



**NATIONAL STORAGE PROPERTY TRUST (NSPT)
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

**National Storage Financial Services Limited ACN 600 787 246 AFSL 475 228
as responsible entity for
National Storage Property Trust ARSN 101 227 712**

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CORPORATE INFORMATION

National Storage Property Trust ARSN 101 227 712 ("NSPT Group")¹

Responsible Entity of NSPT

National Storage Financial Services Limited ("the Responsible Entity"), a wholly owned subsidiary of National Storage Holdings Limited
ACN 600 787 246
AFSL 475 228
Level 16, 1 Eagle Street
Brisbane QLD 4000

Directors – the Responsible Entity

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

Company Secretary – the Responsible Entity

Claire Fidler and Patrick Rogers

Registered office

Level 16, 1 Eagle Street
Brisbane QLD 4000

Principal place of business

Level 16, 1 Eagle Street
Brisbane QLD 4000

Unit registry

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Auditor

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

¹ NSPT is stapled to National Storage Holdings Limited ("NSH") to form National Storage REIT ("NSR"). NSR stapled securities are quoted on the Australian Securities Exchange ("ASX") – trading code ASX:NSR.

DIRECTORS' REPORT

The NSPT Group is a Consolidated Group of Trusts which hold investment properties in Australia and New Zealand. The units in NSPT are stapled to the shares of National Storage Holdings Limited ("**NSH**") to form National Storage REIT ("**NSR**"). NSR is quoted 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. The Responsible Entity of the Trust must at all times act in the best interest of NSPT. The stapling arrangement will continue until either the winding up of the Company or the Trust, or either entity terminates the stapling arrangements.

The Directors of National Storage Financial Services Limited as responsible entity of NSPT present their report together with the financial statements of National Storage Property Trust ("**NSPT Group**") for the financial half-year ended 31 December 2019 ("**Reporting Period**").

DIRECTORS

National Storage Financial Services Limited, "The Responsible Entity"

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

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

PRINCIPAL ACTIVITIES

NSPT and its sub trusts hold properties in Australia and New Zealand for the purpose of earning rental returns.

REVIEW AND RESULTS OF OPERATIONS

The Financial Statements are prepared in compliance with Australian Accounting Standards. Users of the financial information should familiarise themselves with the "Corporate Information" and "Basis of Preparation" in Notes 1 and 2 in the Financial Statements.

Operating results

For the half-year ended 31 December 2019, total revenue increased by \$8.8m to \$43.1m (31 December 2018: \$34.3m) mainly attributable to rental income from acquired investment properties.

Profit after tax increased by \$125.2m to \$150.2m (31 December 2018: \$25.0m) due to fair value increases to investment properties increasing by \$125m.

Capital management

Cash and cash equivalents as at 31 December 2019 were \$23.2m (30 June 2019: \$4.3m). Net operating cashflow for the half-year increased by \$7.5m to \$39.9m (31 December 2018: \$32.4m).

An interim distribution of 4.7 cents per security (\$37.0m) was announced on 17 December 2019 with a payment date of 28 February 2020.

On 30 July 2019 NSR completed a non-underwritten security purchase plan announced on 25 June 2019. This raised \$13.5m and resulted in the issue of 7,917,735 new units of which \$12.3m of equity was attributed to the NSPT Group.

NSR continues to operate a Distribution Reinvestment Plan ("**DRP**") which enables eligible security holders to receive part or all of their distribution by way of securities rather than cash.

For the final distribution for the year ended 30 June 2019, 33.5% of eligible securityholders (by number of stapled securities) elected to receive their distributions as securities. This raised equity of \$11.5m from

DIRECTORS' REPORT

the issue of 6,796,892 stapled securities during the period of which \$10.4m was attributed to the NSPT Group.

For the 31 December 2019 interim distribution, 22% of eligible security holders (by number of securities) elected to receive their distributions by way of securities. The DRP price has been set at \$2.1377 which will result in 3,809,728 new securities being issued on the distribution payment date. The impact of this will be reflected in the NSPT financial statements for the year ended 30 June 2020.

