



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

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

**National Storage Holdings Limited ACN 166 572 845
National Storage Financial Services Limited ACN 600 787 246 AFSL 475 228
as responsible entity for
National Storage Property Trust ARSN 101 227 712**

CONTENTS

CORPORATE INFORMATION	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	6
INTERIM STATEMENT OF PROFIT OR LOSS	7
INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME	8
INTERIM STATEMENT OF FINANCIAL POSITION	9
INTERIM STATEMENT OF CHANGES IN EQUITY	10
INTERIM STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12
DIRECTORS' DECLARATION	23
INDEPENDENT AUDITOR'S REVIEW REPORT	24

CORPORATE INFORMATION

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

Responsible Entity of NSPT

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

Directors – NSH

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

Directors – the Responsible Entity

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

Company Secretary – NSH

Claire Fidler

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

Share registry

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Stapled securities are quoted on the Australian Securities Exchange (“**ASX**”) – trading code **ASX:NSR**.

Auditor

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

DIRECTORS' REPORT

The Directors of NSH jointly with the Directors of National Storage Financial Services Limited as Responsible Entity of NSPT present their report together with the financial statements of NSR which incorporates NSH and its controlled entities ("NSH Group") and NSPT and its controlled entities ("NSPT Group") for the financial half-year ended 31 December 2020 ("Reporting Period").

DIRECTORS

National Storage Holdings Limited

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

Laurence Brindle	Independent Non-Executive Chairman
Andrew Catsoulis	Managing Director
Claire Fidler	Executive Director
Anthony Keane	Independent Non-Executive Director
Howard Brenchley	Independent Non-Executive Director
Steven Leigh	Independent Non-Executive Director

National Storage Financial Services Limited, "the Responsible Entity"

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

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

REVIEW AND RESULTS OF OPERATIONS

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

Operating results

For the half-year ended 31 December 2020, total revenue increased by 14% to \$99.6m (31 December 2019: \$87.4m) driven by strong storage revenue growth achieved via an increase in centre occupancy and a recovery in rate per square metre being achieved.

Underlying earnings¹ increased 14% to \$39.2m (31 December 2019: \$34.5m) through improved centre operating performance and contribution from new acquisitions.

	H1 FY21	H1 FY20
IFRS profit after tax	\$101.4m	\$150.7m
Plus/ (less) tax expense	(\$0.2m)	\$1.6m
Plus restructuring and other non-recurring costs	\$0.2m	\$1.6m
Plus contracted gain in respect of sale of investment property (note 5)	-	\$3.1m
Plus non-cash interest rate swap amortisation	\$5.7m	\$2.9m
Less fair value adjustment	(\$66.0m)	(\$123.8m)
Less investment property lease diminution	(\$1.9m)	(\$1.6m)
Underlying Earnings⁽¹⁾	\$39.2m	\$34.5m

Profit after tax decreased by \$49.3m to \$101.4m (31 December 2019: \$150.7m) due to a lower valuation (fair value adjustment) uplift for the half-year when compared to the corresponding period. Fair value adjustments to investment properties increased investment property values by \$66.0m (31 December 2019: \$123.8m).

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

DIRECTORS' REPORT

Capital management

Cash and cash equivalents as at 31 December 2020 were \$48.1m (30 June 2020: \$90.4m). Net operating cashflow for the half-year increased by \$10.6m to \$52m (31 December 2019: \$41.4m).

An interim distribution of 4.0 cents per security (\$40.7m) was announced on 16 December 2020 with a payment date of 1 March 2021 (31 December 2019: interim distribution of \$37m at 4.7 cents per security).

NSR continues to operate a Distribution Reinvestment Plan ("DRP") which enables eligible security holders to receive part or all of their distribution by way of securities rather than cash. For the final distribution for the year ended 30 June 2020, 21% of eligible securityholders (by number of stapled securities) elected to receive their distributions as securities. This raised equity of \$7.1m from the issue of 3,951,000 stapled securities during the period.

For the 31 December 2020 interim distribution, 12% of eligible security holders (by number of securities) elected to receive their distributions by way of securities. The DRP price has been set at \$1.8596 which will result in 2,641,947 new securities being issued on the distribution payment date.

