and providing joint venture support. Claire has also worked in corporate compliance with the Australian Securities and Investments Commission. Claire is a Graduate of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by current Directors in the three years immediately before the end of the financial year are as follows:

NAME	COMPANY	PERIOD OF DIRECTORSHIP
Laurence Brindle	Scentre Group (ASX:SCG)	01/07/2014 – 07/05/2015
	Viva Energy REIT (ASX:VVR)	10/07/2016 - Current
Howard Brenchley	APN Property Group (ASX:APD)	1998 - Current
	APN Funds Management Limited, responsible entity for:	
	Industria REIT (ASX:IDR)	03/12/2013 - Current
	Convenience Retail REIT (ASX:CRR)	27/12/2017 - Current
	And previously Generation Healthcare REIT (ASX:GHC)	12/08/2011 – July 2017

DIRECTORS' INTERESTS IN NSR SECURITIES

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

DIRECTOR	DIRECT	INDIRECT	TOTAL
Laurence Brindle	-	1,342,120	1,342,120
Anthony Keane	-	158,235	158,235
Andrew Catsoulis	473,935	12,927,845	13,401,780
Howard Brenchley	-	50,000	50,000
Steven Leigh	-	81,900	81,900
Claire Fidler	-	8,938	8,938

DIRECTORS' MEETINGS

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

DIRECTOR	BOARD	AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Laurence Brindle	13 (13)	6 (6)	8 (8)	4 (4)	2 (2)
Anthony Keane	13 (13)	6 (6)	8 (8)	4 (4)	2 (2)
Andrew Catsoulis	13 (13)	-	-	-	-
Howard Brenchley	12 (13)	6 (6)	7 (8)	-	-
Steven Leigh	13 (13)	-	-	4 (4)	2 (2)
Claire Fidler	12 (13)	-	-	-	-

Notes:

1. 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.
2. Mr. Catsoulis and Ms Fidler attend Nomination, Remuneration, Risk and Audit Committee meetings by invitation.
3. The Company has an Investment Committee Charter to govern an Investment Committee. The Board has determined that at this time, the full Board will act as the Investment Committee and therefore there are no separate Investment Committee meetings noted.

COMPANY SECRETARY

NATIONAL STORAGE HOLDINGS LIMITED

NAME	APPOINTMENT DATE
Claire Fidler	26 November 2015
Patrick Rogers	1 November 2013

NATIONAL STORAGE FINANCIAL SERVICES LIMITED

NAME	APPOINTMENT DATE
Claire Fidler	26 November 2015
Patrick Rogers	18 July 2014

Claire Fidler
LLB (Hons), B Bus (Int), GAICD, FGIA

Refer to page 29.

Patrick Rogers
LLB, B Bus – Accounting, FGIA

Patrick holds both legal and accounting qualifications and is admitted as a solicitor of the Supreme Court of Queensland. He has practiced as a solicitor for over 18 years in both fields. During his time in private practice, Patrick has had significant experience in corporate, property, commercial, taxation and transactional work. In addition to private practice, Patrick held senior finance roles and was the general counsel and company secretary of the Super A-Mart Group for over 8 years. Patrick was appointed Chief Risk Officer of NSR in June 2016 in addition to his role as General Counsel and Company Secretary. Patrick is a Fellow of the Governance Institute of Australia.

CORPORATE GOVERNANCE

NSH and The Responsible Entity have their own respective Boards and constitutions. The relationship between NSH and the Responsible Entity is governed by a Cooperation Deed and Management Agreement that allows NSH to provide key services to NSFSL as Responsible Entity in exchange for a monthly fee. These services include finance and administrative services, property management, provision of staff and equipment.

The NSH and Responsible Entity Boards and NSH management are committed to achieving and demonstrating to securityholders high standards of corporate governance and to ensure NSH acts in the best interests of its securityholders balanced with its broader community obligations.

An important component of the NSR corporate governance structure is the 3rd edition of the ASX Corporate Governance Principles and Recommendations (the "ASX Recommendations"). A more detailed discussion of NSR's Corporate Governance is found on pages 32 – 33 of the Annual Report and a statement of the extent of NSR's compliance with the ASX Recommendations can be viewed on the NSR website at www.nationalstorageinvest.com.au. Full copies of all NSR governance policies and Charters can also be found in the Governance section of the website.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

Deeds of indemnity to effect the above have been formally entered into by the Company and each of the Directors.

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

The total amount of insurance contract premiums paid for Directors and Officers insurance for NSR (including subsidiary entities) during the Reporting Period was $268,802.

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 its remuneration strategies are structured to support and reinforce NSR's overall business strategy. By linking the Short Term Incentive ("STI") and Long Term Incentive ("LTI") (at risk remuneration) of executive remuneration to the drivers that support the business strategy, the remuneration of executives is aligned with the creation of long-term value for securityholders. The Board believes that the remuneration practices of NSR should fairly and responsibly reward Key Management Personnel ("KMP") having regard to their individual performance, the performance of NSH and NSPT and the broader external environment as it relates to KMP reward.

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

During the year there was a restructure of the responsibilities of the KMP following the redundancy of the COO. Further details are provided below.

COVERAGE OF THIS REPORT

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

Directors of the Responsible Entity do not receive any remuneration from the Responsible Entity in respect to their roles with the Responsible Entity. However, the director fees paid by NSR take into account the complexity involved and additional duties in the operation of the Responsible Entity as a subsidiary of NSH and as part of the consolidated governance group. The Responsible Entity receives a fee for management services rendered.

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

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

Key management personnel covered in this report are as follows:

NON-EXECUTIVE AND EXECUTIVE DIRECTORS

Laurence Brindle - Chairman (non-executive)
Andrew Catsoulis – Managing Director (executive)
Anthony Keane - Director (non-executive)
Howard Brenchley - Director (non-executive)
Steven Leigh - Director (non-executive)
Claire Fidler – Director & Company Secretary (executive)

KEY MANAGEMENT PERSONNEL – SENIOR EXECUTIVES

Peter Greer – Chief Operating Officer (COO)*
Stuart Owen – Chief Financial Officer (CFO)
Patrick Rogers – General Counsel and Chief Risk Officer (GC/CRO)

* The COO role was made redundant effective 31 December 2017 with the responsibilities previously undertaken by the COO allocated across the balance of the executive team.

REMUNERATION GOVERNANCE

REMUNERATION COMMITTEE AND USE OF REMUNERATION CONSULTANTS

The Remuneration Committees' activities are governed by its Charter, a copy of which is available at www.nationalstorageinvest.com.au.

The responsibilities of the Remuneration Committee include:

- Formulate and recommend remuneration policies to apply to the Company's Managing Director, senior executives and non-executive Directors;
- Formulate the specific remuneration packages for senior executives (including base salary, STIs, LTIs and other contractual benefits);
- Review contractual rights of termination for senior executives;
- Review the appropriateness of the Company's succession planning policies;
- Review management's recommendation of the total proposed STI and LTI awards;
- Administering the STI and LTI awards; and
- Review management recommendations regarding the remuneration framework for the company as a whole.

The deliberations of the Remuneration Committee, including any recommendations made on remuneration issues, are considered by the NSH Board. In making its recommendations to the Board, the Remuneration Committee takes into account advice from independent remuneration advisers on trends in remuneration for KMP. The independent remuneration advisors consider a range of factors including the specific responsibilities assumed by KMP. An independent consultant, Crichton Associates, was engaged during the Reporting Period to assess the directors' and senior executives' current remuneration and remuneration structure and to provide a summary on market practice relating to executive remuneration and remuneration structures. The advice did not constitute a remuneration recommendation as defined in the *Corporations Act Cth 2001*. Crichton Associates were paid $10,109 during the financial year.

The Remuneration Committee comprises three independent non-executive directors and is chaired by Laurence Brindle. The Remuneration committee met four times during the Reporting Period.

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

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

The remuneration of directors and senior executives is reviewed at least annually by the Remuneration Committee and the full NSH Board. External analysis and advice is sought by the Committee, where considered appropriate, to ensure that the remuneration for directors and senior executives is competitive in the market place and appropriate for the organisation.

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

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

TARGET MARKET POSITIONING

Total Annual Remuneration (TAR) is assessed against a broad comparator group and adjusted to reflect factors such as the criticality of the role, experience, length of service and NSR's positioning within the group. The individual components of TAR, comprising Total Fixed Remuneration (TFR), STI and LTI are individually assessed within this framework and structured to provide both short term and long terms incentives to KMP that align with delivery of short term and long term value to securityholders.

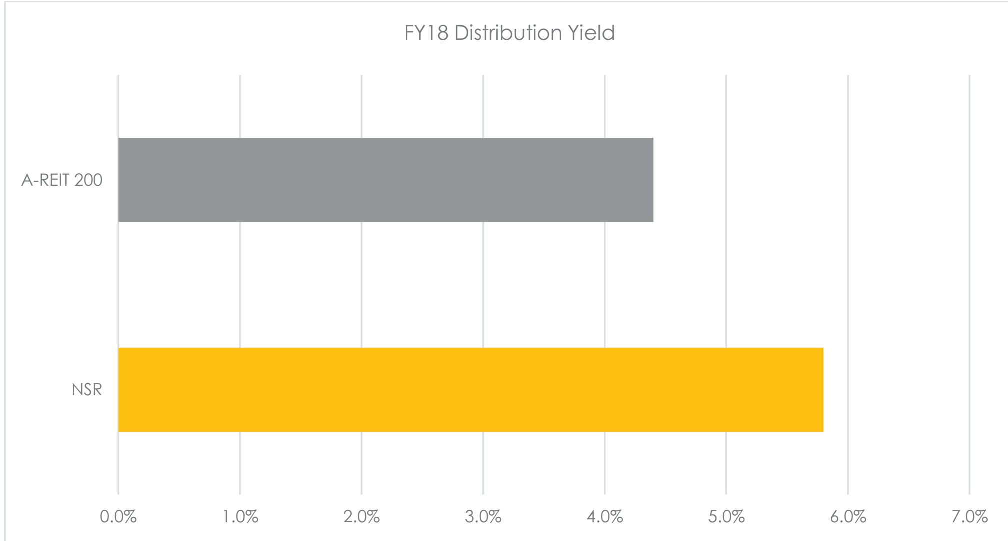
When selecting the comparator group the data is collected from a combination of sources including audited Remuneration Reports of the selected companies. It provides an appropriate pool of data that is statistically relevant. This data is then assessed against NSR's current size, industry positioning and other relevant factors to determine the appropriate information against which to assess NSR's remuneration framework.

NSR PERFORMANCE

NSR has delivered its growth objectives over the reporting period including organic occupancy growth across the portfolio of in excess of 25,000 square metres, the acquisition of $155 million in new storage centres in addition to the successful completion of the $59.5 million capital raise undertaken by an institutional placement and Security Purchase Plan. This continued the significant development of the company and delivered sustained increases in earnings and assets under management by the successful implementation of the Company's strategy. This has been further enhanced through the identification of development or expansion opportunities, of which NSR currently has 10 projects in various stages of implementation.

The Company has established a track record of strong and consistent growth in underlying earnings[8], net tangible assets (NTA) and total assets under management (AUM). Underlying earnings[1] per stapled security have increased by 4.3% in the 12 months to 30 June 2018 over the corresponding period to 30 June 2017, with increases in NTA of 13% to $1.51 per stapled security and AUM by 23% to $1.43 billion. A consistent and considered approach to driving increased underlying earnings through a combination of organic growth from existing assets as well as targeted EPS accretive acquisitions has been instrumental in achieving this result.

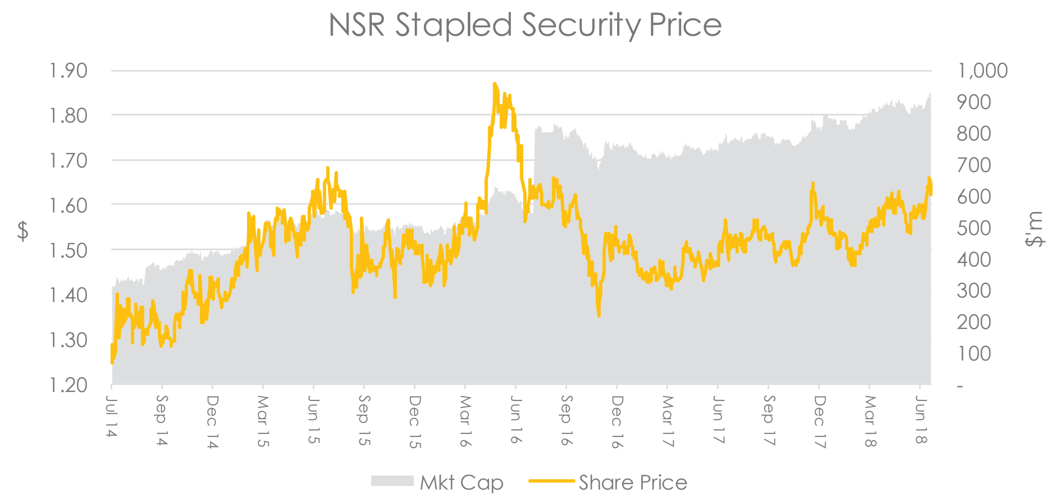
NSR has maintained a distribution policy which targets distribution of 90% - 100% of underlying earnings[1] to securityholders. During financial year 2018 NSR declared distributions totalling 9.6 cents per stapled security, being at the upper end of the stated policy, delivering DPS yield of 5.8%, some 32% above that of the A-REIT 200 average of 4.4%.



Source: Bloomberg. Market Data

NSR has delivered Total Shareholder Return "TSR" (a combination of share price growth and distributions received by securityholders) over the past three years to 30 June 2018 of 19%.

NSR listed in December 2013 with an issue price of $0.98. From that time to 30 June 2018 the stapled security price has increased by 68% with 30 June 2018 closing price of $1.65.



Security price performance over the period 1 July 2014 to 30 June 2018 has shown a 32% increase. This compares to an increase of 32% for the ASX A-REIT 200 index and 15% for the broader ASX 200 Index over the same period.

[8] Underlying earnings is a non-IFRS measure (unaudited). See page 36 of Directors' Report for reconciliation of underlying earnings

NSR REMUNERATION FRAMEWORK

NON-EXECUTIVE DIRECTORS

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

The number of meetings of directors is shown on page 44 of this report.

The Constitution of NSH specifies that the amount of the remuneration of the non-executive directors is a yearly sum not exceeding the sum from time to time determined by the Company in general meeting. Under the ASX Listing Rules, the total amount paid to all NSH non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by NSH's annual general meeting. The amount approved by securityholders at the 2014 Annual General meeting is $900,000.