The NSPT Group is a party to NSR's finance facilities. These are on a "Club" arrangement with a selection of major Australian banks and a major Australian superannuation fund. NSR's borrowing capacity is AUD \$730m and NZD \$226.8m (AUD \$217.8m) of which AUD \$30m and NZD \$21.5m (AUD \$20.6m) is undrawn at 31 December 2019.

Investments

During the reporting period the investment property portfolio expanded following the acquisition of fourteen storage centre assets and one development asset across Australia and New Zealand, valued at \$179m and adding 62,600sqm of net lettable area to the NSPT Group's portfolio.

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

As announced to the ASX, NSR has received three confidential non-binding indicative proposals from separate parties to acquire 100% of the issued stapled securities in NSR. NSR continues to work with these parties in relation to these proposals. Discussions with each party are subject to a number of conditions and there is no certainty that these will lead to a final recommended offer.

No other events have occurred between the reporting date and the issue date of the half year report which require disclosure in the financial statements.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191. The NSPT Group is an entity to which the class order applies.

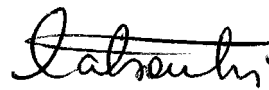
AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made on 25 February 2020 in accordance with a resolution of the Responsible Entity and is signed for and on behalf of the Responsible Entity.



Laurence Brindle
Director
National Storage Financial Services Limited
Brisbane



Andrew Catsoulis
Director
National Storage Financial Services Limited
Brisbane

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
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Brisbane QLD 4000 Australia
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Auditor's Independence Declaration to the Directors of National Storage Financial Services Limited as responsible entity of National Storage Property Trust and the entities it controlled

As lead auditor for the review of the half-year financial report of National Storage Property Trust, for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of National Storage Property Trust and the entities it controlled during the financial period.

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

Ernst & Young

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

Ric Roach
Partner
25 February 2020

INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2019

	Notes	Consolidated Trust	
		2019 \$'000	2018 \$'000
Rental revenue		42,954	33,945
Revenue from contracts with customers		38	213
Interest income		113	131
Total revenue		43,105	34,289
Management fees		(1,250)	(829)
Other expenses		(82)	(121)
Finance costs		(15,515)	(12,469)
Share of loss from joint venture		(30)	(36)
Fair value adjustments		125,055	4,718
Restructuring and other non-recurring costs		(287)	(117)
Profit before income tax		150,996	25,435
Income tax expense	4	(778)	(450)
Profit after tax		150,218	24,985
Profit for the period attributable to:			
Members of National Storage Property Trust		150,218	24,985
Basic and diluted earnings per unit (cents)	15	19.15	3.94

The above Interim Statement of Profit of Loss should be read in conjunction with the accompanying notes and 30 June 2019 Financial Statements of National Storage Property Trust.

INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2019

	Consolidated Trust	
	2019	2018
	\$'000	\$'000
Profit after tax	150,218	24,985
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	258	391
Net gain / (loss) on cash flow hedges	2,355	(4,466)
Total other comprehensive gain / (loss), net of tax	2,613	(4,075)
Total comprehensive income	152,831	20,910
Comprehensive income for the period attributable to:		
Members of National Storage Property Trust	152,831	20,910

The above Interim Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes and 30 June 2019 Financial Statements of National Storage Property Trust.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		NSPT Group	
		as at 31 Dec 2019	as at 30 Jun 2019
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		23,187	4,307
Trade and other receivables		27,270	193,636
Assets held for sale	7	4,142	1,107
Other current assets		127	17
Total current assets		54,726	199,067
Non-current assets			
Investment properties	5	2,219,478	1,888,222
Investment in joint venture	6	1,050	1,080
Other non-current assets	10	-	569
Total non-current assets		2,220,528	1,889,871
Total Assets		2,275,254	2,088,938
LIABILITIES			
Current liabilities			
Trade and other payables		5,447	10,341
Borrowings	9	47,107	-
Lease Liabilities		751	741
Deferred revenue		82	48
Income tax payable		136	136
Distribution payable	13	37,039	34,370
Other liabilities	10	55	713
Total current liabilities		90,617	46,349
Non-current liabilities			
Borrowings	9	845,091	842,677
Lease liabilities		16,272	16,299
Income tax payable		460	-
Deferred tax liability		1,500	1,097
Other liabilities	10	1,905	1,375
Total non-current liabilities		865,228	861,448
Total Liabilities		955,845	907,797
Net Assets		1,319,409	1,181,141
EQUITY			
Contributed equity	11	947,225	924,749
Foreign currency translation reserve		1,016	758
Other reserves		(21,526)	(23,881)
Retained earnings		392,694	279,515
Total Equity		1,319,409	1,181,141

