



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

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

**National Storage Financial Services Limited ACN 600787246 AFSL 475228  
as responsible entity for  
National Storage Property Trust ARSN 101227712**

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# CORPORATE INFORMATION

National Storage Property Trust ARSN 101 227 712 (“**NSPT**”)<sup>1</sup>

## **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

## **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

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<sup>1</sup> 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 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 NSH and the number of units in NSPT 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 NSH or NSPT, 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 ("the Group") for the financial year ended 30 June 2020 ("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 investment properties in Australia and New Zealand for the purpose of earning rental returns and generating capital growth.

## 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 year ended 30 June 2020, total revenue increased by 23% to \$88.2m (30 June 2019: \$71.5m) through increased rental income from investment properties acquired during the current and prior years. Profit after tax decreased by 8.4% to \$127.8m (30 June 2019: \$139.4m) impacted by fair value gains on investment properties reducing by \$18m to \$78.3m (30 June 2019: \$96.3m).

### Capital management

Cash and cash equivalents as at 30 June 2020 were \$72.0m (30 June 2019: \$4.3m). Net operating cashflow for the year decreased by \$10.3m to \$81.2m (30 June 2019: \$91.5m).

During the year NSR successfully raised \$361.9m of capital via institutional placements and security purchase plans. \$330.2m of equity was attributed to the Group. The purpose of the equity raisings was to execute acquisition opportunities and strengthen the NSR balance sheet.

An interim distribution of 4.7 cents per unit (\$37.0m) was paid on 28 February 2020 with a final distribution of 3.4 cents per unit (\$34.5m) declared on 16 June 2020 with an estimated payment date of 7 September 2020.

## DIRECTORS' REPORT

During the period NSR continued to offer a Distribution Reinvestment Plan (“DRP”) enabling eligible unit holders to receive part or all of their distribution by way of units rather than cash.

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. This raised equity of \$8.1m from the issue of 3,809,728 stapled securities of which \$7.4m was attributed to the Group.

The June 2020 final distribution has seen 20.6% of eligible securityholders (by number of securities) elect to receive their distributions as securities totalling \$7.1m. The DRP price was set at \$1.7945 which will result in approximately 6,798,000 new securities being issued of which \$6.5m will be attributable to the Group.

The 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 \$830m and NZD \$226.8m (AUD \$212m). As at the reporting date, AUD \$360.9m was undrawn and available.

The Group maintains interest rate hedges in accordance with NSR's hedging policy which is reviewed on a regular basis. During the year the Group reset the interest rates on the Group's Australian Dollar and New Zealand Dollar swaps for a cost of \$14.3m, securing the long term benefits of the current low interest rate environment. Interest rate swaps in place at the end of the reporting period, total notional amounts of \$531.7m with maturity dates ranging from 23 September 2020 to 23 September 2026.

### **Acquisitions and revaluation of investment properties**

NSR considers its ability to acquire and integrate quality assets as a key driver 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.

In the year ended 30 June 2020, the Group acquired 21 new centres and 2 development sites for approximately \$231.2m. The combined process undertaken by both external valuers and the Directors to revalue yielded an increase in valuation of \$78.3m.

## SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

### **Acquisitions**

For the period from 1 July 2020 to the date of this report, the Group purchased seven storage centre investment properties for a total cost of \$133.9m.

## ROUNDING

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

## DIRECTORS' REPORT

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 7.

### FEES PAID TO AND INTERESTED HELD IN THE NSPT BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

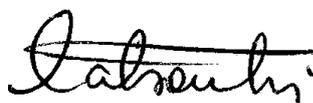
Fees paid to the Responsible Entity and its associates out of NSPT property during the year are disclosed in the Statement of Comprehensive Income and are detailed in note 16 to the financial statements.

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

This report is made on 25 August 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



**Building a better  
working world**

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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 its controlled entities**

As lead auditor for the audit of the financial report of National Storage Property Trust and its controlled entities for the financial year ended 30 June 2020, 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 Property Trust and the entities it controlled during the financial year.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Ric Roach'.

Ric Roach  
Partner  
25 August 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Revenue from rental income		87,820	70,854
Revenue from contracts with customers	5	123	329
Interest income		225	270
<b>Total revenue</b>		<b>88,168</b>	<b>71,453</b>
Management fees		(2,976)	(2,220)
Other operational expenses		(689)	(731)
Finance costs	6	(32,037)	(25,719)
Share of (loss) /profit from joint venture	11	(71)	1,413
Restructuring and other non-recurring costs		(1,511)	(201)
Gain from fair value adjustments	9.2	78,302	96,272
<b>Profit before income tax</b>		<b>129,186</b>	<b>140,267</b>
Income tax expense	7	(1,426)	(833)
<b>Profit after tax</b>		<b>127,760</b>	<b>139,434</b>
<b>Profit for the year attributable to:</b>			
Unitholders of National Storage Property Trust		<b>127,760</b>	<b>139,434</b>
<b>Basic and diluted earnings per unit (cents)</b>	18	15.39	20.78

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

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	2020 \$'000	2019 \$'000
<b>Profit after tax</b>	<b>127,760</b>	<b>139,434</b>
<b>Other comprehensive income / (loss)</b>		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	(1,768)	873
Net loss on cash flow hedges	(5,857)	(21,808)
<b>Other comprehensive income / (loss) for the year, net of tax</b>	<b>(7,625)</b>	<b>(20,935)</b>
<b>Total comprehensive income for the year</b>	<b>120,135</b>	<b>118,499</b>
<b>Total comprehensive income for the year attributable to:</b>		
Unitholders of National Storage Property Trust	<b>120,135</b>	<b>118,499</b>

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 2020

	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8.1	71,966	4,307
Trade and other receivables	8.2	6,246	193,636
Assets held for sale	9.1	-	1,107
Other current assets	8.3	12	17
<b>Total current assets</b>		<b>78,224</b>	<b>199,067</b>
<b>Non-current assets</b>			
Investment properties	9.2	2,233,365	1,888,222
Investment in joint venture	11	1,009	1,080
Other non-current assets	8.3	19	569
<b>Total non-current assets</b>		<b>2,234,393</b>	<b>1,889,871</b>
<b>Total assets</b>		<b>2,312,617</b>	<b>2,088,938</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8.4	9,644	10,341
Lease liabilities	8.7	761	741
Deferred revenue	9.3	78	48
Income tax payable		260	136
Distribution payable	15	34,467	34,370
Other liabilities	8.6	50	713
<b>Total current liabilities</b>		<b>45,260</b>	<b>46,349</b>
<b>Non-current liabilities</b>			
Borrowings	8.5	676,452	842,677
Lease liabilities	8.7	16,242	16,299
Deferred tax liabilities	7	2,697	1,097
Other liabilities	8.6	357	1,375
<b>Total non-current liabilities</b>		<b>695,748</b>	<b>861,448</b>
<b>Total liabilities</b>		<b>741,008</b>	<b>907,797</b>
<b>Net assets</b>		<b>1,571,609</b>	<b>1,181,141</b>
<b>EQUITY</b>			
Contributed equity	12	1,266,588	924,749
Retained earnings		335,769	279,515
Foreign currency translation reserve	13	(1,010)	758
Cash flow hedge reserve	13	(29,738)	(23,881)
<b>Total equity</b>		<b>1,571,609</b>	<b>1,181,141</b>