Annual NSH non-executive directors' fees and Committee fees currently agreed to be paid by NSH effective from 1 July 2018 are detailed below. Non-executive directors are not eligible to participate in NSR's incentive plan.

NON-EXECUTIVE DIRECTORS	BASE FEE	AUDIT AND RISK COMMITTEE FEES	REMUNERATION AND NOMINATION COMMITTEE FEES	TOTAL
Laurence Brindle[a]				$280,000
Anthony Keane[b]	$115,000	$25,000	$6,000	$146,000
Steven Leigh	$115,000	-	$6,000	$121,000
Howard Brenchley	$115,000	$10,000	-	$125,000

a. Chairman and chair of the Remuneration and Nomination Committees and receives a single fee for all roles
b. Chair of the of Audit and Risk Committees

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

KEY MANAGEMENT PERSONNEL - EXECUTIVE DIRECTOR AND SENIOR EXECUTIVES

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

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

Base salary and benefits

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

There is no guarantee of base salary increases included in any executive director or senior executive contracts or through the annual review process. The remuneration of all KMP was reviewed during the year.

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

Service agreements

Remuneration and other terms of employment for the KMP senior executives are formalised in service agreements. The service agreements specify the components of remuneration, benefits and notice periods. Termination benefits are designed to fall within the limits relevant to the *Corporations Act Cth 2001* such that they do not require securityholder approval. However, in addition, all executive contracts make any such benefits subject to the *Corporations Act* Cth *2001*, all other applicable laws and where necessary securityholder approval. They also contain provisions which allow NSH to reduce any such payments to ensure compliance with the law.

During the year a restructure of the KMP took place which included making redundant the role of Chief Operating Officer (COO). As a result of this, the duties of the COO have been reallocated across the remaining KMP with a consequent increase in responsibilities and/or workload for the KMP. As part of this, Claire Fidler has moved from part-time to full-time and other KMP have taken on a broader portfolio of responsibilities and direct reports.

The terms of employment for the KMP for the FY19 period are set out in the table below.

NAME	TERM OF AGREEMENT AND NOTICE PERIOD	BASE SALARY INCLUDING SUPERANNUATION*	TERMINATION PAYMENTS
Andrew Catsoulis	No fixed term 6 months	$990,000	• 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness.
Stuart Owen	No fixed term 6 months	$495,000	• 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness. • 1 months fixed remuneration plus 2 weeks for each year of service – capped at 2 months in the event of redundancy
Patrick Rogers	No fixed term 6 months	$375,000	• 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness. • 1 months fixed remuneration plus 2 weeks for each year of service – capped at 2 months in the event of redundancy
Claire Fidler	No fixed term 6 months	$275,000	• 6 months in lieu of notice if required by NSH. • 6 months in the event of incapacity or illness. • 1 months fixed remuneration plus 2 weeks for each year of service – capped at 2 months in the event of redundancy

* Base salaries are annual salaries for the financial year commencing 1 July 2018. They are reviewed annually by the Remuneration Committee. Actual salaries paid in the year ended 30 June 2018 are shown on page 54.

The composition of TAR for the year ending 30 June 2019 for KMP is detailed in the table below.

ROLE	TFR	STI	LTI
MD	55.2%	22.4%	22.4%
CFO	62.2%	18.9%	18.9%
GC/CRO	71.4%	14.3%	14.3%
CoSec	78.6%	10.7%	10.7%

Short and long term incentives

KMP senior executives may also be entitled to participate in the STI and LTI programs that are in place from time to time. The incentive programs are at the discretion of the Board and do not constitute an entitlement under the executive service agreements of the respective KMP. Total incentive programs are assessed against a broad comparator group and adjusted to reflect factors such as the criticality of the role, experience, length of service and NSR's positioning within the comparator group including the ASX A-REIT 200 index. The Board continually assesses the structure of the incentive plans and has determined that at this point in time payments made under these plans will be paid in cash. The Board considers that there is a sufficient nexus between the cash remuneration and the equity based payments given the link between security price performance and TSR.

An independent consultant was engaged during the Reporting Period to assess the appropriateness of the remuneration structure currently in place and to provide advice on market practice relating to executive remuneration structures. The advice did not constitute a remuneration recommendation as defined in the *Corporations Act Cth 2001*. After considering all the relevant information the Board has determined that the existing short and long term incentive program is appropriate. The following incentive program is effective from 1 July 2018.

Short Term Incentive (STI)
The STI contains four separate elements that will be assessed independently of the other elements. The STI is an annual incentive and is to be paid in cash annually.

ELEMENT	PERCENTAGE OF STI	CRITERIA
Financial	70%	Achieve Underlying Earnings as determined by the Board
Financial – Out Performance*	10%	Exceeding Underlying Earnings targets
Individual KPI's	15%	Individual performance criteria set in conjunction with MD / Board
Strategic	15%	Assessment in accordance with performance in the following areas: • Implementation of major projects • Staff continuity • Risk Management • Innovation and enhancement of processes and procedures
Total	**100% (Max)**	

* The Financial Out-Performance STI is only payable to the extent that the total STI payable does not exceed 100%.
The minimum STI payable is zero and maximum STI payable is $662,500 for FY19 in aggregate for all KMP.

Long Term Incentive (LTI)
The LTI criteria have been set so as to align the interests of KMP with those of securityholders. The LTI contains two separate components which are independently tested:

ELEMENT	PERCENTAGE OF LTI	CRITERIA
Total Shareholder Return	70%	Minimum total shareholder return above the 50th percentile in comparison to the ASX 200 A-REIT index. The LTI becomes payable in accordance with the sliding scale below once the 50th percentile hurdle is met.
Earnings Per Share Growth	30%	Earnings per share growth of 5% per annum

For the purposes of determining the LTI attributable to Total Shareholder Return in any given period, the following scale is applied:

NSR TSR v ASX 200 A-REIT INDEX	LTI PAYABLE
<50th percentile	0%
50th percentile	50%
>50th - <75th percentile	Pro-rata from 50% - 100%
>= 75th percentile	100%

The LTI is assessed over a rolling 3-year period and as such to be eligible for payment of the LTI, KMP must have been employed by NSR for three years (or shorter period as determined by the Board). Post three years' service the LTI will be paid on an annual basis on the previous three years' performance against the pre-determined criteria.

The minimum LTI payable is zero and maximum LTI payable is $662,500 for FY19 in aggregate for all KMP.

Short and long term incentives in place during reporting period:
The KMP were eligible for payment of STI's and LTI's for the financial year ended 30 June 2018 in accordance with the incentive program outlined in the 2017 Annual Report. The program is the same as that outlined above.

The STI's and LTI's were agreed with the KMP to reward them for performance against both financial and operational objectives. The minimum payable was zero and maximum payable was $1,040,000 for FY18 in aggregate for all KMP.

The STI and LTI hurdles included:
1. Underlying earnings[9] exceeding 9.8 cents per security
2. TSR over the three year period to 30 June 2018 being greater than the 50th percentile of the comparator group (ASX A-REIT 200)
3. Rolling three-year compound EPS growth exceeding 5% (June 2018 target 9.5cps)

The Board has assessed the performance of the Company and the KMP against the performance criteria and have determined that the following STI and LTI's have been earned and are payable, inclusive of statutory Superannuation amounts, for the period 1 July 2017 to 30 June 2018. In addition to the formalised incentive scheme the Board deemed it appropriate to pay a one-off discretionary bonus in relation to the delivery of aspects of the sustainability program and cost saving initiatives. This is shown as Other Remuneration below.

INCENTIVE OFFICER	STI		LTI			
	AMOUNT	% EARNED	AMOUNT	% EARNED	OTHER REMUNERATION	TOTAL
Andrew Catsoulis (MD)	$94,050	29%	$99,000	30%	$148,200	$341,250
Stuart Owen (CFO)	$32,175	29%	$33,000	30%	$50,900	$116,075
Patrick Rogers (GC/CRO)	$16,088	29%	$16,500	30%	$23,200	$55,788
Claire Fidler (CoSec)	$7,313	29%	$7,500	30%	-	$14,813
Total	**$149,626**	**29%**	**$156,000**	**30%**	**$222,300**	**$527,926**

The Board continues to asses both short-term and long-term incentives against a strict set of criteria and believes that delivering superior results to security holders is required for KMP to achieve full incentive payments.

9 Underlying earnings is a non-IFRS measure (unaudited). See page 36 of Directors' Report for reconciliation of underlying earnings

DETAILS OF REMUNERATION

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

	SALARY & FEES	SHORT TERM INCENTIVE (CASH)	SHORT TERM INCENTIVE (NON-MONETARY)	POST-EMPLOYMENT BENEFITS SUPERANNUATION	LONG TERM INCENTIVE (CASH)	LONG SERVICE LEAVE	TERMINATION PAYMENTS	TOTAL	PERFORMANCE RELATED
2018	$	$	$	$	$	$	$	$	%
Non-executive directors									
Laurence Brindle	249,951	-	-	20,049	-	-	-	270,000	0%
Anthony Keane	123,288	-	-	11,712	-	-	-	135,000	0%
Howard Brenchley	116,500	-	-	-	-	-	-	116,500	0%
Steven Leigh	103,653	-	-	9,847	-	-	-	113,500	0%
Executive directors									
Andrew Catsoulis	900,448	221,233	9,000	28,989	90,411	20,320	-	1,270,401	25%
Claire Fidler	203,673	6,678	9,000	21,256	6,849	5,708	-	253,164	5%
Senior executives									
Peter Greer *	396,201	-	4,500	2,536	-	9,132	400,000	812,369	0%
Stuart Owen	405,264	75,868	9,000	23,100	30,137	9,589	-	552,958	19%
Patrick Rogers	297,054	35,879	9,000	21,575	15,068	7,420	-	385,996	13%
Total	**2,796,032**	**339,658**	**40,500**	**139,064**	**142,465**	**52,169**	**400,000**	**3,909,888**	

* Mr Greer's role was made redundant effective 31 December 2017

	SALARY & FEES	SHORT TERM INCENTIVE (CASH)	SHORT TERM INCENTIVE (NON-MONETARY)	POST-EMPLOYMENT BENEFITS SUPERANNUATION	LONG TERM INCENTIVE (CASH)	LONG SERVICE LEAVE	TOTAL	PERFORMANCE RELATED
2017	$	$	$	$	$	$	$	%
Non-executive directors								
Laurence Brindle	229,189	-	-	21,773	-	-	250,962	0%
Anthony Keane	114,594	-	-	10,887	-	-	125,481	0%
Howard Brenchley	108,000	-	-	-	-	-	108,000	0%
Steven Leigh	95,153	-	-	9,040	-	-	104,193	0%
Executive director								
Andrew Catsoulis	799,592	184,193	8,762	50,917	82,192	18,836	1,144,492	23%
Senior executives								
Peter Greer	685,222	157,155	8,762	47,739	75,342	16,895	991,115	23%
Stuart Owen	358,915	74,293	8,762	37,130	27,397	8,904	515,401	20%
Patrick Rogers	270,008	39,617	8,762	32,912	13,699	6,849	371,847	14%
Claire Fidler	166,572	15,982	8,762	17,135	-	5,137	213,588	7%
Total	**2,827,245**	**471,240**	**43,810**	**227,533**	**198,630**	**56,621**	**3,825,079**	

SECURITY HOLDINGS OF DIRECTORS AND EXECUTIVES

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

	BALANCE 30 JUNE 2017	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	ACQUIRED	BALANCE 30 JUNE 2018
Directors of NSH					
Laurence Brindle	1,342,120	-	-	-	1,342,120
Anthony Keane	148,200	-	-	10,035	158,235
Andrew Catsoulis	13,321,745	-	-	80,035	13,401,780
Howard Brenchley	50,000	-	-	-	50,000
Steven Leigh	81,900	-	-	-	81,900
Claire Fidler	8,938	-	-	-	8,938
Executives of NSH					
Peter Greer*	5,586,735	-	-	-	-
Stuart Owen	-	-	-	-	-
Patrick Rogers	5,163	-	-	-	5,163
Total	**20,544,801**	**-**	**-**	**90,070**	**15,048,136**

* Mr Greer ceased to be a KMP effective 31 December 2017

RELATED PARTY TRANSACTIONS

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

This Directors' Report is made on 21 August 2018 in accordance with a resolution of the Board of Directors of National Storage Holdings Limited and is signed for and on behalf of the Directors.

Laurence Brindle Chairman National Storage Holdings Limited Brisbane	Andrew Catsoulis Managing Director National Storage Holdings Limited Brisbane

This Directors' Report is made on 21 August 2018 in accordance with a resolution of the Responsible Entity and is signed for and on behalf of the Responsible Entity.

Building a better working world

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

As lead auditor for the audit of National Storage REIT for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

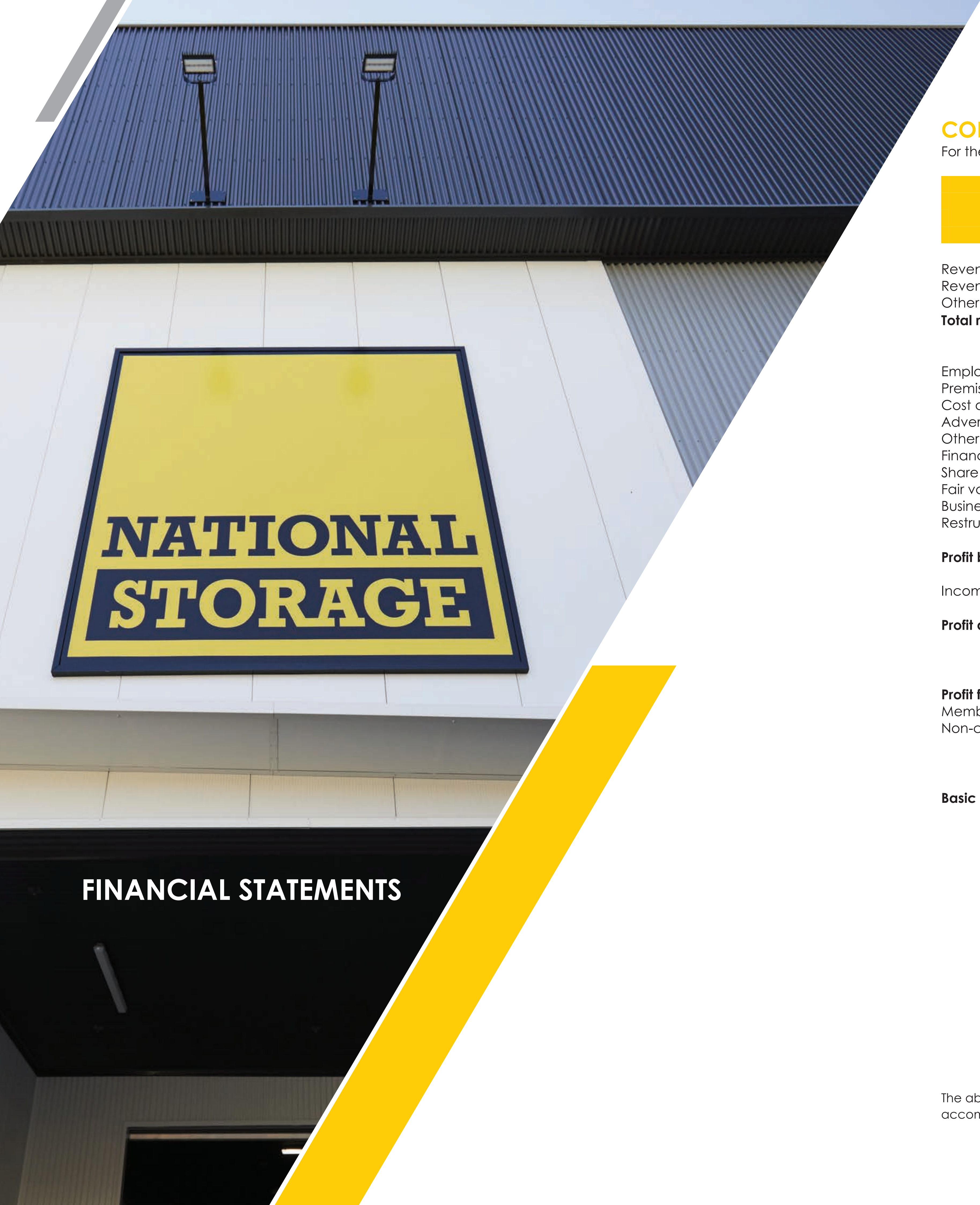
a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of National Storage REIT and the entities it controlled during the financial year.