The above Interim Statement of Financial Position should be read in conjunction with the accompanying notes and 30 June 2019 Financial Statements of National Storage Property Trust.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

Attributable to unitholders of National Storage Property Trust

	Notes	Contributed equity \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Total \$'000
Balance at 1 July 2019		924,749	279,515	758	(23,881)	1,181,141
Profit for the period		-	150,218	-	-	150,218
Other comprehensive income		-	-	258	2,355	2,613
Total comprehensive income for the period		-	150,218	258	2,355	152,831
Issue of stapled units through retail placement	11	12,261	-	-	-	12,261
Issue of stapled units through distribution reinvestment plan	11	10,426	-	-	-	10,426
Costs associated with issue of units		(211)	-	-	-	(211)
Distributions provided	13	-	(37,039)	-	-	(37,039)
		22,476	(37,039)	-	-	(14,563)
Balance at 31 December 2019		947,225	392,694	1,016	(21,526)	1,319,409
Balance at 1 July 2018		604,207	204,533	(115)	(2,073)	806,552
Profit for the period		-	24,985	-	-	24,985
Other comprehensive income		-	-	391	(4,466)	(4,075)
Total comprehensive income for the period		-	24,985	391	(4,466)	20,910
Issue of stapled units through institutional and retail placement	11	158,927	-	-	-	158,927
Issue of stapled units through distribution reinvestment plan		5,699	-	-	-	5,699
Costs associated with issue of units		(3,861)	-	-	-	(3,861)
Distributions provided	13	-	(30,082)	-	-	(30,082)
		160,765	(30,082)	-	-	130,683
Balance at 31 December 2018		764,972	199,436	276	(6,539)	958,145

The above Interim Statement of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2019 Financial Statements of National Storage Property Trust.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

	Notes	NSPT Group	
		2019 \$'000	2018 \$'000
Operating activities			
Receipts from customers		42,645	35,564
Payments to suppliers and employees		(2,794)	(3,270)
Interest received		26	132
Net cash flows from operating activities		39,877	32,426
Investing activities			
Purchase of investment properties	5	(193,590)	(132,898)
Improvements to investment properties		(3,613)	(1,681)
Proceeds from sale of investment property		1,107	-
Development of investment properties under construction		(16,121)	(11,423)
Investment in joint venture		-	(1,274)
Net cash flows used in investing activities		(212,217)	(147,276)
Financing activities			
Proceeds from issue of stapled securities	11	12,261	158,927
Transaction costs on issue of stapled securities		(386)	(3,861)
Distributions paid to stapled security holders		(22,857)	(21,105)
Proceeds from borrowings		230,085	146,696
Repayment of borrowings		(181,400)	(122,100)
Repayment from / (borrowings to) related party		166,196	(33,311)
Interest and other finance costs paid		(12,681)	(12,426)
Net cash flows from financing activities		191,218	112,820
Net decrease in cash and cash equivalents		18,878	(2,030)
Net foreign exchange difference		2	(1)
Cash and cash equivalents at 1 July		4,307	2,655
Cash and cash equivalents at 31 December		23,187	624

The above Interim Statement of Cash Flows should be read in conjunction with the accompanying notes and 30 June 2019 Financial Statements of National Storage Property Trust.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

The NSPT Group ("**the Group**") is a Consolidated Group of Trusts which hold investment properties in Australia and New Zealand. The units in NSPT are stapled to the shares of National Storage Holdings Limited ("**NSH**") to form National Storage REIT ("**NSR**"). NSR is quoted 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. The Responsible Entity of the Trust must at all times act in the best interest of NSPT. The stapling arrangement will continue until either the winding up of the Company or the Trust, or either entity terminates the stapling arrangements.