The Group finance facilities are on a "Club" arrangement with a selection of major Australian banks and a major Australian superannuation fund. The Group's borrowing capacity at 31 December 2020 is AUD \$830m and NZD \$226.8m (AUD \$212.2m) of which AUD \$86m and NZD \$15m (AUD \$14m) is undrawn at 31 December 2020. In addition, NSR has in place a AUD \$100m facility (undrawn) with an international investment bank which is subject to satisfaction of final conditions precedent.

Investments

During the reporting period the investment property portfolio expanded following the acquisition of 17 storage centre assets and one development asset across Australia and New Zealand, valued at \$258m and adding 95,000m² of net lettable area to NSR's portfolio.

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

For the period from 1 January 2021 to the date of this report the Group purchased one storage centre and one development site for a total of \$24.5m.

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

ROUNDING

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

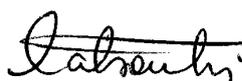
AUDITOR'S INDEPENDENCE DECLARATION

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

This report is made on 22 February 2021 in accordance with a resolution of the Board of Directors of National Storage Holdings Limited and is signed for and on behalf of the Directors.



Laurence Brindle
Chairman
National Storage Holdings Limited
Brisbane



Andrew Catsoulis
Managing Director
National Storage Holdings Limited
Brisbane



**Building a better
working world**

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

As lead auditor for the review of the half-year financial report of National Storage REIT and its controlled entities, for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ric Roach
Partner
22 February 2021

INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2020

	Notes	Consolidated Group	
		2020 \$'000	2019 \$'000
Revenue from rental income		91,811	80,701
Revenue from contracts with customers		7,316	6,119
Interest income		482	629
Total revenue		99,609	87,449
Employee expenses		(19,130)	(16,213)
Premises costs		(12,236)	(11,165)
Advertising and marketing costs		(2,667)	(2,154)
Insurance costs		(2,669)	(1,786)
Other operational expenses		(8,871)	(6,600)
Finance costs		(18,603)	(19,197)
Share of loss of joint ventures and associates	6	(105)	(225)
Gain from fair value adjustments		66,031	123,789
Restructuring and other non-recurring costs		(218)	(1,609)
Profit before income tax		101,141	152,289
Income tax benefit / (expense)	4	237	(1,550)
Profit after tax		101,378	150,739
Profit for the period attributable to:			
Members of National Storage Holdings Limited		977	521
Non-controlling interest (unit holders of NSPT)		100,401	150,218
		101,378	150,739
Basic and diluted earnings per stapled security (cents)	16	9.98	18.83

The above Interim Statement of Profit of Loss should be read in conjunction with the accompanying notes and 30 June 2020 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2020

	Consolidated Group	
	2020	2019
	\$'000	\$'000
Profit after tax	101,378	150,739
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	1	268
Net gain on cash flow hedges	4,619	2,356
Total other comprehensive gain, net of tax	4,620	2,624
Total comprehensive income	105,998	153,363
Comprehensive income for the year attributable to:		
Members of National Storage Holdings Limited	982	531
Non-controlling interest (unit holders of NSPT)	105,016	152,832
	105,998	153,363

The above Interim Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes and 30 June 2020 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		Consolidated Group	
		as at 31 Dec 2020	as at 30 Jun 2020
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		48,065	90,352
Trade and other receivables		24,964	15,975
Inventories		1,147	833
Income tax receivable		1,822	331
Other current assets		6,785	10,469
Total current assets		82,783	117,960
Non-current assets			
Trade and other receivables		1,374	518
Property, plant and equipment		1,117	1,091
Right of use assets	7	6,114	6,540
Investment properties	5	2,817,997	2,452,085
Investment in joint ventures and associates	6	8,346	8,451
Income tax receivable		38	-
Intangible assets	9	46,875	46,629
Deferred tax assets		7,009	7,041
Other non-current assets		7,109	19
Total non-current assets		2,895,979	2,522,374
Total Assets		2,978,762	2,640,334
LIABILITIES			
Current liabilities			
Trade and other payables		13,961	14,875
Lease liabilities	7	6,470	6,011
Deferred revenue		13,946	12,236
Income tax payable		261	418
Provisions		2,602	2,460
Distribution payable	14	40,708	34,467
Other liabilities	11	68	50
Total current liabilities		78,016	70,517
Non-current liabilities			
Borrowings	10	938,270	677,702
Lease liabilities	7	160,676	164,582
Income tax payable		66	-
Provisions		2,900	2,655
Deferred tax liabilities		3,431	2,697
Other liabilities	11	1,395	357
Total non-current liabilities		1,106,738	847,993
Total Liabilities		1,184,754	918,510
Net Assets		1,794,008	1,721,824
EQUITY			
Non-controlling interest (unit holders of NSPT)		1,649,212	1,578,615
Contributed equity	12	133,774	133,169
Other reserves		15	10
Retained earnings		11,007	10,030
Total Equity		1,794,008	1,721,824