Ernst & Young

Ric Roach
Partner
21 August 2018



FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2018

	Notes	Consolidated Group 2018 $'000	2017 $'000
Revenue from storage rent		124,630	105,814
Revenue from sale of goods and services		7,690	6,999
Other revenue	6	7,301	4,689
Total revenue		**139,621**	**117,502**
Employee expenses	7	(24,746)	(22,472)
Premises costs		(16,064)	(13,284)
Cost of packaging and other products		(1,799)	(1,433)
Advertising and marketing		(5,313)	(2,683)
Other operational expenses	7	(11,433)	(7,994)
Finance costs	8	(28,912)	(24,160)
Share of profit of joint ventures and associates	13	1,342	2,110
Fair value adjustments	11.4	92,368	76,803
Business combination costs	5	-	(13,837)
Restructuring and other non-recurring costs		(1,310)	(2,971)
Profit before income tax		**143,754**	**107,581**
Income tax benefit / (expense)	9	2,019	(4,168)
Profit after tax		**145,773**	**103,413**
Profit for the year attributable to:			
Members of National Storage Holdings Limited		1,771	7,147
Non-controlling interest (unitholders of NSPT)		144,002	96,266
		145,773	**103,413**
Basic and diluted earnings per stapled security (cents)	20	27.15	20.70

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000
Profit after tax	**145,773**	**103,413**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(370)	38
Net (loss) / gain on cash flow hedges	(2,028)	6,403
Other comprehensive (loss) / income for the year, net of tax	**(2,398)**	**6,441**
Total comprehensive income for the year	**143,375**	**109,854**
Total comprehensive income for the year attributable to:		
Members of National Storage Holdings Limited	1,748	7,180
Unitholders of National Storage Property Trust	141,627	102,674
	143,375	**109,854**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10.1	21,333	23,166
Trade and other receivables	10.2	15,152	11,340
Inventories	11.1	656	600
Assets held for sale	11.2	5,713	5,713
Other current assets	10.3	5,424	4,309
Total current assets		**48,278**	**45,128**
Non-current assets			
Trade and other receivables	10.2	601	110
Property, plant and equipment	11.3	1,024	1,229
Investment properties	11.4	1,592,798	1,330,878
Investment in joint ventures and associates	13	18,125	10,591
Intangible assets	11.5	46,005	45,536
Deferred tax assets	9	1,019	525
Other non-current assets	10.3	2,099	3,328
Total non-current assets		**1,661,671**	**1,392,197**
Total Assets		**1,709,949**	**1,437,325**
LIABILITIES			
Current liabilities			
Trade and other payables	10.4	12,318	8,778
Finance lease liability	10.7	4,446	4,504
Deferred revenue	11.6	12,584	11,585
Income tax payable		1,142	314
Provisions	11.7	1,930	2,188
Distribution payable	17	27,396	23,594
Other liabilities	10.6	3	166
Total current liabilities		**59,819**	**51,129**
Non-current liabilities			
Borrowings	10.5	596,410	481,770
Finance lease liability	10.7	156,942	163,851
Provisions	11.7	1,513	1,331
Deferred tax liability	9	606	3,368
Other liabilities	10.6	4,380	3,259
Total non-current liabilities		**759,851**	**653,579**
Total Liabilities		**819,670**	**704,708**
Net Assets		**890,279**	**732,617**
EQUITY			
Non-controlling interest (unitholders of NSPT)		813,558	664,627
Contributed equity	14	66,128	59,145
Other reserves	15	(12)	11
Retained earnings		10,605	8,834
Total Equity		**890,279**	**732,617**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

Attributable to securityholders of National Storage REIT

	Notes	Contributed equity $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Non-controlling interest $'000	Total Equity $'000
Balance at 1 July 2017		**59,145**	**8,834**	**11**	**664,627**	**732,617**
Profit for the year		-	1,771	-	144,002	145,773
Other comprehensive income	15	-	-	(23)	(2,375)	(2,398)
Total comprehensive income		**-**	**1,771**	**(23)**	**141,627**	**143,375**
Issue of stapled securities through institutional and retail placements	14	5,983	-	-	53,553	59,536
Issue of stapled securities through distribution reinvestment plan	14	926	-	-	8,654	9,580
Costs associated with issue of stapled securities		(166)	-	-	(1,476)	(1,642)
Deferred tax on cost of stapled securities	9	240	-	-	-	240
Distributions provided for or paid	17	-	-	-	(53,427)	(53,427)
		6,983	**-**	**-**	**7,304**	**14,287**
Balance at 30 June 2018		**66,128**	**10,605**	**(12)**	**813,558**	**890,279**
Balance at 1 July 2016		**31,707**	**1,687**	**(22)**	**364,978**	**398,350**
Profit for the year		-	7,147	-	96,266	103,413
Other comprehensive income	15	-	-	33	6,408	6,441
Total comprehensive income		**-**	**7,147**	**33**	**102,674**	**109,854**
Issue of stapled securities through institutional and retail placement		26,354	-	-	233,646	260,000
Issue of stapled securities through distribution reinvestment plan	14	897	-	-	8,106	9,003
Issue of stapled securities through vendor scrip issue		828	-	-	7,572	8,400
Costs associated with issue of stapled securities		(641)	-	-	(5,608)	(6,249)
Distributions provided for or paid	17	-	-	-	(46,741)	(46,741)
		27,438	**-**	**-**	**196,975**	**224,413**
Balance at 30 June 2017		**59,145**	**8,834**	**11**	**664,627**	**732,617**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	Consolidated Group 2018 $'000	2017 $'000
Operating activities			
Receipts from customers		150,094	125,923
Payments to suppliers and employees		(73,282)	(61,355)
Interest received		265	683
Income tax paid		(85)	(155)
Net cash flows from operating activities	10.1	**76,992**	**65,096**
Investing activities			
Purchase of investment properties		(168,733)	(141,958)
Proceeds on sale of investment property		6,820	1,600
Acquisition of subsidiary and property portfolio, net of cash acquired	5	-	(303,081)
Distribution received from associate investments		1,016	-
Return of capital on dissolution of joint venture	13	-	9,950
Improvements to investment properties		(7,926)	(5,571)
Development of investment property under construction		(3,661)	-
Purchase of property, plant and equipment	11.3	(154)	(900)
Purchase of intangible assets		(590)	(364)
Investments in associate and joint ventures	13	(7,440)	(3,330)
Net cash flows used in investing activities		**(180,668)**	**(443,654)**
Financing activities			
Proceeds from issue of stapled securities	14	59,536	260,000
Transaction costs on issue of stapled securities		(1,642)	(6,249)
Distributions paid to stapled security holders		(40,045)	(28,947)
Proceeds from borrowings		195,222	409,291
Repayment of borrowings		(76,820)	(210,580)
Financing provided to joint venture	18	-	(5,625)
Payment of finance lease liabilities		(12,561)	(12,494)
Interest and other finance costs paid		(21,824)	(17,105)
Net cash flows from financing activities		**101,866**	**388,291**
Net (decrease) / increase in cash and cash equivalents		(1,810)	9,733
Net foreign exchange difference		(23)	59
Cash and cash equivalents at 1 July		23,166	13,374
Cash and cash equivalents at 30 June	10.1	**21,333**	**23,166**

The above Consolidated Statement of Cashflows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

1. CORPORATE INFORMATION

National Storage REIT ("**the Group**" or "**NSR**") is a joint quotation of National Storage Holdings Limited ("**NSH**" or "**the Company**") and its controlled entities ("**NSH Group**") and National Storage Property Trust ("**NSPT**" or "**the Trust**") and its controlled entities ("**NSPT Group**") on the Australian Securities Exchange ("**ASX**").

The Constitutions of NSH and NSPT ensure that, for so long as the two entities remain jointly quoted, the number of shares in the Company and the number of units in the Trust shall be equal and that the shareholders and unitholders be identical. Both the Company and the Responsible Entity (National Storage Financial Services Limited) of the Trust must at all times act in the best interest of NSR. The stapling arrangement will continue until either the winding up of the Company or the Trust, or termination by either entity.

The financial report of NSR for the year ended 30 June 2018 was approved on 21 August 2018, in accordance with a resolution of the Board of Directors of NSH and the Board of Directors of National Storage Financial Services Limited as the Responsible Entity for NSPT.

The nature of the operations and principal activities of the 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. NSH is a for-profit entity 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 (refer to note 2(y)).

The accounting policies applied by NSR in these financial statements are the same as the 30 June 2017 financial statements except for the accounting policies impacted by new or amended accounting standards detailed in this note.

From 1 July 2017 the Group has elected to present only financial information relating to NSR within these financial statements. In previous periods the Group has presented the NSPT Group results alongside those of NSR. A separate financial report for the NSPT Group has also been prepared for the year ended 30 June 2018, this is available at www.nationalstorageinvest.com.au.

Deficiency of net current assets

As at 30 June 2018, the Group had an excess of current liabilities over current assets of $11.5m (2017: $6.0m).

Accounting standard AASB 140 *Investment Property* requires the financial lease liability to be split between current and non-current while the corresponding asset is classed as non-current. The Directors have assessed that the excess value of the total investment property over the finance lease liability reflects the positive position in both the immediate and long-term and that sufficient cash inflows from operations will occur to enable all liabilities to be paid when due.

Current liabilities also include deferred revenue of $12.6m (2017: $11.6m) associated with prepaid storage rentals which are not expected to result in a significant cash outflow. The Group also has available funding facilities beyond 12 months of $115.3m (see note 16).

On this basis, the financial report has been prepared on a going concern basis as the Directors of NSH believe the Group will continue to generate operating cash flows to meet all payment obligations in the ordinary course of business.

(b) Compliance with IFRS

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

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

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

The following new and amended standards relevant to the Group's activities have been adopted for the reporting period commencing 1 July 2017.

Reference	Title	Application date of standard	Application date for Group
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 July 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 July 2017
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	1 January 2017	1 July 2017

Adoption of these standards have had no material impact in the presentation or disclosures within the financial statements and are not likely to affect future periods.

Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and interpretations relevant to the Group's operations, that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2018 are outlined in the following table:

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. During the year, the Group has concluded its assessment of the impact of adopting this standard. This has focussed on the nature of financial instruments held and the way in which they are used. There are three phases of the standard that have been assessed: (i) Classification and measurement The standard adopts a principles based approach to classify financial assets on the basis of the business model within which they are held and their contractual cash flow characteristics. The Group anticipates that the current classifications for financial assets will be largely unchanged. (ii) Impairment The standard includes the requirement that impairment models also consider the expected credit losses on an entity's financial assets held at amortised cost and commitments to extend credit. The Group anticipates that this will not have a material impact on the Group's results given the low exposure to counterparty default risk as a result of the credit risk management processes that are in place. (iii) Hedge accounting The standard does not materially change the amounts recognised in relation to existing hedging arrangements but does simplify the requirements for measuring hedge effectiveness, and thus the eligibility conditions for hedge accounting. The Group anticipates that there will be minimal impact from adoption on the current hedge accounting under AASB 139 adopted by the Group.	1 January 2018	1 July 2018
AASB 15	Revenue from Contracts with Customers	AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The majority of the Group's revenue has application under other relevant standards and therefore, application of AASB 15 does not apply (rental income). Other material revenue streams identified within the Group are: - Revenue from sale of goods - Agency fees - Design and development fees - Management fees The Group has assessed the impact upon application of AASB 15 to be immaterial to the Group's financial statements.	1 January 2018	1 July 2018
AASB 16	Leases	AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months with the exception of low value assets. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The initial measurement includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessors continue to classify leases as operating or finance, with AASB 16's approach to lessor accounting substantially unchanged from AASB 117.	1 January 2019	1 July 2019

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
		The Group has conducted an assessment of the impact of the new standard, in relation to the Group's current commitments under operating leases as detailed in note 19. Due to the relative size of these commitments to the Group's total assets, adoption of AASB 16 is not expected to have a material impact on the Group's financial statements. The Group's leasehold investment properties will continue to be accounted for under AASB140 and will be unaffected by the application of AASB 16.		
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	The amendments clarify certain requirements in: • AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters • AASB 12 Disclosure of Interests in Other Entities – clarification of scope • AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value • AASB 140 Investment Property – change in use.	1 January 2018	1 July 2018
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.	1 January 2018	1 July 2018
AASB 2018-1	Annual Improvements to IFRS Standards 2015-2017 Cycle	The amendments clarify certain requirements in: • AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation • AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity • AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.	1 January 2019	1 July 2019
AASB Interpretation 23, and relevant amending standards	Uncertainty over Income Tax Treatments	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses: • Whether an entity considers uncertain tax treatments separately	1 January 2019	1 July 2019

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
		• The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit, tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.		
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.	1 January 2019	1 July 2019
Not yet issued by the AASB	Conceptual Framework for Financial Reporting and relevant amending standards	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts including: • The objective of financial reporting • Qualitative characteristics of useful financial information • Financial statements and the reporting entity • The elements of financial statements • Recognition and derecognition • Measurement • Presentation and disclosure • Concepts of capital and capital maintenance The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.	1 January 2020	1 July 2020
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	1 January 2022	1 July 2022

Basis of consolidation

The Financial Report of NSR as at 30 June 2018 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

The financial statements for the Group are prepared on the basis that NSH was the acquirer of NSPT. The non-controlling interest is attributable to stapled security holders presented separately in the statement of comprehensive income and within equity in the statement of financial position, separately from parent shareholders' equity.

Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power to direct the activities of the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control. The acquisition method of accounting is used to account for business combinations (see note 2 (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 all subsidiaries are consistent with the policies adopted by the Group.

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

Associates
Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method. The Group has an associate investment that is accounted for using the equity method.

Joint arrangements
Under AASB 11 *Joint Arrangements,* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group has a number of arrangements, one where the Group's equity interest exceeds 50%, which are classified as joint ventures as all parties are subject to a Securityholders Agreement that has been contractually structured such that the parties to the agreement have equal representation on the advisory board responsible for the overall direction, supervision and decision making of each entity.

Investments in joint ventures are accounted for using the equity method.

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

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

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

The financial statements of associates and joint ventures 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 associates or joint ventures. 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 or loss of joint ventures and associates' in the consolidated 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.

(d) 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 received. 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 specific recognition criteria described below must also be met before revenue is recognised.

Revenue from storage rent
Revenue from the provision of storage space is recognised less any amount contractually refundable to customers over the term of the general agreement. The value of discounts offered to customers at the end of an incentive period is recognised over the expected rental period.

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

Agency fees
The Group acts as an agent in the provision of insurance services provided by a third party insurance company to NSR's storage rental customers. The revenue is measured based on the monthly amount received for these transactions. Storage insurance revenue is presented within revenue from sale of goods and services whin the statement of profit or loss.

Design and development Fees
Revenue from the design, planning, and development management of the construction of storage facilities are recognised on the fulfillment of contractual conditions, and the achieve of project milestones.

Management fees
Revenue is recognised over the period in which management services such as operational services, facilities management, staff resourcing, and financial management are provided to the customer.

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

Other revenue
Other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(e) Taxes

The Group comprises taxable and non-taxable entities. A liability for current and deferred tax expense is only recognised in respect of taxable entities that are subject to income tax.

NSPT is a 'flow through' entity for Australian income tax purposes and has elected into the Attribution Managed Investment Trust ("**AMIT**") rules from 1 July 2017, such that the determined tax components of NSPT will be taxable in the hands of unitholders on an attribution basis.

NSPT's subsidiary National Storage New Zealand Property Trust ("**NSNZPT**") is an Australian registered trust which owns investment property in New Zealand. For New Zealand tax purposes NSNZPT is classed as a unit trust and is subject to New Zealand income tax.

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint arrangements, when the timing of the reversal of temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary difference will not reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right to offset current tax assets and liabilities exists and when the deferred tax balances relate to the same taxation authority.

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

*Goods and services tax ("**GST**")*
Revenue, expenses, assets, and liabilities are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets is not payable or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or expense item or part of the cost of acquisition of the asset, as applicable.

- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classed as part of operating cash flows.

(f) Foreign currencies

The Group's consolidated financial statements are presented in Australian dollars. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(g) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in business combination expenses in the statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ("**CGU**") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

(h) Leases

The determination of whether an arrangement is a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Group leases properties which are classified as investment properties (note 11.4). The Group also leases office premises and items of plant and equipment.

Leased investment properties and property, plant and equipment
Leases of investment property and property, plant and equipment, where the group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Leasehold investment property and property, plant and equipment finance leases are capitalised at the lease's inception at the fair value of the leased property.

The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at fair value. Changes in value are presented in profit or loss.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 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.

Group as lessor
Lease income from operating leases where the group is a lessor is recognised in revenue less any amount contractually refundable to customers over the term of lease.

(i) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and term deposits 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 term deposits as defined above.

(j) 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 10.2 for further information about the Group's accounting for trade receivables and note 16 for a description of the group's impairment policies).

(k) 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 the estimated costs necessary to make the sale.

(l) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

All financial assets are recognised initially at fair value, plus in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and other operational expenses for receivables.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate, less impairment.

Available-for-sale financial assets
Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are

those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group currently has no available-for-sale financial assets.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

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

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

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(m) Derivatives and hedging activities

The Group uses derivative financial instruments, such as interest rate swaps and a net investment hedge to hedge its foreign currency and interest rate risks.

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 10.8. 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 a cash flow hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within finance income or finance costs.

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

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

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

(n) Property, plant and equipment

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Leasehold improvements - remaining length of lease term
- Plant and equipment - 2.5 to 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(q)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(o) Investment properties

Freehold investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

Fair values are determined by a combination of independent valuations and Director valuations. The independent valuations are performed by an accredited independent valuer. Investment properties are independently valued on a rotational basis, every three years, unless the underlying financing requires or the Directors determine a more frequent valuation cycle. For properties subject to an independent valuation report the Directors verify all major inputs to the valuation and review the results with the independent valuer. The Director valuations are completed by the NSH Group Board. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

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

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

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

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined using the same valuation process applied to freehold investment property.

Lease payments are allocated between the principal component of the lease liability and interest expense so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognised in finance costs in the consolidated statements of profit and loss and within payment of finance lease liabilities within the consolidated statements of cash flows.

(p) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives, such as goodwill, are not amortised but are tested for impairment at each reporting period, either individually or at the CGU level. The assessment of indefinite life is reviewed at each reporting period to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in other operational expenses. During the period of development, the asset is tested for impairment annually.

(q) 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 have been impaired in previous periods are reviewed for possible reversal of the impairment at the end of each reporting 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.

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

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

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

The Group does not have a provision for legal claims.

In accordance with lease agreements, the Group must restore the leased premises in a number of leasehold premises to its original condition at lease expiry. A provision has been recognised for the obligation to remove leasehold improvements from the leased premises (note 11.7).

The Group also holds an onerous lease provision related to future lease payments payable on former head office premises no longer occupied by the Group.

(v) Employee benefits

Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits, and accumulating annual leave which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits obligations
The Group does not expect its long service leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to previous experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on the applicable corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

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

(w) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the 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) Dividends and distributions to securityholders

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

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity. Any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

(y) Rounding of amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) Parent entity financial information

The financial information for the parent entity, NSH, 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.

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. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

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

(aa) Fair value measurement

The Group measure financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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

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

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

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, 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 10.8 and 11.8.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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 Group's accounting policies, management has made the following judgements, which have a significant effect on the amounts recognised in the consolidated financial statements:

Significant judgements

Acquisition of storage centre assets
For the acquisition of storage centres, the Group's policy is to review the nature of the transaction and assess if the transaction should be accounted for under *AASB 3 Business Combinations* or *AASB 140 Investment Properties* as a purchase of investment property.

The key assessment to be made is whether the transaction constitutes a purchase of a 'business', if so it will be accounted for under AASB3, as detailed in note 5. A substantial test of a business purchase, is if in addition to 'inputs' acquired ie. the property, 'processes' such as strategic, operational and resource management process are also acquired.

If it is determined that the transaction does not meet this definition, the transaction is accounted for as a purchase of an asset under AASB140, as an acquisition of a storage centre(s) held for rental return and capital appreciation.

For the year ended 30 June 2018, the Group has assessed that all of its storage centre acquisitions do not meet the definitions set out in AASB 3 and are therefore accounted for as purchases of investment property per AASB 140 as detailed in note 11.4.

Deferred income tax
Deferred tax assets are recognised by the 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.

The Group has tax losses which arose in Australia and are available for offsetting against future taxable profits of the NSH Australian tax group. These losses are subject to the satisfaction of the same business test and a reduced rate of utilisation under the 'available fraction' rules. The Group has assessed the expected utilisation profile of these tax losses based upon forecasted levels of future profits within the NSH Australian tax consolidated group and have recognised a deferred tax asset where it is probable that there will be sufficient future taxable profits in the Group against which this deferred tax asset will be recovered. The Group has not recognised a deferred tax asset on a proportion of these losses where the future utilisation of these is more uncertain.

Classification of joint arrangements
The NSPT Group holds a 25% interest in the Bundall Storage Trust, and the NSH Group holds a 25% interest in the Bundall Commercial Trust. During the year the NSH Group also subscribed to 83.3% of the units in FKS Investments No.2 Unit Trust.

In each arrangement, investments are classified as joint ventures as all parties are subject to a Securityholders Agreement that has been contractually structured such that the parties to the agreement have equal representation on the advisory board responsible for the overall direction and supervision of each trust.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Assumptions and estimates are based on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about the future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss under fair value adjustments. Fair values are determined by a combination of independent valuations assessed on a rotational basis and Director valuations, determined using the same techniques and similar estimates to those applied by the independent valuer. The key assumptions used to determine the fair value of the properties and the sensitivity analyses are provided in note 11.8.

Impairment of non-financial assets – intangibles
An impairment exists when the carrying value of an asset or 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 the fair value of the Group's stapled securities as listed on the Australian Securities Exchange which has been assessed as one CGU, less costs of disposal.

4. SEGMENT INFORMATION

The Group operates wholly within one business segment being the operation and management of storage centres in Australia and New Zealand. The operating results presented in the statements of profit or loss represent the same segment information as reported in internal management information.

The Managing Director, supported by the executive management team, is the Group's chief operating decision maker and monitors the operating results on a portfolio wide basis. Monthly management reports are evaluated based the overall performance of NSR consistent with the presentation within the consolidated financial statements. The Group's financing (including finance costs and finance income) are managed on a Group basis and not allocated to operating segments.

Geographic information

	2018 $'000	2017 $'000
Revenue from external customers		
Australia	130,709	110,669
New Zealand	8,912	6,833
Total	139,621	117,502

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

Geographic information

	2018 $'000	2017 $'000
Non-current operating assets		
Australia	1,503,585	1,258,794
New Zealand	92,288	74,895
Total	1,595,873	1,333,689

Non-current assets for this purpose consists of property, plant and equipment, investment properties and intangible assets (excluding goodwill).

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

5. BUSINESS COMBINATIONS

Business combination in the prior period

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

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

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

Prior to completion the Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in a joint venture (see note 13).

Assets acquired and liabilities assumed

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

	Notes	2017 $'000
Assets		
Investment properties		267,096
Cash and cash equivalents		1,261
Trade and other receivables		219
Inventories		138
Deferred tax asset		1,039
Other current assets		241
		269,994
Liabilities		
Trade and other payables		(6,639)
Deferred revenue		(2,681)
Provisions		(364)
		(9,684)
Total identifiable net assets at fair value		**260,310**
Goodwill arising on acquisition	11.5	30,195
Purchase consideration transferred		**290,505**

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

There have been no changes to the provisional fair value of the assets and liabilities acquired at the date of acquisition.

From the date of acquisition to 30 June 2017 Southern Cross Storage Operations Pty Ltd contributed $23.1m of revenue and $2.2m of profit before tax to the Group.

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

	2017 $'000
Purchase consideration	
Cash and cash equivalents	290,505
Total consideration	290,505
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from investing activities)	13,837
Net cash acquired with the subsidiary (included in acquisition of subsidiary and property portfolio, net of cash acquired per statement of cashflows	(1,261)
	303,081

The acquisition had no elements of contingent consideration.

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

6. OTHER REVENUE

	Notes	2018 $'000	2017 $'000
Other revenue			
Interest revenue	8	757	853
Design, development and project management fees		2,465	1,630
Other revenue		4,079	2,206
Total other revenue		7,301	4,689

7. EXPENSES AND OTHER INCOME

	Notes	2018 $'000	2017 $'000
Other operational expenses			
Insurance		2,323	1,894
Professional fees		1,692	1,354
Communications costs		1,716	1,259
Information technology costs		1,602	924
Bank charges		840	701
Motor vehicle expenses		476	373
Depreciation of non-current assets	11.3	357	309
Amortisation of intangible assets	11.5	395	266
Travel and entertainment		455	459
Foreign exchange losses		142	14
Other		1,435	441
Total other operational expenses		11,433	7,994
Employee expenses			
Wages and salaries		19,748	17,635
Post-employment benefits		1,706	1,621
Other employee costs		3,292	3,216
Total employee expenses		24,746	22,472
Minimum lease payments recognised as an operating lease expense		609	459
Fair value adjustments			
Investment property – net gain	11.4	92,368	76,803

8. FINANCE INCOME AND COSTS

	Notes	2018 $'000	2017 $'000
Finance income			
Bank interest		251	715
Interest income from related parties		506	138
Total finance income	6	757	853
Finance costs			
Interest on borrowings		20,634	15,345
Finance charges on finance leases		8,278	8,815
Total finance costs		28,912	24,160

9. INCOME TAX

NSPT is a 'flow through' entity for Australian income tax purposes and has elected into the AMIT rules from 1 July 2017, such that the determined tax components of NSPT will be taxable in the hands of unitholders on an attribution basis. NSPT's subsidiary National Storage New Zealand Property Trust ("**NSNZPT**") is an Australian registered trust which owns investment property in New Zealand. For New Zealand tax purposes NSNZPT is classed as a unit trust and is subject to New Zealand income tax at a rate of 28%. Future distributions from NSNZPT to NSPT may have attached Foreign Income Tax Offsets, which when subsequently distributed by NSPT may be claimed by an Australian tax resident, depending on their personal circumstances.