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 2020

### 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 equity \$'000
<b>Balance at 1 July 2019</b>		<b>924,749</b>	<b>279,515</b>	<b>758</b>	<b>(23,881)</b>	<b>1,181,141</b>
Profit for the year		-	127,760	-	-	127,760
Other comprehensive income /(loss)		-	-	(1,768)	(5,857)	(7,625)
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>127,760</b>	<b>(1,768)</b>	<b>(5,857)</b>	<b>120,135</b>
Issue of units		348,091	-	-	-	348,091
Costs associated with issue of units		(6,252)	-	-	-	(6,252)
Distributions	15	-	(71,506)	-	-	(71,506)
		<b>341,839</b>	<b>(71,506)</b>	<b>-</b>	<b>-</b>	<b>270,333</b>
<b>Balance at 30 June 2020</b>		<b>1,266,588</b>	<b>335,769</b>	<b>(1,010)</b>	<b>(29,738)</b>	<b>1,571,609</b>
<b>Balance at 1 July 2018</b>		<b>604,207</b>	<b>204,533</b>	<b>(115)</b>	<b>(2,073)</b>	<b>806,552</b>
Profit for the year		-	139,434	-	-	139,434
Other comprehensive income / (loss)		-	-	873	(21,808)	(20,935)
<b>Total comprehensive income / (loss)</b>		<b>-</b>	<b>139,434</b>	<b>873</b>	<b>(21,808)</b>	<b>118,499</b>
Issue of units		173,555	-	-	-	173,555
Contract for future issue of equity		153,549	-	-	-	153,549
Costs associated with issue of units		(6,562)	-	-	-	(6,562)
Distributions	15	-	(64,452)	-	-	(64,452)
		<b>320,542</b>	<b>(64,452)</b>	<b>-</b>	<b>-</b>	<b>256,090</b>
<b>Balance at 30 June 2019</b>		<b>924,749</b>	<b>279,515</b>	<b>758</b>	<b>(23,881)</b>	<b>1,181,141</b>

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 2020

	Notes	2020 \$'000	2019 \$'000
<b>Operating activities</b>			
Receipts from customers		87,020	94,345
Payments to suppliers and employees		(5,825)	(2,869)
Interest received		76	32
Income tax paid		(65)	(52)
<b>Net cash flows from operating activities</b>	8.1	<b>81,206</b>	<b>91,456</b>
<b>Investing activities</b>			
Purchase of investment properties		(235,298)	(407,972)
Proceeds on sale of investment property		5,091	26,000
Distribution received from joint venture	11	-	4,854
Improvements to investment properties		(4,852)	(3,729)
Development of investment properties under construction		(36,165)	(13,026)
Investments in joint venture	11	-	(1,273)
<b>Net cash flows used in investing activities</b>		<b>(271,224)</b>	<b>(395,146)</b>
<b>Financing activities</b>			
Proceeds from issue of units	12	330,230	158,927
Transaction costs on issue of units		(6,427)	(6,737)
Distributions paid to unitholders		(51,751)	(41,301)
Proceeds from borrowings		267,558	398,876
Repayment of borrowings		(430,000)	(155,100)
Payments associated with resetting interest rate hedges		(14,303)	(22,913)
Repayment of financing provided to related party		187,487	-
Payment of principal and interest on lease liabilities		(743)	-
Interest and other finance costs paid		(24,373)	(26,413)
<b>Net cash flows from financing activities</b>		<b>257,678</b>	<b>305,339</b>
Net increase in cash and cash equivalents		67,660	1,649
Net foreign exchange difference		(1)	3
Cash and cash equivalents at 1 July		4,307	2,655
<b>Cash and cash equivalents at 30 June</b>	8.1	<b>71,966</b>	<b>4,307</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

## 1. CORPORATE INFORMATION

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 NSH and the number of units in NSPT 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 NSH or NSPT, or either entity terminates the stapling arrangements.

The financial report of Group for the year ended 30 June 2020 was approved on 25 August 2020, in accordance with a resolution of the Directors the Responsible Entity.

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 ("AASB") 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. NSPT 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.

The accounting policies applied by NSPT in these financial statements are the same as the 30 June 2019 financial statements except for the accounting policies impacted by new or amended accounting standards detailed in this note.

The Group has elected to present only financial information relating to the Group within these financial statements. A separate financial report for NSR has also been prepared for the year ended 30 June 2020, this is available at [www.nationalstorageinvest.com.au](http://www.nationalstorageinvest.com.au).

### (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 Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current 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 117. Therefore, AASB 16 did not have an impact for leases where the Group is a lessor and has had no impact on these financial statements.

## Other standards, amendments and interpretations

The Group adopted AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* from 1 July 2018 as detailed in note 2(g). The Group has also adopted AASB Interpretation 23 *Uncertainty over Income Tax Treatments* which has had no impact on these financial statements.

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

## 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 or have not been adopted for the annual reporting period ended 30 June 2020 are outlined in the following table:

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
AASB 2019-1	Conceptual Framework for Financial Reporting and relevant amending standards	<p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts including:</p> <ul style="list-style-type: none"> <li>• The objective of financial reporting</li> <li>• Qualitative characteristics of useful financial information</li> <li>• Financial statements and the reporting entity</li> <li>• The elements of financial statements</li> <li>• Recognition and derecognition</li> <li>• Measurement</li> <li>• Presentation and disclosure</li> <li>• Concepts of capital and capital maintenance</li> </ul> <p>The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.</p>	1 January 2020	1 July 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	<ul style="list-style-type: none"> <li>• This Standard amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify aspects of the definition. This clarifies that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.</li> </ul>	1 January 2020	1 July 2020

Reference	Title	Summary and impact on Group financial report	Application date of standard	Application date for Group
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 <i>Consolidated Financial Statements</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i> 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 consolidated financial statements of NSPT as at 30 June 2020 comprises the consolidated group consisting of the parent entity and sub-trusts.

#### *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.

#### *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.

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 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 joint ventures.

The financial statements of 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 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 venture' 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 under AASB 15 Revenue from Contracts with Customers and applies to all revenue from contracts with customers, unless those contracts are in the scope of other standards.

The Group follows a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to, in exchange for transferring goods or services to a customer. The Group exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

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.

The Group's revenue is disaggregated at the statement of profit or loss with the exception of Revenue from Contracts with Customers which is disaggregated into categories in note 5 that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

##### *Revenue from rental income*

Revenue from rental income relating to the provision of storage space and commercial units 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.

##### *Design and development fees*

The Group's design and development fees to customers consist of one performance obligation. The Group recognises revenue from design and development fees over the relevant period of the performance obligations as the Group's performance creates or enhances an asset that the customer controls.

##### *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.

## (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 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.

### *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 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 tax positions where the interpretation of applicable tax regulations is subjective 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 investment property is recognised dependent upon the taxable impact in the relevant jurisdiction. The Group assumes that the current measurement at fair value will be recovered entirely through a sale.