The above Interim Statement of Financial Position should be read in conjunction with the accompanying notes and 30 June 2020 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2020

Attributable to securityholders of National Storage REIT

	Notes	Contributed equity \$'000	Retained earnings \$'000	Other reserves \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2020		133,169	10,030	10	1,578,615	1,721,824
Profit for the period		-	977	-	100,401	101,378
Other comprehensive income		-	-	5	4,615	4,620
Total comprehensive income for the period		-	977	5	105,016	105,998
Issue of stapled securities	12	619	-	-	6,472	7,091
Costs associated with issue of stapled securities		(19)	-	-	(183)	(202)
Deferred tax on cost of stapled securities		5	-	-	-	5
Distributions	14	-	-	-	(40,708)	(40,708)
		605	-	-	(34,419)	(33,814)
Balance at 31 December 2020		133,774	11,007	15	1,649,212	1,794,008
Balance at 1 July 2019		100,143	16,011	(27)	1,188,147	1,304,274
Profit for the period		-	521	-	150,218	150,739
Other comprehensive income		-	-	11	2,613	2,624
Total comprehensive income for the period		-	521	11	152,831	153,363
Issue of stapled securities	12	2,365	-	-	22,687	25,052
Costs associated with issue of stapled securities		(22)	-	-	(211)	(233)
Deferred tax on cost of securities		6	-	-	-	6
Distributions	14	-	-	-	(37,039)	(37,039)
		2,349	-	-	(14,563)	(12,214)
Balance at 31 December 2019		102,492	16,532	(16)	1,326,415	1,445,423

The above Interim Statement of Changes in Equity should be read in conjunction with the accompanying notes and 30 June 2020 Financial Statements of National Storage REIT.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2020

	Notes	Consolidated Group	
		2020 \$'000	2019 \$'000
Operating activities			
Receipts from customers		105,900	95,191
Payments to suppliers and employees		(53,506)	(52,399)
Interest received		244	178
Interest paid		-	(15)
Income tax paid		(612)	(1,547)
Net cash flows from operating activities		52,026	41,408
Investing activities			
Purchase of investment properties		(277,798)	(194,498)
Improvements to investment properties		(3,090)	(4,039)
Development of investment properties under construction		(24,662)	(16,121)
Proceeds from sale of investment property		-	1,107
Purchase of property, plant and equipment		(225)	(235)
Purchase of intangible assets		(320)	(464)
Investment in joint ventures and associates		-	(2,030)
Distribution received from joint ventures and associates		-	10,290
Net cash flows used in investing activities		(306,095)	(205,990)
Financing activities			
Proceeds from issue of stapled securities	12	-	13,539
Transaction costs on issue of stapled securities		(202)	(407)
Distributions paid to stapled security holders		(27,376)	(22,857)
Repayment of borrowings		-	(181,400)
Proceeds from borrowings		260,872	230,085
Payment of principal and interest on lease liabilities		(6,787)	(6,720)
Interest and other finance costs paid		(9,777)	(12,702)
Borrowings to joint venture		(4,950)	(325)
Net cash flows from financing activities		211,780	19,213
Net decrease in cash and cash equivalents		(42,289)	(145,369)
Net foreign exchange difference		2	6
Cash and cash equivalents at 1 July		90,352	178,842
Cash and cash equivalents at 31 December		48,065	33,479

The above Interim Statement of Cash Flows should be read in conjunction with the accompanying notes and 30 June 2020 Financial Statements of National Storage REIT.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

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

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

The financial report of NSR for the half-year ended 31 December 2020 was approved on 22 February 2021, in accordance with resolutions from the Board of Directors of National Storage Holdings Limited and the Board of Directors of National Storage Financial Services Limited as the Responsible Entity of National Storage Property Trust.