The major components of income tax expense / (benefit) for the years ended 30 June 2018 and 30 June 2017 are:

	Notes	2018 $'000	2017 $'000
Consolidated statement of profit or loss			
Current tax		1,365	1,548
Deferred tax		(3,384)	2,620
Total income tax (benefit) / expense		(2,019)	4,168
Consolidated statement of other comprehensive income			
Deferred tax relating to items recognised in other comprehensive income during the year			
Cost of issuing share capital		(240)	-
Net (loss) / gain on revaluation of cash flow hedges	15	(84)	24
Deferred tax charged to other comprehensive income		(324)	24
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2018 and 2017:			
Profit from continuing operations		143,754	107,581
Deduct profit before tax from Trusts owning Australian property		(141,015)	(96,248)
Accounting profit before income tax		2,739	11,333
Tax at the Australian tax rate of 30% (2017 – 30%)		822	3,400
Non-assessable income		(1,367)	(240)
Adjustments in respect of previous years		(810)	27
Other non-deductible expenses		66	581
(Recognition) / derecognition of previously (unrecognised)/ recognised tax losses		(679)	371
Effect of lower tax rates in New Zealand		(51)	29
Income tax (benefit) / expense		(2,019)	4,168

	2018 $'000	2017 $'000
Deferred tax expense included in income tax (benefit) / expense comprises:		
Increase in deferred tax assets	(10,556)	(63,626)
Increase in deferred tax liabilities	7,301	66,458
Deferred tax assets acquired in business combinations	-	1,039
Movement of deferred tax asset on carry forward losses shown in current tax expense	(453)	(1,232)
Exchange variations	-	5
Movement in deferred tax asset recognised in other comprehensive income	324	(24)
Total deferred tax (benefit) / expense	(3,384)	2,620
Deferred tax assets and liabilities		
Deferred tax assets		
The balance comprises temporary differences attributable to:		
Lease liability	190,473	181,333
Employee benefits	528	620
Accrued expenses	349	602
Carry forward losses	1,644	1,973
Formation expenses	200	10
Make-good provision	333	164
Revaluation of cash flow hedges	130	50
Revaluation of investment property asset	1,634	-
Other	49	31
Total deferred tax assets	195,340	184,783
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Prepayments	12	9
Other receivables	232	47
Revaluations of investment properties	194,677	187,555
Unrealised foreign exchange losses	6	15
Total deferred tax liabilities	194,927	187,626
Net deferred tax asset / (liability)	413	(2,843)
Reconciliation to statement of financial position		
Deferred tax asset	1,019	525
Deferred tax liability	(606)	(3,368)
Net deferred tax asset / (liability)	413	(2,843)

The Group offsets tax assets and liabilities if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax asset and deferred tax liabilities relate to income taxes levied by the same tax authority. The deferred tax balances above reflect NSH Group and NSNZPT's tax obligations and in some instances are calculated with reference to the tax base of balances that are eliminated on group consolidation but still have a tax impact on a taxpayer basis.

The Group has total gross tax losses which arose in Australia of $10,947,456 (2017: $12,456,902). These losses are available for offsetting against future taxable profits of the NSH Australian tax group. These losses are subject to the satisfaction of the same business test and a reduced rate of utilisation under the 'available fraction' rules. The Group has assessed the expected utilisation profile of these tax losses and has recognised a deferred tax asset of $1,644,002 (2017: $1,418,148) on NSH Australian group tax losses of $5,480,006 (2017: $4,727,160) on the basis it is probable that there will be sufficient future taxable profits in the Group against which this deferred tax asset will be recovered (see note 3).

The NSH Australian group also has gross tax losses of $5,467,450 (2017: $7,729,742) for which a deferred tax asset has not been recognised, as the future utilisation of these losses is more uncertain.

The Group has utilised all tax losses which have arisen in New Zealand. In the prior year the Group recognised a deferred tax asset of NZD $579,739 (AUD $554,926) on the basis it was probable that there would be sufficient future taxable profits in National Storage Limited and National Storage New Zealand Property Trust against which this deferred tax could have been recovered.

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

This note provides information about the Group's current and non-current financial instruments including:

- An overview of all financial instruments held by the Group;
- Specific information about each type of financial instrument;
- Information about determining the fair value of the instruments, including areas of judgement, estimates and other assumptions.

The Group hold the following financial instruments:

	Notes	2018 $'000	2017 $'000
Financial assets			
At amortised cost			
Cash and cash equivalents	10.1	21,333	23,166
Trade and other receivables	10.2	15,753	11,450
Deposits	10.3	1,074	631
		38,160	35,247
Derivatives used for hedging – at fair value through other comprehensive income	10.3	2,186	3,328
Total financial assets		40,346	38,575
Financial liabilities			
At amortised cost			
Trade and other payables	10.4	12,318	8,778
Borrowings	10.5	600,348	484,615
Finance leases	10.7	161,388	168,355
		774,054	661,748
Derivatives used for hedging – at fair value through other comprehensive income	10.6	4,383	3,425
Total financial liabilities		778,437	665,173

The Group's approach to financial risk management 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.

10.1. Cash and cash equivalents

	2018 $'000	2017 $'000
Current assets		
Cash on hand	46	41
Cash at bank	21,287	23,125
Total cash and cash equivalents	21,333	23,166

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

	2018 $'000	2017 $'000
Profit after income tax	145,773	103,413
Income tax (benefit) / expense	(2,019)	4,168
Profit before tax	143,754	107,581
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation and amortisation	357	309
Amortisation of intangible assets	395	266
Impairment of assets included within restructuring and other non-recurring costs	-	633
Fair value adjustment to investment properties	(92,368)	(76,803)
Share of profit of joint venture	(1,342)	(2,110)
Finance income	(757)	(853)
Finance costs	28,912	24,160
Business combination costs	-	13,837
Changes in operating assets and liabilities:		
Increase in receivables	(3,579)	(3,518)
Increase in inventories	(56)	(89)
(Increase) / decrease in other assets	(1,472)	(991)
Increase in payables	2,600	879
Increase in deferred revenue	999	1,178
Increase in provisions	(631)	89
Cash flows from operating activities	**76,812**	**64,568**
Interest received	265	683
Income tax paid	(85)	(155)
Net cash flows from operating activities	**76,992**	**65,096**

10.2. Trade and other receivables

	Notes	2018 $'000	2017 $'000
Current			
Trade receivables		3,054	2,291
Provision for doubtful debts		(23)	(42)
		3,031	2,249
Other receivables		4,082	2,390
Receivables from related parties	18	8,039	6,701
		15,152	11,340
Non-current			
Other receivables		601	110
Total current and non-current		15,753	11,450

Classification as trade and other receivables

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

Impairment of receivables

The provision for impairment (doubtful debts) of receivables represents an estimate of trade debtors that are not considered to be recoverable. At 30 June 2018 and 30 June 2017, the Group recognised a provision for trade receivables relating to receivables acquired on the purchase of investment properties and via a business combination where there are specific risks around recoverability. See below for the movements in the provision for impairment of receivables in the Group.

	2018 $'000	2017 $'000
At 1 July	42	-
Charge for the year	-	-
Recognised on acquisition of investment properties / business combination	79	238
Utilised	(98)	(196)
At 30 June	23	42

The age of trade receivables not impaired was as follows:

	2018 $'000	2017 $'000
0 to 3 months	2,590	1,570
3 to 6 months	312	331
Over 6 months	129	348
	3,031	2,249

The carrying amounts of current receivables are assumed to be the same as their fair values, due to their short-term nature. The fair value of non-current receivables approximates carrying value.

10.3. Other assets

	2018 $'000	2017 $'000
Current		
Deposits	1,074	631
Prepayments	4,263	3,678
Financial assets (derivatives)	87	-
	5,424	4,309
Non-current		
Financial assets (derivatives)	2,099	3,328
Total current and non-current	7,523	7,637

All derivatives have been designated as cash flow 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 derivatives above relate to interest rate swaps held by the Group, for further details see note 10.5.

10.4. Trade and other payables

	2018 $'000	2017 $'000
Current		
Trade payables	4,184	530
Accrued expenses	2,717	5,951
Goods and services tax and employment taxes payable	1,256	1,301
Other payables	4,161	996
Total	12,318	8,778

Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables and accruals are paid when amounts fall due. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

10.5. Borrowings

	2018 $'000	2017 $'000
Non-current		
Bank finance facility	600,348	484,615
Non-amortised borrowing costs	(3,938)	(2,845)
Total borrowings	596,410	481,770

The Consolidated Group and NSPT Group has non-current borrowing facilities denominated in Australian Dollars ("**AUD**") and New Zealand Dollars ("**NZD**").

The major terms of these agreements are as follows:

- The facility limits are AUD $605m (2017: $455m) and NZD $121m (AUD $110.7m) (2017: NZD $96m (AUD $91.5m)) of which AUD $520.3m (2017: $417.5m), and NZD $87.5m (AUD $80m) (2017: NZD $70.5m (AUD $67.2m)) was drawn at the year end.
- Maturity dates on the facilities range from 23 July 2019 to 23 December 2026 (2017: 23 December 2019 to 23 December 2026).
- All facilities are interest only facilities with any drawn balances payable at maturity.
- The interest rate applied is the bank bill rate (BBSY) plus a margin depending on the gearing ratio. At 30 June 2018 the Group's weighted average interest margin is 1.75% (30 June 2017: 1.69%).
- Security has been granted over the Group's freehold properties.

The Group has a bank overdraft facility with a limit of $3m that was undrawn at 30 June 2018 and 30 June 2017. During the year, the Group refinanced part of the existing debt facilities and increased its club banking facilities by AUD $150m and NZD $25m.

The Group have complied with the financial covenants of their borrowing facilities during the 2018 and 2017 reporting periods (see note 17). 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.

Interest rate swaps

The Group have AUD $270m (2017: $230m), and NZD $53.5m (AUD $48.9m) (2017: NZD $40m (AUD $38.1m)) of current interest rate hedges and AUD $400m (2017: $180m), and NZD $100m (AUD $91.5m) (2017: NZD $13.5m (AUD $12.9m)) of future interest rate hedges in place as at the end of the reporting period with maturity dates ranging from 24 September 2018 to 23 September 2026 (2017: 22 December 2017 to 23 September 2026).

Under this arrangement the Group pays a fixed rate of interest of 2.25% (2017: 2.29%) and receives interest at a variable rate equal to BBSY on the notional amount. The swaps are used to hedge the exposure to changes in cash flows arising from its secured variable interest rate loan and has been designated as a cash flow hedge, recognised through other comprehensive income.

Hedge of net investments in foreign operations
Included in borrowings at 30 June 2018 was a borrowing of NZD $27.2m (AUD $24.9m) which has been designated as a hedge of the net investments against the value of investment property held in New Zealand (2017: NZD $23.1m, (AUD $22m)). This borrowing is being used to hedge the Group's exposure to the NZD foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries. There is no hedge ineffectiveness in the years ended 30 June 2018 or 30 June 2017 recognised in the statement of profit or loss.

10.6. Other liabilities

	Notes	2018 $'000	2017 $'000
Current			
Financial liabilities (derivatives)	10.8	3	166
Non-current			
Financial liabilities (derivatives)	10.8	4,380	3,259
Total current and non-current		4,383	3,425

For details on the classification of derivatives see note 10.3.

10.7. Finance leases

The Group has finance leases for investment properties. 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:

	2018		2017	
	Minimum payments $'000	Present value of payments $'000	Minimum payments $'000	Present value of payments $'000
Consolidated Group				
Within one year	12,321	4,446	12,885	4,504
After one year but not more than five years	51,716	23,321	53,240	22,800
More than five years	228,857	133,621	241,941	141,051
Minimum lease payments	292,894	161,388	308,066	168,355
Future finance charges	(131,506)	-	(139,711)	-
Total	161,388	161,388	168,355	168,355

10.8. Financial instruments fair value measurement

Fair value hierarchy

This note explains the judgements and estimates made in determining the fair values of the financial instruments recognised in the financial statements, as detailed in notes 10.1 to 10.7. To provide an indication about the reliability of the inputs used in determining fair value, financial instruments are classified into the following three levels.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for any financial assets held is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific fair valuation techniques used to determine fair values include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, adjusted for counterparty or own credit risk.

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

	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2018					
Derivative used for hedging - interest rate swap					
Current financial assets	10.3	-	87	-	87
Non-current financial assets	10.3	-	2,099	-	2,099
Current financial liabilities	10.6	-	(3)	-	(3)
Non-current financial liabilities	10.6	-	(4,380)	-	(4,380)
		-	(2,197)	-	(2,197)
At 30 June 2017					
Derivative used for hedging - Interest rate swap					
Non-current financial assets	10.3	-	3,328	-	3,328
Current financial liabilities	10.6	-	(166)	-	(166)
Non-current financial liabilities	10.6	-	(3,259)	-	(3,259)
		-	(97)	-	(97)

There were no transfers between levels of fair value hierarchy during the year ended 30 June 2018.

11. NON-FINANCIAL ASSETS AND LIABILITIES

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

- An overview of all non-financial assets and liabilities held by the Group;
- Specific information about each type of non-financial asset and non-financial liability;
- Information about determining the fair value of the non-financial assets and liabilities, including areas of judgement, estimates and other assumptions.

11.1. Inventories

	2018 $'000	2017 $'000
Finished goods - at lower of cost and net realisable value	656	600

11.2. Assets held for sale

	Notes	2018 $'000	2017 $'000
Current assets			
Opening balance at 1 July		5,713	-
Items reclassified from freehold investment property	11.4	4,400	5,713
Disposals during the year		(4,400)	-
Total assets held for sale		5,713	5,713

On 21 December 2017, the Group entered into an agreement for the sale of the land and development rights of an investment property in Brisbane, Queensland to the Bundall Storage Trust. The Bundall Storage Trust is a related party (see note 13 and 18). The transaction settled on 29 March 2018. This has resulted in a realised gain of $0.7m on the asset's carrying value. This has been included within fair value adjustments in the statement of profit or loss.

On 19 October 2016 in the prior period, the Group entered into a contractual agreement for the sale of the land and buildings of the Croydon self-storage centre for $5.8m, less cost of sale of $0.1m. This resulted in an unrealised gain of $0.8m from the asset's carrying value within freehold investment property at 30 June 2017. This was included within fair value adjustments in the statement of profit or loss in the prior period. Due to unforeseen circumstances outside of the Group's control the settlement has been delayed. The asset remains classified as held for sale at fair value at 30 June 2018 and the sale is expected to complete in the next 12 months.