In New Zealand, as any capital gain on sale will generally be exempt from tax, the deferred tax liability in relation to these assets would generally be calculated based on the amount of any tax depreciation recovery.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and 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.

#### *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 entities*

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.

## **(g) Business combinations and goodwill**

The Group accounts for a transaction as a business combination if it meets the definition under AASB 3, which requires that the assets and liabilities acquired constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. In order to determine an integrated set of activities, an assessment of minimum business requirements and what substantive processes have been acquired, is applied.

As part of this assessment the Group has early adopted the amendments to the definition of a business under AASB 2018-6 and has applied the optional fair value concentration test. If the concentration test is passed, the set of activities and assets is determined not to be a business and therefore, the transaction is not accounted for as a business combination but rather as an asset acquisition.

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 9 *Financial Instruments*, 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 Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### **Group as a lessor**

From 1 July 2019, leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight line basis over the

lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

For the prior reporting period ended 30 June 2019, lease income from operating leases where the group was a lessor was 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, cash 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) Financial assets**

#### **Initial recognition and measurement**

At initial recognition, financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

#### **Subsequent measurement**

##### *Financial assets at amortised cost*

The Group measures financial assets at amortised cost if the financial asset is held with the objective to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets held at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and other receivables, and deposits.

##### *Financial assets at fair value through other comprehensive income*

The Group measures debt instruments at fair value through other comprehensive income if the financial asset is held with the objective of both holding to collect contractual cash flows and sale, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value

change recognised in other comprehensive income is recycled to profit or loss.

#### *Financial assets at fair value through profit or loss*

This category includes 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. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets have expired and the Group has transferred substantially all the risks and rewards of ownership or control of the asset.

### **Impairment**

The Group uses AASB 9's incurred loss approach with a forward-looking expected credit loss ("ECL") approach to recognise an ECL for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not

track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group assesses this allowance based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors.

The Group considers a financial asset to be at risk of default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## **(k) Financial liabilities**

### **Initial recognition and measurement**

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

### **Subsequent measurement**

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and 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 capitalised as transaction costs of the loan and subsequently amortised over the period of the facility to which it relates.

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.

### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss. 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.

## **(I) Derivative financial instruments and hedge accounting**

### **Initial recognition and measurement**

The Group uses derivative financial instruments, such as interest rate swaps, forward currency exchange contracts 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).

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

For hedges that were initially entered into prior to 1 July 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

From 1 July 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the

quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 8.8. Movements in the hedging reserve in equity are shown in note 13. 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 interest income or finance costs.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions. The ineffective portion relating to foreign currency contracts is recognised as other operational expenses.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in other comprehensive income and accumulated in a separate component of equity within the hedging reserve.

The amounts accumulated in other comprehensive income are accounted for depending on the nature of the underlying hedged transaction.

The amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any accumulated amount remaining in other comprehensive income must be accounted for depending on the nature of the underlying transaction.

#### *Hedges of a net investment*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

### **(m) Assets held for sale**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an

asset or disposal group, excluding finance costs and income tax expense.

The criteria for held for sale classification is met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

## **(n) Investment properties**

### *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 required by the underlying financing or the Directors determine a more frequent valuation cycle.

For properties subject to an independent valuation, the Directors verify all major inputs to

the valuation and review the results with the independent valuer.

The Responsible Entity has outsourced completion of the Director valuations to the NSH Group Board under a management agreement. 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.

## **(o) 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 (CGU's). 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.

## **(p) Contributed equity**

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

### **(q) Distributions to unitholders**

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.

### **(r) 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.

### **(s) Parent entity financial information**

The financial information for the parent entity, NSPT, disclosed in note 20 has been prepared on the same basis as the consolidated financial statements, except in relation to investments in subsidiaries which are accounted for at cost in the financial statements of NSPT.

### **(t) Fair value measurement**

The Group measures 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 measurement refer to notes 8.8 and 9.4.

### 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 is whether the transaction constitutes a purchase of a 'business', and if so, it will be accounted for under AASB 3. If it is determined that the transaction does not meet this definition, the transaction is accounted for as a purchase of an asset under AASB 140, as an acquisition of a storage centre(s) held for rental return and capital appreciation.

As described in note 2c, the Group has adopted the amendments to a definition of a business contained in AASB 2018-6. This provides clarity on what is considered as a business and adds an operational concentration test that simplifies the assessment of whether an acquired set of activities and assets is not a business.

For the years ended 30 June 2020 and 30 June 2019, 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.

###### *Property lease classification – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

###### *Classification of joint arrangements*

The Group holds a 25% interest in the Bundall Storage Trust. Under this 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 the trust, and whereby, decisions about the relevant activities require the unanimous consent of the parties sharing control.

#### Estimates and assumptions

The key assumptions at the reporting date concerning the future, and other key sources of estimation uncertainty, 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 Directors 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 9.4.

#### 4. 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 Responsible Entity of NSPT. The Group's financing (including finance costs and interest income) are managed on a Group basis and not allocated to operating segments.

The operating results presented in the statement of profit or loss represent the same segment information as reported in internal management information.

##### Geographic information

	2020 \$'000	2019 \$'000
<b>Revenue from external customers</b>		
Australia	76,349	64,039
New Zealand	11,594	7,144
<b>Total</b>	<b>87,943</b>	<b>71,183</b>

The revenue information above excludes interest income and is based on the location of storage centres.

##### Geographic information

	2020 \$'000	2019 \$'000
<b>Non-current operating assets</b>		
Australia	1,958,408	1,657,080
New Zealand	274,957	231,142
<b>Total</b>	<b>2,233,365</b>	<b>1,888,222</b>

Non-current assets for this purpose consists of investment properties.

94% of revenue is received from the NSH Group, a related entity (2019: 95%).

#### 5. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2020 \$'000	2019 \$'000
Design and development fees	123	329

#### 6. FINANCE COSTS

	2020 \$'000	2019 \$'000
Interest on borrowings	23,567	25,625
Reclassification from cash flow hedge reserve to statement of profit or loss (see note 13)	7,764	94
Interest on lease liabilities	706	-
	<b>32,037</b>	<b>25,719</b>

## 7. 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 for the years ended 30 June 2020 and 30 June 2019 are:

	Notes	2020 \$'000	2019 \$'000
<b>Consolidated statement of profit or loss</b>			
Current tax		190	88
Deferred tax		1,214	747
Adjustment in relation to prior periods		22	(2)
<b>Total income tax expense</b>		<b>1,426</b>	<b>833</b>
<b>Consolidated statement of other comprehensive income</b>			
Net gain / (loss) on revaluation of cash flow hedges	13	413	(290)
<b>Reconciliation of tax expense and accounting profit multiplied by Australia's domestic tax rate for 2020 and 2019:</b>			
Profit before tax		129,186	140,267
Deduct profit before tax from Trusts owning Australian properties		(95,034)	(136,002)
<b>Accounting profit before income tax</b>		<b>34,152</b>	<b>4,265</b>
Tax at the Australian tax rate of 30% (2019 – 30%)		10,246	1,279
Deductible / non-assessable income		(8,142)	(406)
Adjustments in respect of previous years		22	(1)
Non-deductible / assessable expenses		(17)	37
Effect of lower tax rates in New Zealand		(683)	(76)
<b>Income tax expense</b>		<b>1,426</b>	<b>833</b>
<b>Deferred tax expense included in income tax expense comprises:</b>			
Increase / (decrease) in deferred tax assets		403	(279)
Increase in deferred tax liabilities		1,197	735
Exchange variations		27	1
Movement in deferred tax asset recognised in other comprehensive income		(413)	290
<b>Total deferred tax expense</b>		<b>1,214</b>	<b>747</b>