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

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

Basis of preparation

This Interim Financial Report for the half-year ended 31 December 2020 has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The Interim Financial Report of NSR as at and for the half-year ended 31 December 2020 comprises the consolidated financial statements of the NSH Group and the NSPT Group.

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

The accounting policies applied in this Interim Financial Report are the same as the 30 June 2020 financial report for NSR except for the accounting policies impacted by the new or amended Accounting Standards detailed in this note.

The Group elects to present only financial information relating to NSR within this financial report. A separate financial report for the NSPT Group has also been prepared for the half-year ended 31 December 2020, this is available at www.nationalstorageinvest.com.au.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2020 and considered together with any public announcements made by the Group in accordance with the continuous disclosure obligations of the ASX listing rules during the half-year ended 31 December 2020.

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

Changes in accounting policy, accounting standards and interpretations

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

The adoption of new and revised standards did not result in any material changes to the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The accounting policies adopted in the preparation of the interim consolidated financial statements are otherwise consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2020.

3. Segment information

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

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

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

4. Income tax

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

For the six months ended 31 December

	2020 \$'000	2019 \$'000
Consolidated statement of profit or loss		
Current tax	(883)	37
Deferred tax	825	917
Adjustment in relation to prior periods	(179)	596
Income tax (benefit) / expense	<u>(237)</u>	<u>1,550</u>
Deferred tax relating to items recognised in other comprehensive income during the period		
Net loss on revaluation of cash flow hedges	<u>(5)</u>	<u>(80)</u>
Deferred tax relating to items recognised in statement of changes in equity during the period		
Cost of issuing share capital	<u>(5)</u>	<u>(6)</u>

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%.

NOTES TO THE FINANCIAL STATEMENTS

5. Investment properties

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Investment properties		
Leasehold investment properties	196,786	201,202
Freehold investment properties	2,569,293	2,180,299
Freehold investment properties under construction	51,918	70,584
Total investment properties	2,817,997	2,452,085
Leasehold properties		
Opening balance at 1 July	201,202	215,279
Improvements to investment properties	196	439
Reassessment of lease terms	(624)	82
Lease diminution, presented as fair value adjustments	(1,873)	(3,326)
Net loss from other fair value adjustments	(2,115)	(11,272)
Closing balance at 31 December / 30 June	196,786	201,202
Freehold properties		
Opening balance at 1 July	2,180,299	1,874,698
Property acquisitions	256,889	216,104
Property disposals	-	(3,984)
Improvements to investment properties	2,894	7,661
Items reclassified from freehold investment properties under construction	58,801	17,448
Items reclassified to freehold investment properties under construction	-	(4,188)
Net gain from fair value adjustments	70,214	78,338
Effect of movement in foreign exchange	196	(5,778)
Closing balance at 31 December / 30 June	2,569,293	2,180,299
Freehold investment properties under construction		
Opening balance at 1 July	70,584	27,199
Property acquisitions	16,602	15,061
Development costs	23,488	42,090
Items reclassified to freehold investment properties	(58,801)	(17,448)
Items reclassified from freehold investment properties	-	4,188
Effect of movement in foreign exchange	45	(506)
Closing balance at 31 December / 30 June	51,918	70,584

In the period ended 30 June 2020, included within net gain from fair value adjustments for freehold investment properties is realised gains of \$3m relating to the divestment of freehold investment properties.

6. Interest in joint ventures and associates

Interest in joint ventures

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Opening balance at 1 July	6,130	4,343
Capital contribution / acquisition of shareholding in joint ventures	-	2,030
Share of loss from joint ventures	(70)	(243)
Closing balance at 31 December / 30 June	6,060	6,130

The Group held a 25% interest in the Bundall Storage Trust, Bundall Commercial Trust and the TBF & NS Trust at 31 December 2020 and 30 June 2020.