The financial report of NSPT Group for the half-year ended 31 December 2019 was approved on 25 February 2020, in accordance with a resolution of the Directors of National Storage Financial Services Limited.

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

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

Basis of preparation

This Interim Financial Report for the half-year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The accounting policies applied in this Interim Financial Report are the same as the 30 June 2019 financial statements for NSPT except for the accounting policies impacted by the new or amended Accounting Standards detailed in this note.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. It is recommended that the half-year financial report be read in conjunction with the NSPT financial statements for the year ended 30 June 2019 and considered together with any public announcements in accordance with the continuous disclosure obligations of the ASX listing rules made by NSR during the half-year ended 31 December 2019.

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

Deficiency of net current assets

As at 31 December 2019, the Group had an excess of current liabilities over current assets of \$35.9m.

The Group has \$47.1m of borrowings classified as current liabilities as they are drawn under a facility with an expiry date due within a year. The Group expects to refinance this facility prior to the expiry date. The Group also has other available funding facilities beyond a year of \$50.6m.

The financial report has been prepared on a going concern basis as the Directors of the Responsible Entity believe the Group will continue to generate operating cash flows to meet all liability obligations in the ordinary course of business.

Changes in accounting policy, accounting standards and interpretations

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

The Group has applied AASB 16 *Leases* for the first time in these financial statements. The Group receives revenue from rental income as a lessor relating to the provision of storage space and commercial units. Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB

NOTES TO THE FINANCIAL STATEMENTS

117. Therefore, AASB 16 did not have an impact for leases where the Group is a lessor and has had no impact on the half-year financial report.

The accounting policies adopted in the preparation of the interim consolidated financial statements are otherwise consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019.

Several other amendments and interpretations apply for the first time in these financial statements, but do not have an impact on the consolidated financial report of the Group. The Group has not early adopted any standards.

3. Segment information

The Group has identified its operating segments based on the internal management information used by the Managing Director of NSR, the Group's chief decision maker.

The Group operates wholly within one business segment being the ownership of storage centres in Australia and New Zealand. The operating results presented in the Statement of Profit and Loss represent the same segment information as reported to the Group's chief decision maker. The Group's financing (including finance costs and finance income) are managed on a Group basis and not allocated to operating segments.

94% of total revenue is received from the NSH Group, a related party.

4. Income tax

NSPT is a 'flow through' entity for Australian income tax purposes and is an Attribution Managed Investment Trust, 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%.

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

For the six months ended 31 December

	2019 \$'000	2018 \$'000
Consolidated statement of profit or loss		
Current income tax	459	237
Deferred income tax	319	213
Income tax expense	<u>778</u>	<u>450</u>
Consolidated statement of other comprehensive income		
<i>Deferred tax relating to items recognised in other comprehensive income during the period</i>		
Net (loss) / gain on revaluation of cash flow hedges	<u>(80)</u>	<u>88</u>

NOTES TO THE FINANCIAL STATEMENTS

5. Investment properties

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Investment properties at valuation		
Investment properties	2,162,153	1,861,023
Investment property under construction	57,325	27,199
Total investment properties	2,219,478	1,888,222
Investment properties		
Opening balance at 1 July	1,861,023	1,356,251
Property acquisitions	177,011	383,555
Property disposals	-	(26,000)
Improvements to investment properties	3,613	2,717
Items reclassified from investment properties under construction	3,160	26,972
Items reclassified to assets held for sale	(4,142)	(1,107)
Items reclassified from assets held for sale	-	5,713
Items reclassified to investment properties under construction	(4,303)	-
Reassessment of lease terms	-	12,648
Net gain from fair value adjustments	125,055	96,272
Effect of movement in foreign exchange	736	4,002
Closing balance at 31 December / 30 June	2,162,153	1,861,023
Investment properties under construction at cost		
Opening balance at 1 July	27,199	7,210
Property acquisitions	12,650	33,122
Development costs	16,264	13,839
Items reclassified to investment properties	(3,160)	(26,972)
Items reclassified from investment properties	4,303	-
Effect of movement in foreign exchange	69	-
Closing balance at 31 December / 30 June	57,325	27,199