	2020 \$'000	2019 \$'000
<b>Deferred tax assets and liabilities</b>		
<b>Deferred tax assets</b>		
<i>The balance comprises temporary differences attributable to:</i>		
Accrued expenses	23	-
Revaluation of cash flow hedges	3	425
Other	-	4
Total deferred tax assets	26	429
<b>Deferred tax liabilities</b>		
<i>The balance comprises temporary differences attributable to:</i>		
Revaluations of investment properties	(2,723)	(1,514)
Unrealised foreign exchange losses	-	(12)
Total deferred tax liabilities	(2,723)	(1,526)
<b>Net deferred tax liabilities</b>	(2,697)	(1,097)
<b>Reconciliation to statement of financial position</b>		
Deferred tax liabilities	(2,697)	(1,097)

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 assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The Group has no tax losses that are available for offsetting against future taxable profits (2019: nil).

## 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

	Notes	2020 \$'000	2019 \$'000
<b>Financial assets</b>			
<i>At amortised cost</i>			
Cash and cash equivalents	8.1	71,966	4,307
Trade and other receivables	8.2	6,246	193,636
		78,212	197,943
<i>Measured at fair value</i>			
Derivatives used for hedging	8.3	19	569
<b>Total financial assets</b>		78,231	198,512
<b>Financial liabilities</b>			
<i>At amortised cost</i>			
Trade and other payables	8.4	9,644	10,341
Borrowings	8.5	679,813	846,588
		689,457	856,929
<i>Measured at fair value</i>			
Derivatives used for hedging	8.6	407	2,088
<b>Total financial liabilities</b>		689,864	859,017

The Group's approach to financial risk management is discussed in note 14. 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.

## 8.1. Cash and cash equivalents

	2020 \$'000	2019 \$'000
Cash at bank	71,966	4,307

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

	2020 \$'000	2019 \$'000
Profit for the year	127,760	139,434
Income tax expense	1,426	833
Profit before tax	129,186	140,267
<i>Adjustments to reconcile profit before tax to net cash flows:</i>		
Fair value adjustment to investment properties	(78,302)	(96,272)
Share of loss / (profit) of joint venture	71	(1,413)
Interest income	(225)	(270)
Finance costs	32,037	25,719
<i>Changes in operating assets and liabilities:</i>		
(Decrease) / increase in receivables	(2,968)	21,995
Increase / (decrease) in other assets	5	(4)
Increase in payables	1,361	1,575
Increase / (decrease) in deferred revenue	30	(121)
<b>Cash flows from operating activities</b>	<b>81,195</b>	<b>91,476</b>
Interest received	76	32
Income tax paid	(65)	(52)
<b>Net cash flows from operating activities</b>	<b>81,206</b>	<b>91,456</b>

## 8.2. Trade and other receivables

	Notes	2020 \$'000	2019 \$'000
<b>Current</b>			
Other receivables		579	757
Receivables from related parties	16	5,667	192,879
<b>Total</b>		<b>6,246</b>	<b>193,636</b>

See note 16 for terms and conditions relating to related party receivables.

At 30 June 2020 and 30 June 2019, the Group has not recognised an allowance for expected credit losses relating to its receivables as there is no historical credit loss experience and no forward-looking factors which impact recoverability.

### 8.3. Other assets

	2020 \$'000	2019 \$'000
<b>Current</b>		
Prepayments	12	17
<b>Non-current</b>		
Financial assets (derivatives)	19	569
<b>Total current and non-current</b>	<u>31</u>	<u>586</u>

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 8.5.

### 8.4. Trade and other payables

	2020 \$'000	2019 \$'000
<b>Current</b>		
Accrued expenses	5,926	3,504
GST and employment taxes payable	74	916
Other payables	816	5,620
Related party payables	2,828	301
<b>Total</b>	<u>9,644</u>	<u>10,341</u>

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.

### 8.5. Borrowings

	2020 \$'000	2019 \$'000
<b>Non-current</b>		
Bank finance facilities	679,813	846,588
Non-amortised borrowing costs	(3,361)	(3,911)
<b>Total borrowings</b>	<u>676,452</u>	<u>842,677</u>

The Group has non-current borrowing facilities denominated in Australian Dollars ("AUD") and New Zealand Dollars ("NZD"). All facilities are interest only facilities with any drawn balances payable at maturity. Drawn amounts and facility limits are as follows:

	2020 \$'000	2019 \$'000
<b>Bank finance facilities (AUD)</b>		
Drawn amount	483,750	662,550
Facility limit	830,000	680,000
<b>Bank finance facilities (NZD)</b>		
Drawn amount	209,750	192,250
Facility limit	226,750	196,750
<b>AUD equivalent of NZD facilities</b>		
Drawn amount	196,063	184,038
Facility limit	211,954	188,346

The major terms of these agreements are as follows:

- At 30 June 2020 maturity dates on the facilities range from 23 July 2021 to 23 December 2026. (30 June 2019: maturity dates from 23 July 2020 to 23 December 2026).
- The interest rate applied is the bank bill rate plus a margin depending on the gearing ratio.
- Security has been granted over the Group's investment properties.

During the year ended 30 June 2020, the Group refinanced part of the existing debt facilities, and increased its club banking facilities by AUD \$150m and NZD \$30m. (Year ended 30 June 2019 the Group converted an existing AUD facility of \$25m into an NZD facility of \$25.75m and facilities increased by \$100m AUD and \$50m NZD).

The Group have complied with the financial covenants of their borrowing facilities during the 2020 and 2019 reporting periods (see note 15). 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 14.

### Interest rate swaps

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

	2020 \$'000	2019 \$'000
<b>Interest rate hedges (AUD)</b>		
Current interest rate hedges	460,000	400,000
Future interest rate hedges	25,000	275,000
<b>Interest rate hedges (NZD)</b>		
Current interest rate hedges	50,000	73,500
Future interest rate hedges	-	50,000
<b>AUD equivalent of NZD interest rate hedges</b>		
Current interest rate hedges	46,737	70,361
Future interest rate hedges	-	47,864

Interest rate hedges in place at the end of the reporting period have maturity dates ranging from 23 September 2020 to 23 September 2026 (2019: 23 September 2019 to 23 September 2026).

During the current and prior year, the Group reset the interest rates associated with AUD and NZD denominated interest rate swaps. For the year ended 30 June 2020, this resulted in a cash outflow of \$14.3m (30 June 2019: \$22.9m) which reduced the Group's financial liability presented in note 8.8.