During the year ended 30 June 2020, the Group subscribed to 25% of the units in the TBF & NS Trust for \$2m. The TBF & NS Trust subsequently purchased a development site for a storage centre and commercial property in Queensland, Australia. As at 31 December 2020, this centre remains under construction.

NOTES TO THE FINANCIAL STATEMENTS

The Bundall Commercial Trust derives rental property income from the leasing of commercial units and the Bundall Storage Trust develops investment property. As at 31 December 2020, the Bundall Storage Trust has one storage centre investment property under construction.

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

Interest in associates

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Opening balance at 1 July	2,321	12,388
Capital contribution in associates	-	500
Share of loss from associates	(35)	(248)
Distributions from associates	-	(10,319)
Closing balance at 31 December / 30 June	2,286	2,321

The Group holds a 25.9% (30 June 2020: 25.9%) holding in Spacer Marketplaces Pty Ltd ("Spacer"). Spacer operate online peer-to-peer marketplaces for self-storage and parking. During the year ended 30 June 2020, The Group made a capital contribution of \$0.5m into Spacer as part of an equity raise.

As at 30 June 2019, the Group owned 24.9% of the Australia Prime Storage Fund ("APSF"). During the year ended 30 June 2020, the Group purchased three storage centre investment properties in Australia from APSF for \$64m. Following these transactions, the Group received distributions from APSF totalling \$10.3m and the APSF entities were subsequently dissolved.

None of the Group's joint ventures or associates are listed on any public exchange. See note 13 for fees received and purchases from joint ventures and associates.

7. Right of use assets and lease liabilities

Right of use assets

	Premises leases \$'000	Equipment leases \$'000	Other leases \$'000	Total \$'000
Opening Balance at 1 July 2020	5,742	790	8	6,540
Additions in the period ended 31 December 2020	-	-	145	145
Depreciation charge	(420)	(142)	(6)	(568)
Variable Lease payment reassessment	-	(3)	-	(3)
Closing balance at 31 December 2020	5,322	645	147	6,114

	Premises leases \$'000	Equipment leases \$'000	Other leases \$'000	Total \$'000
Adjustments on the adoption of AASB 16	-	1,072	14	1,086
Additions for the year ended 30 June 2020	6,165	-	-	6,165
Depreciation charge	(423)	(282)	(6)	(711)
Closing balance at 30 June 2020	5,742	790	8	6,540

NOTES TO THE FINANCIAL STATEMENTS

Lease liabilities	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Current lease liabilities		
Lease liabilities relating to right of use assets	1,016	980
Lease liabilities relating to right of use assets presented as leasehold investment property	5,454	5,031
Total current lease liabilities	6,470	6,011
Non-current lease liabilities		
Lease liabilities relating to right of use assets	5,342	5,722
Lease liabilities relating to right of use assets presented as leasehold investment property	155,334	158,860
Total non-current lease liabilities	160,676	164,582
Total lease liabilities	167,146	170,593

8. Non-financial assets fair value measurement

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2020				
Leasehold investment properties	-	-	196,786	196,786
Freehold investment properties	-	-	2,569,293	2,569,293
	-	-	2,766,079	2,766,079
At 30 June 2020				
Leasehold investment properties	-	-	201,202	201,202
Freehold investment properties	-	-	2,180,299	2,180,299
	-	-	2,381,501	2,381,501

Recognised fair value measurements

The Group's policy is to recognise transfers in and out of fair value hierarchy levels at the end of the reporting period. There were no transfers between categories for the period ending 31 December 2020 or the year ended 30 June 2020.

Fair value measurements using significant unobservable inputs (level 3)

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

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

Fair values are determined by a combination of independent valuations and 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. 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 independent valuations at each 30 June financial year end. The Group's policy is to maintain the valuation of the investment property at external valuation for all properties valued in the preceding year, unless there is an indication of a significant change to the property's valuation inputs. Freehold investment properties acquired in the period ended 31 December 2020 have been held at acquisition price.