11.3. Property, plant and equipment

	2018 $'000	2017 $'000
At cost	1,708	1,748
Accumulated depreciation	(684)	(519)
Total property, plant and equipment	1,024	1,229

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:

	Notes	2018 $'000	2017 $'000
Plant and equipment			
Carrying amount at beginning of the year		1,229	1,684
Additions		154	900
Items reclassified as investment property	11.4	-	(464)
Depreciation		(357)	(309)
Impairment of assets on restructuring*		-	(592)
Effect of movement in foreign exchange		(2)	10
Carrying amount at end of the year		1,024	1,229

**Presented within restructuring costs in the consolidated statement of profit or loss.*

11.4. Investment properties

	Notes	2018 $'000	2017 $'000
Investment properties at valuation			
Leasehold investment properties	11.8	207,664	226,955
Freehold investment properties	11.8	1,377,924	1,101,860
Investment property at cost			
Freehold investment property under construction		7,210	2,063
Total investment properties		1,592,798	1,330,878
Leasehold investment properties			
Opening balance at 1 July		226,955	218,430
Property acquired through business combinations*	5	-	10,809
Other property acquisitions		-	8,317
Improvements to investment properties		631	497
Items reclassified from freehold investment properties		-	1,200
Items reclassified to freehold investment properties		(2,000)	(4,303)
Disposal of leasehold investment property		(2,140)	-
Reassessment of lease terms		(2,476)	(10,823)
Finance lease diminution, presented as fair value adjustments		(4,020)	(3,586)
Net (loss) / gain from other fair value adjustments		(9,286)	6,414
Closing balance at 30 June		207,664	226,955
Freehold investment properties at valuation			
Opening balance at 1 July		1,101,860	625,700
Property acquired through business combinations	5	-	260,900
Other property acquisitions		165,726	140,497
Property disposals		(280)	(1,600)
Improvements to investment properties		7,513	4,736
Items reclassified to leasehold investment properties		-	(1,200)
Items reclassified from leasehold investment properties		2,000	4,303
Items reclassified from property, plant and equipment	11.3	-	464
Items reclassified from freehold investment property under construction		2,301	-
Items reclassified to assets held for sale	11.2	(4,400)	(5,713)
Net gain from fair value adjustments		106,229	73,975
Effect of movement in foreign exchange		(3,025)	(202)
Closing balance at 30 June		1,377,924	1,101,860
Freehold investment property under construction at cost			
Opening balance at 1 July		2,063	-
Property acquisitions		-	2,063
Development costs		7,448	-
Items reclassified to freehold investment properties		(2,301)	-
Closing balance at 30 June		7,210	2,063

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

	2018 $'000	2017 $'000
Gains for the year in profit or loss (recognised in fair value adjustments)		
Realised gains	2,751	750
Realised losses – finance lease diminution of leasehold investment property	(4,020)	(3,586)
Unrealised gains	93,637	79,639
	92,368	76,803

Included within net gain from fair value adjustments is a realised gain of $2,040,000 relating to the divestment of leasehold investment properties and a realised gain of $711,000 relating to the contracted divestment of freehold investment properties during the year (30 June 2017: realised gain of $750,000 and unrealised gain of $779,000).

11.5. Intangible assets

	Notes	2018 $'000	2017 $'000
Goodwill			
Opening net book value		43,954	13,759
Arising through business combinations	5	-	30,195
Closing net book value		43,954	43,954
Other intangible assets			
Opening net book value		1,582	889
Additions		864	1,000
Amortisation	7	(395)	(266)
Impairment charge		-	(41)
Closing net book value		2,051	1,582
Total intangible assets		46,005	45,536

Goodwill is an asset acquired through business combinations. As described in note 5, during the prior year the Group recognised $30.2m of goodwill on the acquisition of Southern Cross Storage Group.

Impairment testing of goodwill

Goodwill has been allocated to the listed group (NSR). Management have determined that the listed group, which is considered one operating segment (see note 4), is the appropriate CGU against which to allocate these intangible assets owing to the synergies arising from combining the portfolios of the NSH Group, NSPT Group, and Southern Cross Storage Group.

The recoverable amount of the listed group has been determined based on the fair value less costs of disposal method using the fair value quoted on an active market. As at 30 June 2018, NSR had 559,107,042 stapled securities quoted on the Australian Securities Exchange at $1.64 per security providing a market capitalisation of $916.9m. This amount is in excess of the carrying amount of the Group's net assets. Had the security price decreased by 2.5% the market capitalisation would still have been in excess of the carrying amount.

11.6. Deferred revenue

	2018 $'000	2017 $'000
Deferred rent revenue	12,584	11,585

In the Group, deferred rent revenue represents funds received in advance from customers for rental storage.

11.7. Provisions

	2018 $'000	2017 $'000
Current		
Onerous operating lease	85	353
Make good provision	156	-
Annual leave	962	1,069
Long service leave	727	766
	1,930	2,188
Non-current		
Make good provision	1,436	1,030
Onerous operating lease	-	67
Long service leave	77	234
	1,513	1,331
Reconciliation of movement in make good provisions		
Opening balance	1,030	990
Arising during the year	555	364
Unwinding of discount and changes in discount rates	7	(324)
Closing balance	1,592	1,030

The Group has recognised an onerous lease provision related to future operating lease payments payable on former head office premises no longer occupied by the Group.

The Group is required to restore the leased premises in a number of leasehold properties to their original condition at the end of lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

11.8. Non-financial assets fair value measurement

The Group has classified its non-financial assets held at fair value into the three levels prescribed in note 10.8 to provide an indication about the reliability of inputs used to determine fair value.

	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2018					
Assets held for sale	11.2	-	5,713	-	5,713
Leasehold investment properties	11.4	-	-	207,664	207,664
Freehold investment properties	11.4	-		1,377,924	1,377,924
		-	5,713	1,585,588	1,591,301
At 30 June 2017					
Assets held for sale	11.2	-	5,713	-	5,713
Leasehold investment properties	11.4	-	-	226,955	226,955
Freehold investment properties	11.4	-	-	1,101,860	1,101,860
		-	5,713	1,328,815	1,334,528

Recognised fair value measurements

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. During the year ended 30 June 2018 the Group transferred $4.4m from level 3 to level 2 following the reclassification of an asset from freehold investment properties to assets held for sale as detailed in note 11.2, this asset was then sold during the year.

In the prior year ended 30 June 2017 the Group transferred $5.7m from level 3 to level 2 following the reclassification of an asset from freehold investment properties to assets held for sale as detailed in note 11.2.

Fair value measurements using significant observable inputs (level 2)

The fair value of assets held for sale is determined using valuation techniques which maximise the use of observable market data. For the years ended 30 June 2018 and 30 June 2017, the Group has valued assets classified as held for sale at the contractually agreed sales price less estimated cost of sale or other observable evidence of market value.

Fair value measurements using significant unobservable inputs (level 3)

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

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

Fair values are determined by a combination of independent valuations and Director valuations. The independent valuations are performed by an accredited independent valuer. Investment properties are independently valued on a rotational basis every three years unless the underlying financing requires a more frequent valuation cycle. For properties subject to an independent valuation report the Directors verify all major inputs to the valuation and review the results with the independent valuer. The Director valuations are completed by the NSH Group Board. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

As in the previous financial year, the Group has elected to obtain the majority of its independent valuation for a proportion of the portfolio at 30 June financial year end. This is consistent with the valuation cycle applied by other real estate investment trusts.

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

The table below details the percentage of the number of investment properties subject to internal and external valuations during the current and comparable reporting periods

	External valuation %	Internal valuation %
Year ended 30 June 2018		
Leasehold	60%	40%
Freehold	27%	73%
Year ended 30 June 2017		
Leasehold	15%	85%
Freehold	38%	62%

The Group also obtained external valuations on 19 freehold investment properties acquired during the year ended 30 June 2018 (year ended 30 June 2017: 12 freehold investment properties and 1 leasehold investment property). These external valuations provide the basis of the Directors' valuations applied to these properties at 30 June 2018 and 30 June 2017. Including these valuations 43% of freehold investment properties, were subject to external valuations during the year (year ended 30 June 2017: 57% of freehold investment properties, and 31% of leasehold properties).

Valuation inputs and relationship to fair value

Description	Valuation technique	Significant unobservable inputs	Range at 30 June 2018	Range at 30 June 2017
Investment properties - leasehold	Capitalisation method	Primary capitalisation rate	7.8% to 45.0%	9.3% to 26.0%
		Secondary capitalisation rate	8.8% to 46.0%	9.3% to 26.0%
		Sustainable occupancy	80% to 95%	76% to 93%
		Stabilised average EBITDA	$365,213	$383,476
Investment properties - freehold	Capitalisation method	Primary capitalisation rate	6.5% to 8.3%	6.8% to 10.5%
		Secondary capitalisation rate	7.0% to 9.5%	7.0% to 12.0%
		Sustainable occupancy	72% to 95%	75% to 95%
		Stabilised average EBITDA	$898,767	$910,463

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

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

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

The stabilised average EBITDA is derived from a property's revenues less 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 EBITDA will result in an increase in fair value of an investment property. An increase in the vacancy rate will result in a reduction of the stabilised average EBITDA.

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

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

At 30 June 2018:

	Leasehold		Freehold	
Unobservable inputs	Increase/ (decrease) in input	Increase/ (decrease) In fair value $'000	Increase/ (decrease) in input	Increase/ (decrease) in fair value $'000
Primary capitalisation rate	1% / (1%)	(5,600) / 7,400	1% / (1%)	(165,546) / 218,802
Secondary capitalisation rate	2% / (2%)	(1,600) / 2,900	2% / (2%)	(37,357) / 62,981
Sustainable occupancy	5% / (5%)	5,100 / (4,200)	5% / (5%)	101,181 / (83,464)
Stabilised average EBITDA	5% / (5%)	2,400 / (2,200)	5% / (5%)	61,570 / (55,370)

At 30 June 2017:

	Leasehold		Freehold	
Unobservable inputs	Increase/ (decrease) in input	Increase/ (decrease) In fair value $'000	Increase/ (decrease) in input	Increase/ (decrease) in fair value $'000
Primary capitalisation rate	1% / (1%)	(3,200) / 5,290	1% / (1%)	(107,140) / 139,950
Secondary capitalisation rate	2% / (2%)	(1,220) / 3,320	2% / (2%)	(31,860) / 50,320
Sustainable occupancy	5% / (5%)	9,210 / (5,290)	5% / (5%)	102,400 / (78,350)
Stabilised average EBITDA	5% / (5%)	2,210/ (2,720)	5% / (5%)	46,080 / (46,350)

12. INFORMATION RELATING TO SUBSIDIARIES

The holding entities

The ultimate holding company of the NSH Group is National Storage Holdings Limited. The holding entity of the NSPT Group is National Storage Property Trust. These two entities are domiciled in Australia and through a stapling agreement are jointly quoted on the ASX.

The consolidated financial statements of the Group as at 30 June 2018 include:

Name of controlled entity	Place of incorporation	Equity interest 2018	Equity interest 2017
National Storage (Operations) Pty Ltd	Australia	100%	100%
National Storage Financial Services Limited	Australia	100%	100%
Wine Ark Pty Ltd	Australia	100%	100%
Southern Cross Storage Operations Pty Ltd*	Australia	100%	100%
National Storage Investments Pty Ltd	Australia	100%	100%
National Storage Limited	New Zealand	100%	100%
National Storage Investment Trust	Australia	100%	100%
National Storage Victorian Property Trust	Australia	100%	100%
National Storage New Zealand Property Trust**	Australia	100%	100%
National Storage Southern Trust	Australia	100%	100%

**Acquired on 30 August 2016*

*** NSNZPT is an Australian registered trust which holds investment property in New Zealand*

13. INTEREST IN JOINT VENTURES AND ASSOCIATES

Interest in joint ventures

	2018 $'000	2017 $'000
Opening balance at 1 July	1,980	8,441
Capital contribution / acquisition of shareholding in joint venture	5,392	1,980
Share of profit from joint ventures	60	1,509
Return of capital on dissolution of joint venture	-	(9,950)
Closing balance at 30 June	7,432	1,980

The NSPT Group holds a 25% (2017: 25%) interest in the Bundall Storage Trust, and the NSH Group holds a 25% interest in the Bundall Commercial Trust.

During the year ended 30 June 2018, the Group contributed a further $2.4m into the Bundall Storage Trust as part of a capital raise. There was no change in the total share of the Group's interest following this investment.

On 29 March 2018, the Bundall Storage Trust purchased the land and development rights of an investment property asset in Brisbane, Queensland from the Group for $4.4m. As at 30 June 2018 the Bundall Storage Trust has two storage centre investment property assets under construction.
The Bundall Commercial Trust derives rental property income from the leasing of commercial units.

During the year ended 30 June 2018, the Group subscribed to 83.3% of the units in FKS Investments No.2 Unit Trust for $3m. FKS Investments No.2 Unit Trust subsequently purchased a storage centre investment property asset in Queensland, Australia.

These investments are classified as joint ventures as all parties are subject to a Securityholders Agreement that has been contractually structured such that the parties to the agreement have equal representation on the advisory board responsible for the overall direction and supervision of each trust.

Neither the Bundall Storage Trust, Bundall Commercial Trust, or FKS Investments No.2 Unit Trust are listed on any public exchange.

As described in note 5, on 30 August 2016 in the prior year, Group purchased the share capital of Southern Cross Storage Operations Pty Ltd and the investment properties of Southern Cross Storage Trust. Prior to completion the Consolidated Group and NSPT Group held a 10% interest in the Southern Cross Storage Group which consisted of Southern Cross Storage Operations Pty Ltd and Southern Cross Storage Trust. This resulted in a disposal of the investment in the joint venture.

As at 30 June 2018, the Bundall Storage Trust has contractual commitments in place for the construction of two self-storage centres in Queensland, Australia. None of the Group's other joint ventures have any capital commitments at 30 June 2018. None of the Group's joint ventures had any contingent liabilities at 30 June 2018.

Interest in associates

	2018 $'000	2017 $'000
Opening balance at 1 July	8,611	6,660
Capital contribution / acquisition of shareholding in associates	2,048	1,350
Share of profit from associates*	1,282	601
Distributions from associate	(1,248)	-
Closing balance at 30 June	10,693	8,611

**Included within share of profit from associates is $1,383,000 representing NSR's share of fair value gains related to investment properties held by joint ventures and associates (30 June 2017: $746,000).*

The Group owns 24.9% (2017: 24.9%) of the Australia Prime Storage Fund ("**APSF**"). APSF is a partnership with Universal Self Storage to facilitate the development and ownership of multiple premium grade self-storage centres in select cities around Australia.

APSF is in the process of developing multiple storage centres in Australia. Once open the storage centres operate under the National Storage brand and are managed by National Storage (Operations) Pty Ltd. During the year the Group purchased a storage centre investment property asset in Carrara, Queensland from APSF for $14m. At 30 June 2018 APSF has two operating centres in Queensland, Australia, with a third asset under construction in Victoria, Australia.

During the year ended 30 June 2018 National Storage (Operations) Pty Ltd earned fees of $680,000 from APSF associated with the design, development, financing of the construction process, and ongoing management of centres (see note 18) (30 June 2017: $389,000).

The Group also received or is entitled to distributions from APSF of $1,248,000, of which $232,000 is outstanding as a receivable at 30 June 2018 (see note 18).

During the year, the Group acquired a 25.8% holding in Spacer Marketplaces Pty Ltd ("**Spacer**"). Spacer operate online peer-to-peer marketplaces for self-storage and parking. Following additional share issues this holding was diluted to 24.8% on 27 April 2018.

Neither associate had any contingent liabilities or capital commitments at 30 June 2018 or 30 June 2017.

14. CONTRIBUTED EQUITY

	2018 $'000	2017 $'000
Issued and paid up capital		
Ordinary shares	66,128	59,145

Number of stapled securities on Issue	2018 No. of stapled securities	2017 No. of stapled securities
Opening balance at 1 July	512,913,914	336,422,143
Institutional and retail placement	39,712,882	164,557,412
Distribution reinvestment plan	6,480,246	6,144,051
Scrip issue on investment property acquisition	-	5,790,308
Closing balance at 30 June	559,107,042	512,913,914

Capital raise
During the year, the Group undertook a fully underwritten $50m equity raising by way of a placement to institutional and professional investors. This resulted in the issue of 33,333,334 new stapled securities. The Group also raised a further $9.5m from a security purchase plan offered to existing existing securityholders. This resulted in the issue of 6,379,548 new stapled securities.