The cumulative change in fair value of these hedging instruments is carried in a separate reserve in equity (cash flow hedge reserve of NSPT presented within non-controlling interest in the Group's consolidated statement of changes in equity). This balance will be amortised from the hedge reserve to finance costs in the statement of profit and loss in future reporting periods corresponding to when the underlying hedged item impacts profit or loss. For the year ended 30 June 2020, \$7.8m has been recognised in finance costs relating to this item (30 June 2019: \$0.1m).

### Hedge of net investments in foreign operations

Included in borrowings at 30 June 2020, amounts totalling NZD \$51.9m (AUD \$48.5m) have been designated as a hedge of the net investments against the value of investment properties held in New Zealand (2019: NZD \$47.9m, (AUD \$45.9m)). These borrowings are 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 2020 or 30 June 2019 recognised in the statement of profit or loss.

## 8.6. Other liabilities

	Notes	2020 \$'000	2019 \$'000
<b>Current financial liabilities</b>			
Interest rate swaps	8.8	50	239
Forward currency exchange contract	8.8	-	474
		50	713
<b>Non-current financial liabilities</b>			
Interest rate swaps	8.8	357	1,375
<b>Total current and non-current</b>		407	2,088

For details on the classification of derivatives see note 8.8.

## 8.7. Lease liabilities

	30 June 2020 \$'000	1 July 2019 \$'000
<b>Current lease liabilities</b>		
Lease liabilities relating to right of use assets presented as leasehold investment properties	761	741
<b>Non-current lease liabilities</b>		
Lease liabilities relating to right of use assets presented as leasehold investment properties	16,242	16,299
<b>Total lease liabilities</b>	17,003	17,040

### Group as a lessor

The Group's investment properties are leased to entities within the NSH Group and third-party tenants under long-term leases (see note 9.2). Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2020 and 30 June 2019 are as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Within one year	56,479	47,069
After one year but not more than five years	221,244	191,570
More than five years	617,598	564,447
<b>Total</b>	895,321	803,086

## 8.8. 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 8.1 to 8.7. 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 fair value of forward currency exchange contracts is based on market observable inputs to obtain a present value. Incorporated into the calculation are various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.

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
<b>At 30 June 2020</b>					
<i>Derivatives used for hedging - interest rate swaps</i>					
Non-current financial assets	8.3	-	19	-	19
Current financial liabilities	8.6	-	(50)	-	(50)
Non-current financial liabilities	8.6	-	(357)	-	(357)
		-	(388)	-	(388)
<b>At 30 June 2019</b>					
<i>Derivatives used for hedging – forward currency exchange contract</i>					
Current financial liabilities	8.6	-	(474)	-	(474)
<i>Derivatives used for hedging - Interest rate swaps</i>					
Non-current financial assets	8.3	-	569	-	569
Current financial liabilities	8.6	-	(239)	-	(239)
Non-current financial liabilities	8.6	-	(1,375)	-	(1,375)
		-	(1,045)	-	(1,045)

There were no transfers between levels of fair value hierarchy during the years ended 30 June 2020 or 30 June 2019.

## 9. 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; and
- Information about determining the fair value of the non-financial assets and liabilities, including areas of judgement, estimates and other assumptions.

### 9.1. Assets held for sale

		2020	2019
	Notes	\$'000	\$'000
<b>Current assets</b>			
Opening balance at 1 July		1,107	5,713
Item reclassified from investment properties	9.2	-	1,107
Item reclassified to investment properties	9.2	-	(5,713)
Disposals during the year		(1,107)	-
<b>Closing balance at 30 June</b>		<b>-</b>	<b>1,107</b>

As at 30 June 2019, the Group held an agreement for the sale of commercial investment property in Dunedin, New Zealand for NZD \$1.3m less cost of sale of NZD \$0.1m (AUD \$1.1m). This transaction settled on 20 September 2019.

## 9.2. Investment properties

		2020 \$'000	2019 \$'000
	<b>Notes</b>		
Investment properties in operation	9.4	2,163,784	1,861,023
Investment properties under construction		69,581	27,199
<b>Total investment properties</b>		<b>2,233,365</b>	<b>1,888,222</b>
<b>Investment properties in operation</b>			
Opening balance at 1 July		1,861,023	1,356,251
Property acquisitions		215,895	383,555
Property disposals		(3,984)	(26,000)
Improvements to investment properties		4,852	2,717
Items reclassified from investment property under construction		17,448	26,972
Items reclassified to freehold investment property under construction		(4,188)	-
Items reclassified to assets held for sale	9.1	-	(1,107)
Items reclassified from assets held for sale	9.1	-	5,713
Reassessment of lease terms		-	12,648
Lease diminution, presented as fair value adjustments		(36)	-
Net gain from fair value adjustments		78,338	96,272
Effect of movement in foreign exchange		(5,564)	4,002
<b>Closing balance at 30 June</b>		<b>2,163,784</b>	<b>1,861,023</b>
<b>Investment property under construction</b>			
Opening balance at 1 July		27,199	7,210
Property acquisitions		15,061	33,122
Development costs		41,087	13,839
Items reclassified to investment properties		(17,448)	(26,972)
Items reclassified from investment properties		4,188	-
Effect of movement in foreign exchange		(506)	-
<b>Closing balance at 30 June</b>		<b>69,581</b>	<b>27,199</b>

Included within net gain from fair value adjustments are realised gains of \$3m relating to the divestment of freehold investment properties during the year ended 30 June 2020 (30 June 2019: realised gain of \$2.7m relating to leasehold investment properties and \$1.1m relating to freehold investment properties).

## 9.3. Deferred revenue

	2020 \$'000	2019 \$'000
Deferred revenue from rental income	78	48

Deferred rent revenue from rental income represents funds received in advance from tenants.

#### 9.4. 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 8.8 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
<b>At 30 June 2020</b>					
Investment properties	9.2	-	-	2,163,784	2,163,784
<b>At 30 June 2019</b>					
Assets held for sale	9.1	-	1,107	-	1,107
Investment properties	9.2	-	-	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 into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers between levels 1 and 2 or between levels 2 and 3 for recurring fair value measurements during the year. In the prior year ended 30 June 2019, the Group transferred \$1.1m from level 3 to level 2 and \$5.7m from level 2 to level 3 following the reclassification of assets between freehold investment properties and assets held for sale (see note 9.1).

#### 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 2020 or 30 June 2019, 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 tenants operating self-storage facilities and 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.

The Group obtains the majority of its external independent valuations at each financial year end. The Group's policy is to maintain the valuation of the investment properties valued in the preceding six months at external valuation, unless there is an indication of a significant change to the property's valuation inputs. At 30 June 2020, the Group has completed updated valuations for all leasehold and freehold investment properties held at 31 December 2019 to reflect the changes observed in current market conditions which impact the key inputs of property valuations. Freehold investment properties acquired in the last six months have been held at acquisition price.

The table below details the percentage of the number of investment properties subject to internal and external valuations at 30 June 2020 and 30 June 2019.