NOTES TO THE FINANCIAL STATEMENTS

Due to general market and economic uncertainty in relation to COVID-19, there is a heightened degree of valuation uncertainty which could cause property values to change significantly and unexpectedly over a short period of time. However, the financial impact of COVID-19 on the Group's business has been minimal to date and the Group considers that there continues to be a strong demand for storage rental as evidenced by the Group's strong and steady occupancy levels which underpin the operating results.

At 31 December 2020, the Group held 39% of freehold investment properties and 38% of leasehold investment properties at external valuation. (30 June 2020: 33% of freehold investment properties and 38% of leasehold investment properties).

Valuation inputs and relationship to fair value

Description	Valuation technique	Significant unobservable inputs	Range at 31 December 2020	Range at 30 June 2020
Investment properties - leasehold	Capitalisation method	Primary capitalisation rate	7.3% to 25.0%	7.3% to 18.0%
		Secondary capitalisation rate	7.8% to 25.8%	7.8% to 19.0%
		Sustainable occupancy	85% to 95%	85% to 95%
		Stabilised average EBITDA	\$366,674	\$331,546
Investment properties - freehold	Capitalisation method	Primary capitalisation rate	5.0% to 7.3%	5.5% to 8.2%
		Secondary capitalisation rate	5.5% to 8.6%	6.0% to 8.6%
		Sustainable occupancy	73% to 95%	73% to 95%
		Stabilised average EBITDA	\$926,319	\$923,427

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

The capitalisation rates are derived from recent sales of similar properties. The secondary capitalisation rate is typically higher than the primary capitalisation rate to reflect the additional risk associated with these cashflows. Generally, an increase in stabilised average EBITDA will result in an increase in fair value of an investment property. An increase in the vacancy rate will result in a reduction of the stabilised average EBITDA. Investment properties are valued on a highest and best use basis. The current use of all of the investment properties (self-storage) is considered to be the highest and best use. The capitalisation rate adopted reflects the inherent risk associated with the property. For example, if the lease expiry profile of a particular property is short, the capitalisation rate is likely to be higher to reflect additional risk to income. The higher capitalisation rate then reduces the valuation of the property.

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

At 31 December 2020:

Unobservable inputs		Leasehold		Freehold	
		Increase/(decrease) in input	Increase/(decrease) in fair value \$'000	Increase/(decrease) in input	Increase/(decrease) in fair value \$'000
Capitalisation rate	Primary	1% / (1%)	(2,420) / 3,060	1% / (1%)	(285,070) / 398,040
	Secondary	2% / (2%)	(3,410) / 5,330	2% / (2%)	(125,070) / 231,160
Sustainable occupancy		5% / (5%)	7,040 / (3,990)	5% / (5%)	159,650 / (103,580)
Stabilised average EBITDA		5% / (5%)	2,170 / (2,180)	5% / (5%)	116,900 / (104,820)

NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2020:

		Leasehold		Freehold	
		Increase/ (decrease) in input	Increase/(decrease) in fair value \$'000	Increase/ (decrease) in input	Increase/(decrease) in fair value \$'000
Unobservable inputs					
Capitalisation rate	Primary	1% / (1%)	(2,000) / 2,530	1% / (1%)	(226,290) / 311,570
	Secondary	2% / (2%)	(3,300) / 5,190	2% / (2%)	(123,160) / 218,030
Sustainable occupancy		5% / (5%)	5,130 / (4,410)	5% / (5%)	119,620 / (107,750)
Stabilised average EBITDA		5% / (5%)	1,750 / (1,770)	5% / (5%)	99,000 / (95,190)

9. Intangible assets

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Goodwill	43,954	43,954
Other intangibles	2,921	2,675
Total intangible assets	46,875	46,629

Impairment testing of goodwill

Goodwill is an asset acquired through business combinations. Management have determined that the listed group, which is considered one operating segment (see note 3), is the appropriate cash generating unit against which to allocate this asset owing to the synergies arising from combining a number of asset portfolios.

The recoverable amount of the listed group has been determined based on the fair value less costs of disposal method using the fair value quoted on an active market. As at 31 December 2020, NSR had 1,017,691,898 stapled securities quoted on the ASX at \$1.91 per security providing a market capitalisation of \$1,944m. This amount is in excess of the carrying amount of the Group's net assets. The Directors have not identified any indicators of impairment of goodwill as at the date of this report.