In the period ended 31 December 2019, included within net gain from fair value adjustments for investment properties is an unrealised gain of \$3.1m relating to the contracted divestment of a component of a freehold investment property during the period. This asset has been reclassified to assets held for sale and is recorded at fair value (see note 7). (30 June 2019: unrealised gain of \$1.1m relating to the divestment of investment properties).

6. Interest in joint venture

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Opening balance at 1 July	1,080	3,248
Capital contribution / acquisition of units in joint venture	-	1,273
Share of profit / (loss) from joint venture	(30)	1,413
Distributions received from joint venture	-	(4,854)
Closing balance at 31 December / 30 June	1,050	1,080

The Group holds a 25% (30 June 2019: 25%) interest in the Bundall Storage Trust. The Bundall Storage Trust has one storage centre investment property asset under construction.

During the year ended 30 June 2019, the Group made an equity contribution of \$1.3m into the Bundall Storage Trust. The Group also acquired two storage centre investment property assets from the Bundall Storage Trust for \$43.7m and sold investment property assets to the Bundall Storage Trust for \$8.2m. There was no change in the share of the Group's interest following these transactions. The group's joint venture is not listed on any public exchange.

NOTES TO THE FINANCIAL STATEMENTS

7. Assets held for sale

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Current assets		
Opening balance at 1 July	1,107	5,713
Items reclassified from investment property	4,142	1,107
Items reclassified to investment property	-	(5,713)
Disposals during the year	(1,107)	-
Closing balance at 31 December / 30 June	4,142	1,107

On 26 December 2019, the Group entered into an agreement for the sale of a freehold investment property in Melbourne, Victoria for \$4.2m, less cost of sale of \$0.1m. This has resulted in an unrealised gain of \$3.1m from the asset's carrying value within freehold investment property at 30 June 2019. This has been included within fair value adjustments in the statement of profit or loss. This transaction is expected to settle on 28 February 2020.

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

As at 30 June 2019, the Group held an agreement for the sale of commercial investment property in Dunedin, New Zealand for NZD \$1.2m less cost of sale of NZD \$0.1m (AUD \$1.1m). This transaction settled on 20 September 2019.

8. Non-financial assets fair value measurement

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2019				
Assets held for sale	-	4,142	-	4,142
Investment properties	-	-	2,162,153	2,162,153
	-	4,142	2,162,153	2,166,295
At 30 June 2019				
Assets held for sale	-	1,107	-	1,107
Investment properties	-	-	1,861,023	1,861,023
	-	1,107	1,861,023	1,862,130

Recognised fair value measurements

The Group's policy is to recognise transfers in 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 period. During the period ended 31 December 2019, the Group transferred \$4.1m 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 7 (year ended 30 June 2019: \$1.1m). In the year ended 30 June 2019 the Group transferred \$5.7m from level 2 to level 3 following the reclassification of an asset from assets held for sale to freehold investment properties.

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 prior period ended 30 June 2019, the Group had assets classified as held for sale at contractually agreed sales prices less estimated cost of sale.

Fair value measurements using significant unobservable inputs (level 3)

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

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

NOTES TO THE FINANCIAL STATEMENTS

Fair values are determined by a combination of independent valuations and Directors' valuations. The independent valuations are performed by an accredited independent valuer. Investment properties are independently valued on a rotational basis every three years unless the underlying financing requires a more frequent valuation cycle or the Directors' determine that an independent valuation is warranted. For properties subject to an independent valuation report the Directors verify all major inputs to the valuation and review the results with the independent valuer. The Directors' valuations are completed by the NSH Group Board (a related entity). The Directors of the Responsible Entity place reliance on these valuations for the Group financial statements. The valuations are determined using the same techniques and similar estimates to those applied by the independent valuer.