	External valuation %	Internal valuation %
At 30 June 2020	31%	69%
At 30 June 2019	38%	62%

## Valuation inputs and relationship to fair value

Description	Valuation technique	Significant unobservable inputs	Range at 30 June 2020	Range at 30 June 2019
Investment properties	Capitalisation method	Primary capitalisation rate	5.5% to 8.2%	6.0% to 8.2%
		Secondary capitalisation rate	6.0% to 8.6%	6.5% to 9.3%
		Sustainable occupancy	73% to 95%	74% to 98%
		Stabilised average EBITDA	\$923,427	\$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 and additional costs 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 30 June 2020:

	Increase/ (decrease) in input	Increase/ (decrease) in fair value \$'000
Primary capitalisation rate	1% / (1%)	(226,290) / 311,570
Secondary capitalisation rate	2% / (2%)	(123,160) / 218,030
Sustainable occupancy	5% / (5%)	119,620 / (107,750)
Stabilised average EBITDA	5% / (5%)	99,000 / (95,190)

At 30 June 2019:

	Increase/ (decrease) in input	Increase/ (decrease) in fair value \$'000
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)

## 10. INFORMATION RELATING TO SUBSIDIARIES

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

The consolidated financial statements of the Group as at 30 June 2020 include:

Name of controlled entity	Place of registration	Equity interest	
		2020	2019
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%

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

## 11. INTEREST IN JOINT VENTURE

	2020 \$'000	2019 \$'000
Opening balance at 1 July	1,080	3,248
Capital contribution in joint venture	-	1,273
Share of (loss) / profit from joint venture	(71)	1,413
Distributions received from joint venture	-	(4,854)
<b>Closing balance at 30 June</b>	<b>1,009</b>	<b>1,080</b>

### Investment in joint venture

The Group holds a 25% interest in the Bundall Storage Trust (2019: 25%). This investment is classified as a joint venture 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 the trust.

The Bundall Storage Trust develops investment property. As at 30 June 2020, the Bundall Storage Trust has one storage centre investment property under construction.

During the year ended 30 June 2019, the Group made an additional 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 Bundall Storage Trust is not listed on any public exchange.

## 12. CONTRIBUTED EQUITY

	2020 \$'000	2019 \$'000
Issued and paid up capital	1,266,588	771,200
Contract for future issue of equity	-	153,549
<b>Total contributed equity</b>	<b>1,266,588</b>	<b>924,749</b>

## Number of units on issue

	2020	2019
<b>Opening balance at 1 July</b>	673,928,751	559,107,042
Institutional and retail placement	329,205,527	105,677,937
Distribution reinvestment plan	10,606,620	9,143,772
<b>Closing balance at 30 June</b>	<u>1,013,740,898</u>	<u>673,928,751</u>

### *Capital raises*

On 25 June 2019 in the prior year, NSR announced a fully underwritten \$170m equity raising. Proceeds were received on 28 June 2019 resulting in the issue of 99,415,205 new units on 1 July 2019. On 25 June 2019, NSR also announced a non-underwritten security purchase plan. This completed on 30 July 2019, raising \$13.5m and resulted in the issue of 7,917,735 new units.

On 5 May 2020, NSR announced a fully underwritten \$300m equity raising and non-underwritten security purchase plan raising \$48.3m. This resulted in the issue of 191,082,083 new units on 11 May 2020 and 30,789,784 new units on 9 June 2020. The issue price represented a discount of 7.1% on the last closing price of NSR stapled securities on 4 May 2020.

### *Distribution reinvestment plan*

During the year, 10,606,620 (2019: 9,143,772) units were issued to unitholders participating in NSR's Distribution Reinvestment Plan for consideration of \$19.7m (2019: \$16.2m). The units were issued at the volume weighted average market price of NSR's securities over a period of ten trading days, less a 2% discount.

91% of the total value of equity raised (\$348.1m) has been apportioned to the Group based upon the proportionate net asset split of NSR at the most recent financial reporting period prior to each equity raise.

## **Terms and conditions of contributed equity**

### *Stapled securities*

A stapled security represents one unit in NSPT and one share in NSH. 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 their shares and units 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.

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

### 13. OTHER RESERVES

	2020 \$'000	2019 \$'000
<b>Foreign currency translation reserve</b>		
Opening balance at 1 July	758	(115)
Net investment hedge	1,127	(1,591)
Foreign exchange translation differences	(2,895)	2,464
Closing balance at 30 June	<u>(1,010)</u>	<u>758</u>
<b>Cash flow hedge reserve</b>		
Opening balance at 1 July	(23,881)	(2,073)
Revaluation of cash flow hedges	(13,208)	(22,189)
Reclassification to statement of profit or loss (see note 6)	7,764	91
Taxation impact on revaluation	(413)	290
Closing balance at 30 June	<u>(29,738)</u>	<u>(23,881)</u>
<b>Other reserves</b>	<u>(30,748)</u>	<u>(23,123)</u>

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(l). Amounts are reclassified to profit or loss in the period when the associated hedged transaction takes place.

In the year ended 30 June 2020, the Group reset the interest rates associated with AUD and NZD denominated interest rate swaps designated as cash flow hedges. This resulted in a cash outflow of \$14.3m which reduced the Group's financial liabilities as presented in note 8.8 (30 June 2019: \$22.9m). In accordance with AASB 9 *Financial instruments*, as the nature of the underlying hedged instrument is unchanged the fair value of this outflow remains in the cash flow hedge reserve and will be amortised to the statement of profit or loss in future periods relating to the profile of the original instrument.

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 Group under current Australian tax legislation.

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

## 14. 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 uses 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 NSH Board of Directors 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 has the following derivative financial instruments:

	Notes	2020 \$'000	2019 \$'000
<b>Forward currency exchange contract designated as cash flow hedges presented in:</b>			
Current liabilities	8.6	-	(474)
<b>Interest rate swaps designated as cash flow hedges presented in:</b>			
Non-current assets	8.3	19	569
Current liabilities	8.6	(50)	(239)
Non-current liabilities	8.6	(357)	(1,375)
Net liabilities		(388)	(1,045)

#### 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(l). For hedged forecast transactions that result in the recognition of a non-financial asset, the Group has included related hedging gains and losses in the initial measurement of the cost of the asset. The ineffectiveness recognised in the statement of profit or loss was immaterial.

#### Fair value measurement

For information about the methods and assumptions used in determining fair values of derivatives refer to note 8.8.

### 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 2020 and 30 June 2019. 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 2020 and 30 June 2019.

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 2020 and 30 June 2019 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 2020 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 2020, after taking into account the effect of interest rate swaps, 74.5% (2019: 55.6%) 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
<b>2020</b>		
Australian dollar denominated debt	+50	(846)
New Zealand dollar denominated debt	+50	(692)
Australian dollar denominated debt	-50	846
New Zealand dollar denominated debt	-50	692
<b>2019</b>		
Australian dollar denominated debt	+50	(712)
New Zealand dollar denominated debt	+50	(254)
Australian dollar denominated debt	-50	712
New Zealand dollar denominated debt	-50	254

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 the 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
<b>2020</b>	+5%	(1,563)	(3,854)
	-5%	1,739	4,260
<b>2019</b>	+5%	(146)	(2,404)
	-5%	162	2,657

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.