Distribution reinvestment plan
During the year 6,480,246 (2017: 6,144,051) stapled securities were issued to security holders participating in the Group's Distribution Reinvestment Plan for consideration of $9.6m (2017: $9m). The stapled securities were issued at the volume weighted average market price of the Group's stapled securities over a period of 10 trading days less a 2% discount.

Terms and conditions of contributed equity

Stapled securities
A stapled security represents one share in NSH and one unit in NSPT. Stapled securityholders have the right to receive declared dividends from NSH and distributions from NSPT and are entitled to one vote per stapled security at securityholders' meetings. Holders of stapled securities can vote their shares and units in accordance with the Corporations Act 2001, either in person or by proxy, at a meeting of either NSH or NSPT. The stapled securities have no par value.

In the event of the winding up of NSH and NSPT, stapled securityholders have the right to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on stapled securities held. Ordinary stapled securityholders rank after all creditors in repayment of capital.

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

15. OTHER RESERVES

	2018 $'000	2017 $'000
Foreign currency translation reserve		
Opening balance at 1 July	11	(22)
Foreign exchange translation differences	(23)	33
Closing balance at 30 June	(12)	11

The financial statements for the Group are prepared on the basis that NSH was the acquirer of NSPT. On this basis foreign currency translation reserve movements relating to the NSH Group are presented within other reserves.

The movements below in foreign currency translation reserve and cashflow hedge reserve relating to the NSPT Group are presented within non-controlling interest in the Group's consolidated statement of changes in equity.

	NSPT Group	
	2018 $'000	2017 $'000
Foreign currency translation reserve		
Opening balance at 1 July	232	227
Net investment hedge	1,007	(103)
Foreign exchange translation differences	(1,354)	108
Closing balance at 30 June	(115)	232
Cash flow hedge reserve		
Opening balance at 1 July	(45)	(6,448)
Revaluation of derivates	(2,112)	6,427
Taxation impact on revaluation	84	(24)
Closing balance at 30 June	(2,073)	(45)
Other reserves	(2,188)	187

Taxation impact on revaluation applies only to cash flow hedges held in NSNZPT, a sub-trust of NSPT, which is subject to New Zealand tax legislation. Deferred tax does not apply to any other cash flow hedges held in the NSPT Group under current Australian tax legislation.

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

The cash flow hedge is included in non-controlling interest in the Consolidated Group and is not classified within other reserves.

16. FINANCIAL RISK MANAGEMENT

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

The 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. The Group use derivative financial instruments such as interest rate swaps to hedge certain market risk exposures.

Risk management for the Group is carried out by the NSH Board and key management personnel of NSH. The Board of Directors of NSH analyses, on behalf of the 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 Group have the following derivative financial instruments:

	Notes	2018 $'000	2017 $'000
Interest rate swaps designated as cash flow hedges presented in:			
Current assets	10.3	87	-
Non-current assets	10.3	2,099	3,328
Current liabilities	10.6	(3)	(166)
Non-current liabilities	10.6	(4,380)	(3,259)
Net liability		(2,197)	(97)

Classification of derivatives
All derivatives have been designated as cash flow 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 Group's accounting policy for cash flow hedges is set out in note 2(m). For hedged forecast transactions that result in the recognition of a non-financial asset, the Group has 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 11.8.

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

The sensitivity analysis in the following sections relate to the position as at 30 June 2018 and 30 June 2017. The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of debt and derivatives and the proportion of financial instruments in foreign currencies are all constant on the basis of hedge designations in place at 30 June 2018.

The analysis excludes the impact of movements in market variables on provisions and the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating sensitivity analysis:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets held at 30 June 2018 and 30 June 2017 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign subsidiary at 30 June 2018 for the effects of the assumed changes of the underlying risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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 Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2018, after taking into account the effect of interest rate swaps, 52.9% (2017: 55.3%) of the Group's borrowings are at a fixed rate of interest.

Interest rate sensitivity

The following table demonstrates the sensitivity to a possible change in interest rates on the portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/ decrease in basis points	Effect on profit before tax $'000
2018		
Australian dollar dominated debt	+50	(921)
New Zealand dollar dominated debt	+50	(124)
Australian dollar dominated debt	-50	921
New Zealand dollar dominated debt	-50	124
2017		
Australian dollar dominated debt	+50	(992)
New Zealand dollar dominated debt	+50	(216)
Australian dollar dominated debt	-50	992
New Zealand dollar dominated debt	-50	216

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency), and the Group's net investment in foreign subsidiaries.

The Group hedges its exposure to fluctuations on the translation into Australian dollars of its foreign operations by holding net borrowings in foreign currencies.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in New Zealand Dollar exchange rate with all other variables held constant. The impact on Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The impact on the Group's pre-tax equity is due to net investment hedges.

	Change in NZD rate	Effect on profit before tax $'000	Effect on pre-tax equity $'000
2018	+5%	(82)	(659)
	-5%	90	527
2017	+5%	52	(494)
	-5%	(58)	481

The movement in the profit before tax is a result of a change in the fair value of the monetary assets and liabilities denominated in NZD, where the functional currency of the entity is a currency other than NZD.

The movement in pre-tax equity arises from changes in NZD borrowings (net of cash and cash equivalents) in the hedge of net investments in New Zealand operations and cash flow hedges. These movements will offset the translation of New Zealand operations' net assets into AUD.

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 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.

Trade receivables

The exposure to credit risk for trade and other receivables is influenced mainly by the individual characteristics of each customer. The 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 2018 and 30 June 2017 the Group has no significant concentrations of credit risk with respect to trade receivables, whether through exposure to individual customers, specific industry sectors and/or regions within Australia and New Zealand. As at 30 June 2018 a provision of $23,000 has been recognised relating to the increased credit risk associated with customer balances acquired via the acquisition of investment properties which were not subject to the same terms and conditions as the Group's storage agreement.

The Group's maximum exposure to credit risk, is the carrying amount of those assets as indicated in the statement of financial position. For a summary of the exposure to credit risk relating to receivables at the end of the financial year refer to note 10.2.

Cash and cash equivalents

The 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 2018 and 30 June 2017 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, 22, and 23). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

Liquidity risk
Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, the group will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions. NSH on behalf of the 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 Group had access to the following undrawn borrowing facilities at the end of the reporting period:

Floating rate	2018 $'000	2017 $'000
Expiring within one year (bank overdraft)	3,000	3,000
Expiring beyond one year (loans)	115,347	61,844
	118,347	64,844

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. All other secured bank loans may be drawn at any time and is subject to an annual review. Further details of the bank loans are detailed in note 10.5 and note 17.

Maturity of financial liabilities
The tables below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. As amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments, these balances will not necessarily agree with the amounts disclosed on the statement of financial position.

	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At 30 June 2018						
Non-derivatives						
Trade and other payables	268	12,050	-	-	-	**12,318**
Borrowings	-	5,926	17,584	403,615	291,094	**718,219**
Finance leases	-	3,120	9,201	51,716	228,857	**292,894**
Distribution payable	-	27,396	-	-	-	**27,396**
Total non-derivatives	268	48,492	26,785	455,331	519,951	**1,050,827**
Derivatives						
Inflows	-	(110)	(42)	(1,057)	(1,181)	**(2,390)**
Outflows	-	278	1,193	2,832	284	**4,587**
Total derivatives	-	168	1,151	1,775	(897)	**2,197**
	268	48,660	27,936	457,106	519,054	**1,053,024**

	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Non-derivatives						
Trade and other payables	201	8,577	-	-	-	**8,778**
Borrowings	-	4,339	12,876	357,119	196,932	**571,266**
Finance leases	-	3,191	9,695	53,240	241,941	**308,067**
Distribution payable	-	23,594	-	-	-	**23,594**
Total non-derivatives	201	39,701	22,571	410,359	438,873	**911,705**
Derivatives						
Inflows	-	-	(70)	(1,445)	(2,215)	**(3,730)**
Outflows	-	410	937	2,136	344	**3,827**
Total derivatives	-	410	867	691	(1,871)	**97**
	201	40,111	23,438	411,050	437,002	**911,802**

Changes in liabilities arising from financing activities

	1 July 2017 $'000	Cash flows $'000	Foreign exchange movement $'000	Changes in fair value $'000	Other $'000	30 June 2018 $'000
Derivative used for hedging - interest rate swap						
Current financial liabilities	166	-	-	(163)	-	**3**
Non-current financial liabilities	3,259	-	12	1,109	-	**4,380**
Distributions payable	23,594	(40,045)	-	-	43,847	**27,396**
Non-current interest-bearing loans and borrowings	481,770	116,652	(2,668)	-	656	**596,410**
Finance lease liabilities						
Current finance lease liabilities	4,504	(4,490)	-	-	4,432	**4,446**
Non-current finance lease liabilities	163,851	-	-	-	(6,909)	**156,942**
Total liabilities from financing activities	677,144	72,117	(2,656)	946	42,026	**789,577**

17. CAPITAL MANAGEMENT

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

In order to achieve this objective, the Group's capital management strategy aims to ensure that it meets financial covenants attached to interest-bearing loans and borrowings. Breaches in meeting a financial covenant would permit the lender to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of its financial covenants. To maintain or adjust the capital structure, the Group may adjust the distribution payment to securityholders, return capital to securityholders or issue new securities.

The Group monitors capital using a gearing ratio, represented by net debt divided by total assets less cash and short term deposits and finance lease liabilities. The Group's target is to keep the gearing ratio between 25% and 40%. Net debt includes borrowings, less cash and short-term deposits.

	Notes	2018 $'000	2017 $'000
Interest bearing loans	10.5	600,348	484,615
Less: cash and short term deposits	10.1	(21,333)	(23,166)
Net debt		579,015	461,449
Total assets		1,709,949	1,437,325
Less cash and short term deposits		(21,333)	(23,166)
Less finance lease liabilities	10.7	(161,388)	(168,355)
		1,527,228	1,245,804
Gearing ratio		38%	37%

Loan covenants
Financial covenants under the terms of the Group's borrowing agreement require the Group to ensure that the gearing ratio does not exceed 55% and the ratio of operating earnings before interest, tax, depreciation and amortisation to finance costs must exceed a multiple of two. The Group has complied with these covenants throughout the reporting period.

Dividends and distributions
Distributions have been made and declared as noted below.

	NSPT Group 2018 $'000	2017 $'000
NSPT interim distribution of 4.7 cents per unit paid on 26 February 2018 (2017: 4.6 cents per unit)	25,826	23,147
NSPT final distribution of 4.9 cents per unit payable on 29 August 2018 (2017: 4.6 cents per unit)	27,396	23,594
Balance of distributions paid to pre-stapling unit holders	205	-
	53,427	46,741

There are no proposed distributions not recognised as a liability for the year ended 30 June 2018.

The Directors of NSH have not declared an interim or final dividend for the year ending 30 June 2018.

Franking credit balance

	2018 $'000	2017 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	1,453	1,376

The above amounts are calculated from the balance of the NSH franking account at the end of the reporting period.

The NSPT Group does not have franking credits as distributions are paid from NSPT which is not liable to pay income tax provided all taxable income is distributed.

18. RELATED PARTY TRANSACTIONS

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial years.

Transactions with Related Parties		Revenue from related parties $	Purchases from related parties $	Amount owed by related parties $	Amount owed to related parties $
Southern Cross Storage Operations Pty Ltd*	2018	-	-	-	-
	2017	310,536	-	-	-
Southern Cross Storage Trust	2018	-	-	-	-
	2017	100,000	-	-	-
Australia Prime Storage Fund	2018	679,568	-	307,471	-
	2017	388,941	-	221,115	-
Bundall Commercial Trust	2018	339,428	-	4,173,414	-
	2017	456,772	-	3,494,272	-
Bundall Storage Trust	2018	972,006	-	3,558,114	-
	2017	398,391	-	2,985,891	-
Spacer Marketplaces Pty Ltd	2018	-	18,896	-	-
	2017	-	-	-	-

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

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.

As at 30 June 2018, National Storage Investments Pty Ltd, a subsidiary of NSH had receivables outstanding of $3,037,500 with the Bundall Commercial Trust (2017: $3,037,500) and $2,587,500 with the Bundall Storage Trust (2017: $2,587,500) relating to amounts drawn down under a facility agreement between the entities. The facility agreement has a term of 5 years, and is interest bearing on commercial rates. The receivables have been classed as a current receivable in the statement of financial position as this receivable is expected to be repaid within 12 months of 30 June 2018. As at 30 June 2018, the Group also recognised receivables of $1,135,914 with the Bundall Commercial Trust (2017: $456,772) and $970,614 with the Bundall Storage Trust (2017: $398,391) relating to other fees and accrued interest outstanding at the year end.

All other outstanding balances at the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 30 June 2018 and 30 June 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

Key management personnel compensation

	Consolidated Group 2018 $'000	Consolidated Group 2017 $'000
Short-term employee benefits	3,176	3,342
Post-employment benefits	139	228
Long-term benefits	195	255
Termination benefits	400	-
	3,910	3,825

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period relating to key management personnel. Detailed remuneration disclosures are provided in the remuneration report which is included in the Directors' Report.

19. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 30 June 2018, the Group has contractual commitments in place for the construction of a self-storage centre in Victoria, Australia (see note 11.4).

The Group also held a commitment with a third party, to supply and install solar panels on a significant number of NSR storage centres for an estimated total cost of $2.7m. As at 30 June 2018, the Group had incurred project costs of $2.3m which have been classified as freehold investment property. The Group is committed to additional expenditure of $0.4m, to be paid on agreed milestones subject to the completion of the project.

There was no other capital expenditure contracted for at the end of the reporting period but not recognised as liabilities (30 June 2017: nil)

Non-cancellable operating leases

The Group leases offices and other equipment with terms expiring under various time periods.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Within one year	690	591
Later than one year but not later than five years	1,108	1,334
Later than five years	199	121
	1,997	2,046

Finance lease commitments
For details of finance lease commitments see note 10.7.

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

20. EARNINGS PER STAPLED SECURITY ("EPS")

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

Diluted earnings per stapled security adjust the figures used in the determination of basic earnings per share to take into account:

- The after tax effect of interest and other financing costs associated with dilutive potential stapled securities; and
- The weighted average number of additional stapled securities that would have been outstanding assuming the conversion of all dilutive potential stapled securities.