The Group obtains the majority of its independent valuations at each 30 June financial year end.

At 31 December 2019, the Group has completed updated Director valuations for investment properties held at 30 June 2019. These reflect the capitalisation rate compression observed in current market conditions. This represents a significant change to one of the key inputs of the property valuations. Investment properties acquired in the period ended 31 December 2019 have been held at external valuation.

At 30 June 2019, the Group held 38% of investment properties at external valuation.

Valuation inputs and relationship to fair value

Description	Valuation technique	Significant unobservable inputs	Range at 31 December 2019	Range at 30 June 2019
Investment properties	Capitalisation method	Primary capitalisation rate	5.8% to 8.2%	6.0% to 8.2%
		Secondary capitalisation rate	6.3% to 8.8%	6.5% to 9.3%
		Sustainable occupancy	75% to 95%	74% to 98%
		Stabilised average EBITDA	\$955,769	\$912,261

Under the income capitalisation method, a property's fair value is estimated based upon a combination of current earnings before interest, tax, depreciation and amortisation ("**EBITDA**") generated by the property, which is divided by the primary capitalisation rate (the investor's required rate of return) and additional EBITDA (stabilised EBITDA less current EBITDA) divided by the secondary capitalisation rate. Stabilised EBITDA reflects the estimated EBITDA generated once a property reaches a sustainable level of operations. The value attributed to the secondary capitalisation is then discounted to account for the estimated time required to deliver this additional value.

The capitalisation rates are derived from recent sales of similar properties. The secondary capitalisation rate is typically higher than the primary capitalisation rate to reflect the additional risk associated with these cashflows. 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 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 following tables present the sensitivity of investment property fair values to changes in input assumptions.

At 31 December 2019:

Unobservable inputs	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000
Primary capitalisation rate	1% / (1%)	(224,250) / 305,520
Secondary capitalisation rate	2% / (2%)	(116,940) / 204,520
Sustainable occupancy	5% / (5%)	129,760 / (99,140)
Stabilised average EBITDA	5% / (5%)	98,580 / (90,130)

NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2019:

	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000
Unobservable inputs		
Primary capitalisation rate	1% / (1%)	(188,200) / 254,780
Secondary capitalisation rate	2% / (2%)	(90,560) / 156,620
Sustainable occupancy	5% / (5%)	114,620 / (81,010)
Stabilised average EBITDA	5% / (5%)	83,770 / (74,650)

9. Borrowings

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Current borrowings		
Bank finance facility	47,107	-
Non-current borrowings		
Bank finance facility	848,761	846,588
Non-amortised borrowing costs	(3,670)	(3,911)
Total non-current borrowings	845,091	842,677
Total borrowings	892,198	842,677

Drawn amounts and facility limits are as follows:

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Bank finance facilities (AUD)		
Drawn amount	698,750	662,550
Facility limit	728,750	680,000
Bank finance facilities (NZD)		
Drawn amount	205,250	192,250
Facility limit	226,750	196,750
AUD equivalent of NZD facilities		
Drawn amount	197,118	184,038
Facility limit	217,766	188,346

The major terms of these agreements are as follows:

- At both 31 December and 30 June 2019, maturity dates on these facilities range from 23 July 2020 to 23 December 2026.
- All facilities are interest only with any drawn balance payable at maturity.
- The interest rate applied is the bank bill rate plus a margin.
- Security has been granted over the Group's investment properties.