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 receivables related to rental income) and from its financing activities, including deposits with banks and other financial instruments.

#### Trade receivables

The Group's customer credit risk is managed by renting the majority of properties to the NSH Group entities: National Storage (Operations) Pty Ltd, Southern Cross Storage Operations Pty Ltd and National Storage Limited. Other non-related parties also have rented facilities at some NSPT investment properties. These rental revenues are not significant compared with related party rental revenues and overall credit risk is low.

#### 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 2020 and 30 June 2019 is the carrying amounts as indicated in the statement of financial position.

### 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.

The Group has 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:

	2020 \$'000	2019 \$'000
<b>Floating rate</b>		
Expiring beyond one year (loans)	360,891	20,508

All 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 notes 8.5 and 15.

### Maturity of financial liabilities

The tables below summarise 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
<b>At 30 June 2020</b>						
<i>Non-derivatives</i>						
Trade and other payables	190	9,174	280	-	-	<b>9,644</b>
Borrowings	-	4,026	12,090	537,514	197,222	<b>750,852</b>
Lease liabilities	-	189	571	3,253	26,531	<b>30,544</b>
Distribution payable	-	34,467	-	-	-	<b>34,467</b>
<b>Total non-derivatives</b>	<b>190</b>	<b>47,856</b>	<b>12,941</b>	<b>540,767</b>	<b>223,753</b>	<b>825,507</b>
<i>Derivatives</i>						
Inflows	-	(480)	(1,159)	(4,137)	(412)	<b>(6,188)</b>
Outflows	-	688	1,651	4,195	93	<b>6,627</b>
<b>Total derivatives</b>	<b>-</b>	<b>208</b>	<b>492</b>	<b>58</b>	<b>(319)</b>	<b>439</b>
	190	48,064	13,433	540,825	223,434	<b>825,946</b>
<b>At 30 June 2019</b>						
<i>Non-derivatives</i>						
Trade and other payables	-	10,244	97	-	-	<b>10,341</b>
Borrowings	-	6,263	17,501	573,543	353,970	<b>951,277</b>
Distribution payable	-	34,370	-	-	-	<b>34,370</b>
<b>Total non-derivatives</b>	<b>-</b>	<b>50,877</b>	<b>17,598</b>	<b>573,543</b>	<b>353,970</b>	<b>995,988</b>
<i>Derivatives</i>						
Inflows	-	(1,365)	(3,459)	(14,600)	(3,412)	<b>(22,836)</b>
Outflows	-	1,645	5,020	16,116	2,643	<b>25,424</b>
<b>Total derivatives</b>	<b>-</b>	<b>280</b>	<b>1,561</b>	<b>1,516</b>	<b>(769)</b>	<b>2,588</b>
	-	51,157	19,159	575,059	353,201	<b>998,576</b>

## Changes in liabilities arising from financing activities

	1 July 2019 \$'000	Cash flows \$'000	Foreign exchange movement \$'000	Changes in fair value \$'000	Other \$'000	30 June 2020 \$'000
<i>Derivatives:</i>						
<i>Forward currency exchange contract</i>						
Current financial liabilities	474	392	-	(866)	-	-
<i>Interest rate swaps</i>						
Current financial liabilities	239	-	-	(189)	-	50
Non-current financial liabilities	1,375	-	(36)	(982)	-	357
Distributions payable	34,370	(51,751)	-	-	51,848*	34,467
Non-current borrowings	842,677	(163,181)	(4,333)	-	1,289	676,452
<i>Lease liabilities</i>						
Current liabilities	741	(37)**	-	-	54	758
Non-current liabilities	16,299	-	-	-	(54)	16,245
<b>Total liabilities from financing activities</b>	<b>896,175</b>	<b>(214,577)</b>	<b>(4,369)</b>	<b>(2,037)</b>	<b>53,137</b>	<b>728,329</b>

\*Other balances presented above represent distributions declared in the year: \$71.5m (see note 16), less units issued under the distribution reinvestment plan which do not result in a cash outflow: \$19.7m (see note 12).

\*\*Relates to principal portion of lease liability payment. Total lease payments for the year ended 30 June 2020 were \$743,000 as disclosed in the Consolidated Statement of Cashflows.

	1 July 2018 \$'000	Cash flows \$'000	Foreign exchange movement \$'000	Changes in fair value \$'000	Other \$'000	30 June 2019 \$'000
<i>Derivative used for hedging:</i>						
<i>Forward currency exchange contract</i>						
Current financial liabilities	-	-	-	474	-	474
<i>Interest rate swaps</i>						
Current financial liabilities	3	-	-	236	-	239
Non-current financial liabilities	4,380	-	20	(3,025)	-	1,375
Distributions payable	27,396	(41,301)	-	-	48,275	34,370
Non-current borrowings	595,160	242,842	3,714	-	961	842,677
<i>Lease liabilities</i>						
Current liabilities	-	-	-	-	741	741
Non-current liabilities	-	-	-	-	16,299	16,299
<b>Total liabilities from financing activities</b>	<b>626,939</b>	<b>201,541</b>	<b>3,734</b>	<b>(2,315)</b>	<b>66,276</b>	<b>896,175</b>

## 15. CAPITAL MANAGEMENT

The Group's objectives when managing capital are two-fold, to safeguard its ability to continue as a going concern, and to maintain an optimal structure to reduce the cost of capital and maximise long term value for the securityholder. The Responsible Entity has outsourced capital management for the Group to NSH under a management agreement.

In order to achieve these objectives, the Group's capital management strategy aims to ensure that it meets financial covenants attached to 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 year.

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 unitholders, return capital to unitholders or issue new units.

The Group monitors capital using a gearing ratio, represented by net debt divided by total assets less cash and short term deposits and lease liabilities. Net debt includes borrowings, less cash and short-term deposits.

	Notes	2020 \$'000	2019 \$'000
Interest bearing loans	8.5	679,813	846,588
Less: cash and short term deposits	8.1	(71,966)	(4,307)
Net debt		607,847	842,281
Total assets		2,312,617	2,088,938
Less cash and short term deposits		(71,966)	(4,307)
Less lease liabilities		(17,003)	(17,040)
		<u>2,223,648</u>	<u>2,067,591</u>
<b>Gearing ratio</b>		27%	41%

### 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 adjusted for interest, tax, depreciation and finance amortisation costs equals or exceeds a multiple of two. The Group has complied with these covenants throughout the reporting period.

### Distributions

Distributions have been made and declared as noted below.

Unit distributions	2020 \$'000	2019 \$'000
NSPT interim distribution of 4.7 cents per unit paid on 28 February 2020 (2019: 4.5 cents per unit)	37,039	30,082
NSPT final distribution of 3.4 cents per unit payable on 7 September 2020 (2019: 5.1 cents per unit)	34,467	34,370
	<u>71,506</u>	<u>64,452</u>

There are no proposed distributions not recognised as a liability for the year ended 30 June 2020.