Other intangible assets relate to costs incurred on development projects which are expected to generate future economic benefits either via increased revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset.

10. Borrowings

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Non-current		
Bank finance facilities	942,189	681,063
Non-amortised borrowing costs	(3,919)	(3,361)
Total borrowings	938,270	677,702

The Group has borrowing facilities denominated in Australian Dollars ("AUD") and New Zealand Dollars ("NZD").

Drawn amounts and facility limits are as follows:

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Bank finance facilities (AUD)		
Drawn amount	744,000	485,000
Facility limit	830,000	830,000
Bank finance facilities (NZD)		
Drawn amount	211,750	209,750
Facility limit	226,750	226,750
AUD equivalent of NZD facilities shown above		
Drawn amount	198,189	196,063
Facility limit	212,229	211,954

NOTES TO THE FINANCIAL STATEMENTS

The major terms of these agreements are as follows:

- At 31 December 2020, maturity dates on these facilities range from 23 July 2022 to 23 December 2026 (30 June 2020: maturity dates from 23 July 2021 to 23 December 2026).
- All facilities are interest only with any drawn balance payable at maturity.
- The interest rate applied is the bank bill rate plus a margin.
- Security has been granted over the Group's freehold investment properties.

The Group has a bank overdraft facility with a limit of AUD \$3m that was undrawn at 31 December 2020 and at 30 June 2020.

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

Interest rate swaps

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

	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
Interest rate swaps (AUD) at face value		
Current interest rate swaps	385,000	460,000
Future interest rate swaps	-	25,000
	<hr/>	<hr/>
Interest rate swaps (NZD) at face value		
Current interest rate swaps	50,000	50,000
	<hr/>	<hr/>
AUD equivalent of NZD interest rate swaps		
Current interest rate swaps	46,798	46,737
	<hr/>	<hr/>

11. Financial instruments fair value measurement

Fair value hierarchy

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2020				
<i>Derivative used for hedging - interest rate swaps</i>				
Current assets	-	8	-	8
Current financial liabilities	-	(68)	-	(68)
Non-current financial liabilities	-	(1,395)	-	(1,395)
	-	(1,455)	-	(1,455)

At 30 June 2020				
<i>Derivative used for hedging - interest rate swaps</i>				
Non-current financial assets	-	19	-	19
Current financial liabilities	-	(50)	-	(50)
Non-current financial liabilities	-	(357)	-	(357)
	-	(388)	-	(388)

There were no transfers between levels of fair value hierarchy during the period ended 31 December 2020.

12. Contributed equity

Issued and paid up capital	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Issued and paid up capital	133,774	133,169

Number of stapled securities on issue	31 Dec 2020 No.	30 Jun 2020 No.
Opening balance at 1 July	1,013,740,898	673,928,751
Institutional and retail placements	-	329,205,527
Distribution reinvestment plan	3,951,000	10,606,620
Closing balance	1,017,691,898	1,013,740,898

Distribution reinvestment plan

During the period 3,951,000 stapled securities were issued to securityholders participating in the Group's DRP for consideration of \$7.1m. The stapled securities were issued at the volume weighted average market price of the Group's stapled securities over a period of ten trading days, less a 2% discount. (30 June 2020, a total of 10,606,620 for total consideration of \$19.7m).

Capital raise

In the prior year ending 30 June 2020, the Group raised a total of \$361.9m of equity resulting in the issue of 329,205,527 new stapled securities.

Terms and conditions of contributed equity

Stapled securities

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

NOTES TO THE FINANCIAL STATEMENTS

13. Related party transactions

The following tables provide the total amount of transactions that have been entered into with related parties for the six months ended 31 December 2020 and 31 December 2019, as well as outstanding balances with related parties as at 31 December 2020 and 30 June 2020.