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

NOTES TO THE FINANCIAL STATEMENTS

Interest rate swaps

The Group has the following future interest rate hedges in place as at the end of the reporting period:

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Interest rate hedges (AUD)		
Current interest rate hedges	460,000	400,000
Future interest rate hedges	25,000	275,000
	<hr/>	<hr/>
Interest rate hedges (NZD)		
Current interest rate hedges	50,000	73,500
Future interest rate hedges	-	50,000
	<hr/>	<hr/>
AUD equivalent of NZD interest rate hedges		
Current interest rate hedges	48,019	70,361
Future interest rate hedges	-	47,864
	<hr/>	<hr/>

10. Financial instruments fair value measurement

Fair value hierarchy

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

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

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

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

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The resulting fair value estimates for interest rate swaps are included in level 2.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2019				
<i>Derivative used for hedging - interest rate swaps</i>				
Current financial liabilities	-	(55)	-	(55)
Non-current financial liabilities	-	(1,905)	-	(1,905)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(1,960)	-	(1,960)
At 30 June 2019				
<i>Derivatives used for hedging – forward currency exchange contract</i>				
Current financial liabilities	<hr/>	<hr/>	<hr/>	<hr/>
	-	(474)	-	(474)
<i>Derivative used for hedging - interest rate swaps</i>				
Non-current financial assets	-	569	-	569
Current financial liabilities	-	(239)	-	(239)
Non-current financial liabilities	-	(1,375)	-	(1,375)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(1,045)	-	(1,045)

There were no transfers between levels of fair value hierarchy during the period ended 31 December 2019. (30 June 2019: \$nil)

NOTES TO THE FINANCIAL STATEMENTS

11. Contributed equity

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Issued and paid up capital	947,225	771,200
Contract for future issue of equity	-	153,549
Total contributed equity	947,225	924,749
	31 Dec 2019 No.	30 Jun 2019 No.
Number of units on Issue		
Opening balance at 1 July	673,928,751	559,107,042
Institutional and retail placements	107,332,940	105,677,937
Distribution reinvestment plan	6,796,892	9,143,772
Closing balance	788,058,583	673,928,751

Capital raise

On 25 June 2019, NSR announced a fully underwritten \$170m equity raising of which \$153.5m was attributed to the Group. On 28 June 2019, the Group received proceeds for this raising. This resulted in the issue of 99,415,205 new stapled securities on 1 July 2019. At 30 June 2019, this represented a contract for future issue of equity under AASB 132 and was recognised as contributed equity within the statement of financial position for the year ended 30 June 2019

On 25 June 2019, the Group also announced a non-underwritten security purchase plan. This completed on 30 July 2019, raising \$13.5m of which \$12.3m was attributed to the NSPT. This resulted in the issue of 7,917,735 new stapled securities.

Distribution reinvestment plan

During the period 6,796,892 stapled securities were issued to securityholders participating in the Group's DRP for consideration of \$11.5m of which \$10.4m was attributed to the Group. The stapled securities were issued at the volume weighted average market price of the Group's stapled securities over a period of ten trading days, less a 2% discount.

Terms and conditions of contributed equity

Stapled securities

One unit in NSPT is stapled to one share in NSH to form a stapled security of NSR. Stapled securityholders have the right to receive declared distributions from NSPT and dividends from NSH and are entitled to one vote per stapled security at securityholders' meetings. Holders of stapled securities can vote in accordance with the *Corporations Act 2001*, either in person or by proxy, at a meeting of either NSPT or NSH. The stapled securities have no par value. In the event of the winding up of NSPT and NSH, stapled securityholders have the right to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on stapled securities held. Ordinary stapled securityholders rank after all creditors in repayment of capital.

NOTES TO THE FINANCIAL STATEMENTS

12. Related party transactions

The following tables provide the total amount of transactions that have been entered into with related parties for the six months ended 31 December 2019 and 2018, as well as balances with related parties as at 31 December 2019 and 30 June 2019.