## 16. 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
		\$	\$	\$	\$
National Storage Holdings Limited	2020	-	-	-	1,657,492
	2019	-	-	186,285,284	-
National Storage (Operations) Pty Ltd	2020	58,588,991	850,224	-	577,125
	2019	47,586,291	628,840	24,053	-
Southern Cross Storage Operations Pty Ltd	2020	14,444,000	-	-	-
	2019	14,129,000	-	-	-
National Storage Financial Services Limited	2020	-	1,858,695	-	592,501
	2019	-	1,470,758	-	301,073
National Storage Limited	2020	10,026,201	-	5,666,426	-
	2019	5,880,049	-	5,812,384	-
Bundall Storage Trust	2020	-	-	-	-
	2019	-	-	757,654	-

### 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. All other outstanding balances 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 2020 and 30 June 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

## 17. COMMITMENTS AND CONTINGENCIES

### Capital commitments

As at 30 June 2020, the Group held commitments to purchase three investment properties for \$39m following construction of the assets.

As at 30 June 2020, the Group has contractual commitments in place for the construction of self-storage centres of \$10.6m Australia and NZD \$1.7m (AUD \$1.6m) in New Zealand (see note 9.2). (30 June 2019: \$13.6m Australia and NZD \$6.0m (AUD \$5.7m) in New Zealand).

As at 30 June 2020, the Group held a commitment with a third party, to supply and install solar panels on a number of NSR storage centres. As at 30 June 2020, the Group has a commitment to additional expenditure of \$1.1m, to be paid on agreed milestones subject to the completion of the project. (30 June 2019: \$4.9m).

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.

### Lease liability commitments

For details of lease liability commitments see note 8.7.

### Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2020 and 30 June 2019.

## 18. EARNINGS PER UNIT ("EPU")

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

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

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

	2020	2019 Restated
Weighted average number of units on issue during the year	815,973,324	650,319,184
Adjustment under AASB 133 to reflect discount to market price on issue of new capital	14,178,656	20,677,528
Weighted average number of units used to calculate basic and diluted earnings per stapled unit	830,151,980	670,996,712
<b>Reconciliation of earnings used in calculating earnings per unit</b>		
Net profit attributable to members (\$'000)	127,760	139,434
<b>Basic and diluted earnings per unit (cents)</b>	15.39	20.78

As required by AASB 133 *Earnings per share*, for capital raises during the year ended 30 June 2020, the weighted average number of units on issue used to calculate statutory basic and diluted earnings per unit has been adjusted to reflect the difference between the issue price and the fair value of units prior to issue. No actual units were issued relating to this adjustment.

The weighted average number of units for the year ended 30 June 2019 used to calculate basic and diluted earnings per unit has also been restated on this basis.

## 19. AUDITORS' REMUNERATION

The auditor of the Group is Ernst & Young Australia.

	2020 \$	2019 \$
Amounts received or due and receivable by Ernst & Young Australia for:		
Category 1 – Fees for auditing the statutory financial report of the group and any other group entity	61,900	56,400
Category 2 – Fees for assurance services that are required by legislation to be provided by the auditor	-	-
Category 3 - Fees for other assurance services under other legislation or contractual arrangements where there is discretion on service provider	-	-
Category 4- Fees for other services	16,750	19,523
<b>Total auditors' remuneration</b>	78,650	75,923

## 20. INFORMATION RELATING TO THE PARENT ENTITY

### Summary financial information

The individual financial statements for NSPT, the parent entity of the Group, show the following aggregate amounts:

	NSPT	
	2020	2019
	\$'000	\$'000
Current assets	172,232	292,175
Total assets	2,021,445	1,856,567
Current liabilities	(57,475)	(58,085)
Total liabilities	(603,925)	(779,790)
Net assets	1,417,520	1,076,777
Issued capital	1,266,583	924,745
Cash flow hedge reserve	(28,419)	(22,821)
Foreign currency translation reserve	(284)	(1,411)
Retained earnings	179,640	176,264
	1,417,520	1,076,777
Profit after tax	73,676	112,755
Total comprehensive income	69,205	90,078
Distributions	(71,506)	(64,452)

### Guarantees entered into by the parent entity

The Group's parent entity has provided financial guarantees in respect of bank overdrafts and loans amounting to \$679.8m (2019: \$843.9m), secured by registered mortgages over the investment properties of the Group.

The Group's parent entity has provided bank guarantees of \$0.3m (2019: \$0.3m) to third party lessors.

### Contingent liabilities of the parent entity

The parent entity of Group did not have any contingent liabilities as at 30 June 2020 or 30 June 2019.

## 21. EVENTS AFTER REPORTING PERIOD

For the period from 1 July 2020 to the date of this report the Group purchased seven storage centre investment properties for a total cost of \$133.9m.

## 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 for the year ended 30 June 2020 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2020 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) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors 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 2020.

On behalf of the Responsible Entity,



Laurence Brindle  
Chairman  
25 August 2020  
Brisbane



Andrew Catsoulis  
Managing Director  
25 August 2020  
Brisbane



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## **Independent Auditor's Report to the Members of National Storage Property Trust**

### **Report on the Audit of the Financial Report**

#### **Opinion**

We have audited the financial report of National Storage Property Trust (the Trust) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement 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 2020 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 (including Independence Standards)* (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 matter below, provide the basis for our audit opinion on the accompanying financial report.

## Investment property valuation

### Why significant

Investment properties represent approximately 97% of the Group's total assets. 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 are 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). The COVID-19 pandemic has given rise to market uncertainty which impacts judgments and inputs used to determine fair value and in turn gives rise to valuation uncertainty.

Disclosure relating to investment properties and the associated significant judgments are included in Notes 2 (n), 3, 9.2, and 9.4 of the financial report.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- 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. These assumptions and inputs included capitalisation rates, occupancy rates including forecast occupancy levels, and stabilised average EBITDA. We evaluated how the Group's valuation experts considered the impact of COVID-19 on the key assumptions and inputs to their valuations;
- Agreed a sample of the source data used in the valuations to supporting tenancy schedules and accounting sub-ledgers;
- 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 where relevant we assessed the reasonableness of comparable transactions used in the valuation process;
- Where relevant, we evaluated the movement in the capitalisation rates, occupancy rates, and stabilised average EBITDA across the portfolio based on our knowledge of the property portfolio, published industry reports and comparable external valuations; and
- We considered the adequacy of disclosures in relation to the valuation methods and principles disclosed in Note 2 (n) *Summary of significant accounting policies - Investment properties*, Note 3 *Significant accounting judgements*, Note 9.2 *Investment properties* and Note 9.4 *Non-financial assets fair value measurement*.

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the Director's report accompanying financial report.

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 Trust are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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.



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- 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine a specific matter that was of most significance in the audit of the financial report of the current year and is therefore the key audit matter. We describe this matter 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.

The Ernst &amp; Young logo is a stylized, handwritten-style signature of the words 'Ernst &amp; Young' in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Ric Roach', with a long, sweeping underline.

Ric Roach  
Partner  
Brisbane  
25 August 2020