	2018 cents	2017 cents
Basic and diluted earnings per stapled security	27.15	20.70
Reconciliation of earnings used in calculating earnings per stapled security	**$'000**	**$'000**
Net profit attributable to members	145,773	103,413
	No. of securities	**No. of securities**
Weighted average number of securities for basic and diluted earnings per stapled security	536,933,616	499,692,478

The weighted average number of securities for the year ending 30 June 2017 used to calculate basic and diluted earnings per share has been restated for the effect of stapled securities issued in the current year ending 30 June 2018 under the institutional and retail placement, distribution reinvestment plan and vendor scrip issue.

21. AUDITORS' REMUNERATION

The auditor of the Group is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young Australia for:	2018 $	2017 $
An audit or review of the financial report of the entity and any other group entity	519,900	525,342
Other services in relation to the entity and any other group entity		
Tax compliance	49,725	50,350
Assurance related	-	145,976
Other	24,695	34,037
Total auditors' remuneration	594,320	755,705

22. INFORMATION RELATING TO THE PARENT ENTITIES

Summary financial information

The individual financial statements for NSH and NSPT, the parent entities, show the following aggregate amounts:

	NSH		NSPT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current assets	102,999	99,174	163,235	178,600
Total assets	110,556	106,047	1,320,767	1,084,372
Current liabilities	(62,463)	(60,203)	(45,112)	(37,247)
Total liabilities	(63,713)	(64,508)	(590,161)	(475,847)
Net assets	46,843	41,539	730,606	608,525
Issued capital	64,382	57,400	604,200	543,470
Cash flow hedge reserve	-	-	(1,735)	76
Foreign currency translation reserve	-	-	180	(827)
Retained earnings	(17,539)	(15,861)	127,961	65,806
	46,843	41,539	730,606	608,525
(Loss) / profit after tax	(1,677)	(7,205)	62,155	34,726
Total comprehensive income	(1,677)	(7,205)	114,778	87,703
Distributions provided for or paid	-	-	(53,427)	(46,741)

Guarantees entered into by the parent entities

The Group's parent entities have provided financial guarantees in respect of bank overdrafts and loans of subsidiaries amounting to $600.3m (2017: $484.6m), secured by registered mortgages over the Group's freehold investment properties of the subsidiaries.

The Group's parent entities have also provided bank guarantees of $8.9m (2017: $8.1m) in the event of lease payment default to third party lessors.

In addition, there are cross guarantees given by National Storage Holdings Limited, National Storage (Operations) Pty Ltd and National Storage Pty Ltd as described in note 23. No deficiencies of assets exist in any of these companies.

Contingent liabilities of the parent entities

The parent entity of Group did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

23. DEED OF CROSS GUARANTEE

As at 30 June 2018, National Storage Holdings Limited, National Storage (Operations) Pty Ltd, Southern Cross Storage Operations Pty Ltd and National Storage Pty Ltd are parties to a deed of cross guarantee (30 June 2017: National Storage Holdings Limited, National Storage (Operations) Pty Ltd and National Storage Pty Ltd) 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 parties to a deed of cross guarantee.

Consolidated statement of comprehensive income	2018 $'000	2017 $'000
(Loss) / profit from continuing operations before income tax	(2,245)	8,203
Income tax benefit /(expense)	2,929	(3,747)
Profit after tax	684	4,456
Retained earnings at the beginning of the year	5,627	1,171
Dividends received	1,000	-
Retained earnings at the end of the year	7,311	5,627

Consolidated statement of financial position	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	17,365	11,433
Trade and other receivables	30,065	20,725
Inventories	560	444
Other current assets	5,197	4,195
Total current assets	53,187	36,797
Non-current assets		
Trade and other receivables	118	110
Property, plant and equipment	979	1,154
Investment properties	642,299	426,962
Investments	5,932	76,606
Intangibles	29,878	1,366
Deferred tax asset	949	-
Total non-current assets	680,155	506,198
Total assets	733,342	542,995
Liabilities		
Current liabilities		
Trade and other payables	63,028	96,499
Finance lease liability	4,446	4,338
Deferred revenue	11,840	8,175
Income tax payable	1,035	-
Provisions	1,617	1,772
Total current liabilities	81,966	110,784
Non-current liabilities		
Borrowings	1,250	1,250
Finance lease liability	576,764	363,930
Provisions	1,669	947
Deferred tax liability	-	3,057
Total non-current liabilities	579,683	369,184
Total Liabilities	661,649	479,968
Net Assets	71,693	63,027
Equity		
Contributed equity	64,382	57,400
Retained profits	7,311	5,627
Total equity	71,693	63,027

24. EVENTS AFTER REPORTING PERIOD

On 24 July 2018, the Group completed the acquisition of two storage centre assets in Beresfield and Thornton, New South Wales for $5.5m.

On 25 July 2018, the Group completed the acquisition of a storage centre asset in Rutherford, New South Wales for $7.3m.

Subsequent to 30 June 2018, The Group has entered into sale and purchase agreements for the acquisition of three storage facilities for a combined purchase price of $42.3m. These are expected to settle by mid-September 2018.

Contemporaneously with the release of this report the Group announced a $175m fully underwritten capital raising.

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 Group for the year ended 30 June 2018 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 2018 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 NSR will be able to pay its debts as and when they become due and payable.

   (d) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 23 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

2. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

On behalf of the Board,

Laurence Brindle	Andrew Catsoulis
Director	Managing Director
21 August 2018	21 August 2018
Brisbane	Brisbane

DIRECTORS' DECLARATION

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

1. In the opinion of the Responsible Entity:

   (a) the financial statements and notes of the Group (to the extent they include a component of NSPT) for the year ended 30 June 2018 are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the NSR's financial position (to the extent it includes a component of NSPT) as at 30 June 2018 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 NSR (to the extent it includes a component of NSPT) will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors of National Storage Financial 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 2018.

On behalf of the Responsible Entity,

Laurence Brindle	Andrew Catsoulis
Chairman	Managing Director
21 August 2018	21 August 2018
Brisbane	Brisbane

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Independent Auditor's Report to the Members of National Storage REIT

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of National Storage REIT (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statements of financial position as at 30 June 2018, the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Investment property valuation

Why significant	How our audit addressed the key audit matter
Approximately 93% of the Group's total assets is comprised of investment properties. These assets are carried at fair value, which is assessed by the directors with reference to either external independent property valuations or internal valuations, and based on market conditions existing at reporting date. This was considered a key audit matter due to the number of judgments required in determining fair value. These judgments include assessing the capitalisation rates, sustainable occupancy and stabilised average EBITDA (earnings before interest, tax, depreciation and amortisation). Disclosure of investment properties and the related significant judgments are included in Notes 2 (o), 11.4, and 11.8 to the financial report.	We obtained and evaluated a sample of both the external independent valuations and the internal valuations prepared by the Group. We performed the following procedures: • With the involvement of our real estate valuation specialists, we assessed the suitability of the valuation methodologies, the competence, qualifications and objectivity of both the Group's internal valuers and external valuation experts, and the assumptions used in the valuations; • Agreed a sample of the source data used in the valuations to supporting tenancy schedules; • Tested the mathematical accuracy of the internal valuation model, including assessing key valuation inputs with reference to those applied by the external valuation experts and current period market transactions and perform sensitivity analysis over key valuations inputs including the capitalisation rates and sustainable occupancy; and • We considered the adequacy of disclosures in relation to the valuation methods and principles disclosed in Note 2 (o) *Summary of significant accounting policies - Investment properties,* Note 11.4 *Investment properties* and Note 11.8 *Non-financial assets fair value measurement*.

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2. Carrying value of goodwill

Why significant	How our audit addressed the key audit matter
The goodwill balance of $43.9 million, relates to the acquisition of portfolios of investment properties purchased in previous periods. The goodwill is tested for impairment annually. No impairment charge has been recorded against these balances in the current financial year as disclosed in Note 11.5. Impairment testing involves the application of subjective judgment about future business performance and the application of valuation methodologies in accordance with Australian Accounting Standards. Accordingly, this was considered a key audit matter.	Our audit procedures included the following: • We considered whether the impairment testing methodology applied by the Group, including the determination of cash generating units to which goodwill was allocated, met the requirements of Australian Accounting Standards; • We assessed the Group's appropriateness in respect of the determination of CGUs to which the goodwill is allocated; • We evaluated the suitability of the valuation methodology and validated the inputs to calculate the fair value less costs of disposal as disclosed in note 11.5; • We considered the adequacy of the disclosures in Note 11.5 of the financial report.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the National Storage REIT 2018 Annual Report, but does not include the financial report and our auditor's report thereon, with the exception of the Remuneration Report and our related assurance opinion.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 55 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of National Storage REIT for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company 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.

Ernst & Young

Ernst & Young

Ric Roach
Partner
Brisbane
21 August 2018

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 July 2018 unless stated below:

(a) Distribution of equity securities

Analysis of numbers of ordinary fully paid stapled security holders by size of holding:

Holding			Total holders
1	-	1,000	698
1,001	-	5,000	1,157
5,001	-	10,000	1,026
10,001	-	100,000	1,871
100,001	-	And over	113
Total			4,865

There were 195 holders of less than a marketable parcel of stapled securities, representing 4,692 units.

(b) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Stapled Securities	
Name	Number held	Percentage of issued securities
HSBC Custody Nominees (Australia) Limited	265,402,883	47.47
J P Morgan Nominees Australia Limited	90,356,162	16.16
Citicorp Nominees Pty Limited	28,314,339	5.06
National Nominees Limited	23,656,613	4.23
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	13,723,716	2.45
BNP Paribas Noms Pty Ltd (DRP)	9,602,934	1.72
Storcat Pty Ltd (Andrew Catsoulis Family A/C)	7,210,469	1.29
Palomere Pty Ltd (Peter Edward Greer Family A/C)	5,586,735	1.00
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	5,073,457	0.91
Hooks Enterprises Pty Ltd (Hoeksema Superfund A/C)	4,640,000	0.83
AMP Life Limited	3,372,812	0.60
Alex Queensland Pty Ltd (Catsoulis Development A/C)	2,932,388	0.52
Mr Leendert Hoeksema & Mrs Aaltje Hoeksema	2,710,000	0.48
Leyshon Investments (Australia) Pty Ltd (Bryan Family Investment A/C)	2,248,980	0.40
Stowaway Self Storage Pty Ltd (Catsoulis Family A/C)	1,811,224	0.32
Brindle Super Pty Ltd (The Brindle Superfund A/C)	1,342,120	0.24
Bond Street Custodians Limited (ENH Property Securities A/C)	1,310,885	0.23
HSBC Custody Nominees (Australia) Limited – GSCO ECA	1,269,992	0.23
BNP Paribas Noms (NZ) Ltd	1,209,879	0.22
Green 9 Pty Ltd (Michael Berry Family A/C)	1,020,408	0.18
	472,795,96	84.56

Unquoted equity securities

There are no unquoted securities.

(c) Substantial shareholders

Substantial securityholders, as at 13 July 2018, are set out below:

Name	Number held	Percentage
Colonial First State Global Asset Management Property	49,859,721	8.92
Cohen & Steers Capital Management, Inc	36,770,374	6.58
Vanguard Investments Australia Ltd	31,029,783	5.55

(d) Voting rights

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

INVESTOR RELATIONS

National Storage REIT is listed on the Australian Securities Exchange under the code NSR.

NATIONAL STORAGE REIT SECURITIES

A stapled security comprises:

- one share in National Storage Holdings Limited; and
- one unit in the National Storage Property Trust; stapled and traded together as one stapled security.

CONTACT DETAILS

All changes of name, address, TFN, payment instructions and document requests should be directed to the registry.

SECURITIES REGISTRY

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001 Australia

Telephone: 1300 850 505 (Australia only)
International: +61 3 9946 4471
Facsimile: +61 3 9473 2500
Email: web.queries@computershare.com.au

ELECTRONIC INFORMATION

By becoming an electronic investor and registering your email address, you can receive via email notifications and announcements, distribution statements, taxation statements and annual reports.

SECURE ACCESS TO YOUR SECURITYHOLDING

You will need to have your securityholder reference number or holder identification number (SRN/HIN) available to access your holding details.

ONLINE

You can access your securityholding information via link in the Investor Centre section of the corporate website, www.nationalstorageinvest.com.au, or via the Investor Centre link on registry 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

Distributions are expected to be paid within 8 weeks following the end of each semi-annual distribution period, which occur in June and December each year.

To ensure timely receipt of your distributions, please consider the following:

Direct Credit

NSR encourages securityholders to receive distribution payments by direct credit.

If you wish to register for direct credit or update your payment details, log in to your holding online or telephone the registry on 1300 850 505 for assistance.

TAX FILE NUMBER (TFN)

You are not required by law to provide your TFN, Australian Business Number (ABN) or exemption status. However, if you do not provide your TFN, ABN or exemption, withholding tax at the highest marginal rate for Australian resident members may be deducted from distributions paid to you.

If you wish to update your TFN, ABN or exemption status, log in to your holding online or telephone the registry on 1300 850 505 for assistance.

UNPRESENTED CHEQUES

If you believe you have unpresented cheques, please contact the registry and request a search to assist in recovering your funds.

If you wish to register for direct credit or update your payment details, log in to your holding online or telephone the registry on 1300 850 505 for assistance.

ANNUAL TAXATION STATEMENT AND TAX GUIDE

The Annual Taxation Statement and Tax Guide are dispatched to securityholders in August each year. A copy of the Tax Guide is available at www.nationalstorageinvest.com.au.

INVESTOR FEEDBACK

If you have any fund specific queries or feedback please telephone NSR Investor Relations on 1800 683 290. Please direct any complaints in writing to NSR Company Secretary at GPO Box 3239, Brisbane QLD 4001, Australia.

NSR CALENDAR

FEBRUARY
Half Year Results released
Distribution paid for six months ended 31 December
AUGUST
Full Year Results and Annual Report released
Distribution paid for the six months ended 30 June
Annual tax statements released
OCTOBER
Notice of Annual General Meeting released
NOVEMBER
Annual General Meeting

The dates listed above are indicative only and subject to change.

CORPORATE DIRECTORY

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

RESPONSIBLE ENTITY OF NSPT

National Storage Financial Services Limited (NSFSL)
ACN 600 787 246 AFSL 475 228
Level 23, 71 Eagle Street, Brisbane QLD 4000

DIRECTORS

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

COMPANY SECRETARY

Claire Fidler
Patrick Rogers

REGISTERED OFFICE

Level 23, 71 Eagle Street
Brisbane QLD 4000

PRINCIPAL PLACE OF BUSINESS

Level 23, 71 Eagle Street
Brisbane QLD 4000

SHARE REGISTRY

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Stapled Securities are quoted on the Australian Securities Exchange (ASX).

AUDITORS

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

NATIONAL
STORAGE