Transaction with related parties		Revenue	Purchases	Amount	Amount
		from related parties	from related parties	owed by related parties	owed to related parties
		\$	\$	\$	\$
National Storage Holdings Limited	Current period	-	-	18,981,833	-
	Comparative period	-	-	186,285,284	-
National Storage (Operations) Pty Ltd	Current period	28,463,893	251,667	-	369,254
	Comparative period	23,192,423	120,000	24,053	-
Southern Cross Storage Operations Pty Ltd	Current period	7,219,500	-	-	-
	Comparative period	7,064,500	-	-	-
National Storage Financial Services Limited	Current period	-	882,649	-	642,501
	Comparative period	-	709,295	-	301,073
National Storage Limited	Current period	4,942,906	-	7,314,588	-
	Comparative period	2,687,121	-	5,812,384	-
Bundall Storage Trust	Current period	-	-	2,892	-
	Comparative period	-	-	757,654	-

All outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the periods ended 31 December 2019 and 30 June 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

13. Distributions proposed

Unit distributions

Distributions declared	31 Dec 2019 \$'000	31 Dec 2018 \$'000
NSPT interim distribution of 4.7 cents per unit payable on 28 February 2020 (1 March 2019: 4.5 cents per unit)	37,039	30,082

14. Commitments and contingencies

Capital commitments

As at 31 December 2019, the Group held commitments to purchase two freehold investment properties for \$24.9m following construction of the assets.

As at 31 December 2019, the Group has contractual commitments in place for the construction of self-storage centres of \$28.7m Australia and NZD \$5.4m (AUD \$5.2m) in New Zealand. (see note 5).

As at 31 December 2019, the Group held a commitment with a third party, to supply and install solar panels on a number of NSR storage centres. As at 31 December 2019, the Group has a commitment to additional expenditure of \$1.2m, to be paid on agreed milestones subject to the completion of the project. There is no other capital expenditure contracted for at the end of the reporting period but not recognised as a liability.

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

NOTES TO THE FINANCIAL STATEMENTS

15. Earnings per stapled security

	31 Dec 2019 cents	31 Dec 2018 cents
Basic and diluted earnings per unit	19.15	3.94
Reconciliation of earnings used in calculating earnings per unit		
<i>Basic and diluted earnings per unit</i>	\$'000	\$'000
Net profit attributable to members	150,218	24,985
	No. of units	No. of units
Weighted average number of securities on issue during the period	784,372,664	628,838,159
Adjustment under AASB 133 to reflect discount to market price on issue of new capital	104,580	5,207,735
Weighted average number of securities for basic and diluted earnings per stapled security	784,477,244	634,045,894

As required by AASB 133 *Earnings per share*, for issues of capital during the periods ended 31 December 2019 and 31 December 2018, the weighted average number of securities on issue used to calculate statutory basic and diluted earnings per stapled securities has been adjusted to reflect the difference between the issue price and the fair value of securities prior to issue. No actual securities were issued relating to this adjustment

16. Events after reporting period

As announced to the ASX, the Group has received three confidential non-binding indicative proposals from separate parties to acquire 100% of the issued stapled securities in NSR. NSR continues to work with these parties in relation to these proposals. Discussions with each party are subject to a number of conditions and there is no certainty that these will lead to a final recommended offer.

No other events have occurred between the reporting date and the issue date of the half year report which require disclosure in the financial statements.

DIRECTORS' DECLARATION

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

In the opinion of the Responsible Entity:

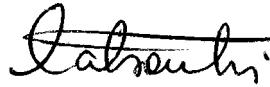
- (a) the financial statements and notes of the Group for the half-year ended 31 December 2019 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - b. complying with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) with reference to Note 2 in the financial statements, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Responsible Entity,



Laurence Brindle
Director

25 February 2020
Brisbane



Andrew Catsoulis
Director

INDEPENDENT AUDITOR'S REVIEW REPORT



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Independent Auditor's Review Report to the members of National Storage Property Trust Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of National Storage Property Trust and the entities it controlled (the Group) during the half-year, which comprises the interim statement of financial position as at 31 December 2019, the interim statement of profit or loss, the interim statement of other comprehensive income, the interim statement of changes in equity and the interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

INDEPENDENT AUDITOR'S REVIEW REPORT



Independence

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

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Ric Roach' in a cursive style.

Ric Roach
Partner
Brisbane
25 February 2020