Transaction with related parties

		Revenue from related parties \$	Purchases from related parties \$	Amount owed by related parties \$	Amount owed to related parties \$
Australia Prime Storage Fund	Current period	-	-	-	-
	Comparative period	390,195	-	-	-
Bundall Commercial Trust	Current period	112,197	-	2,200,673	-
	Comparative period	417,665	-	2,288,726	-
Bundall Storage Trust	Current period	775,894	-	9,251,330	-
	Comparative period	129,936	-	4,131,488	-
Bundall Storage Operations Pty Ltd	Current period	-	-	18,362	-
	Comparative period	-	-	-	50
Spacer Marketplaces Pty Ltd	Current period	-	64,262	-	-
	Comparative period	-	24,947	-	-
The TBF & NS Trust	Current period	300,493	-	2,078,075	-
	Comparative period	807,623	-	1,027,993	-

As at 31 December 2020, the Group had receivables outstanding of \$1,775,000 (30 June 2020: \$1,775,000) with the Bundall Commercial Trust, \$7,350,000 (30 June 2020: \$2,700,000) with the Bundall Storage Trust, and \$750,000 (30 June 2020: \$nil) with the TBF & NS Trust relating to amounts drawn down under facility agreements between the entities. These are included in the table above.

The facility agreements have terms ranging from 1 to 5 years, and are interest bearing on commercial rates. The receivables with the Bundall Commercial Trust and Bundall Storage Trust have been classed as current receivables in the statement of financial position as these receivables are expected to be repaid within 12 months of 31 December 2020. The receivable with the TBF & NS Trust have been classed as a non-current receivable in the statement of financial position as this receivable is not expected to be repaid within 12 months of 31 December 2020.

The remaining amounts owed by these entities relate to contractual management fees and accrued interest not paid at 31 December 2020.

All other outstanding balances at period end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the periods ended 31 December 2020 and 30 June 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

14. Distributions declared

Unit distributions

Distributions declared

NSPT interim distribution of 4.0 cents per unit payable on 1 March 2021 (28 February 2020: 4.7 cents per unit)

31 Dec 2020	31 Dec 2019
\$'000	\$'000

40,708	37,039
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NOTES TO THE FINANCIAL STATEMENTS

15. Commitments and contingencies

Capital commitments

As at 31 December 2020, the Group held commitments to purchase seven storage centres and two development sites for \$97.9m.

As at 31 December 2020, the Group has contractual commitments in place for the construction of self-storage centres of NZD \$57.7m (AUD \$54.0m) in New Zealand (see note 5).

As at 31 December 2020, the Group held a commitment with a third party, to supply and install solar panels on a number of NSR storage centres with additional expenditure of \$0.6m, to be paid on agreed milestones subject to the completion of the project.

There is no other capital expenditure contracted for at the end of the reporting period but not recognised as a liability. There are no other contingent assets or liabilities for the Group.

16. Earnings per stapled security

	31 Dec 2020 cents	31 Dec 2019 cents (adjusted)
Basic and diluted earnings per stapled security	9.98	18.83

Reconciliation of earnings used in calculating earnings per stapled security

<i>Basic and diluted earnings per security</i>	\$'000	\$'000
Net profit attributable to members	101,378	150,739
	No. of securities	No. of securities
Weighted average number of securities on issue during the period	1,016,231,746	784,372,664
Adjustment under AASB 133 to reflect discount to market price on issue of new capital	77,153	16,277,229
Weighted average number of securities for basic and diluted earnings per stapled security	1,016,308,899	800,649,893

As required by AASB 133 *Earnings per share*, for issues of capital during the period ended 31 December 2020 and 31 December 2019, the weighted average number of securities on issue used to calculate statutory basic and diluted earnings per stapled securities has been adjusted to reflect the difference between the issue price and the fair value of securities prior to issue. No actual securities were issued relating to this adjustment.

17. Events after reporting period

For the period from 1 January 2021 to the date of this report the Group purchased one storage centre and one development site for a total of \$24.5m.

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

DIRECTORS' DECLARATION

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

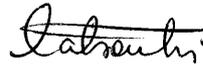
In the opinion of the Directors:

- (a) the financial statements and notes of NSR for the half-year ended 31 December 2020 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
 - b. complying with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) with reference to Note 2 in the financial statements, there are reasonable grounds to believe that NSR will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



Laurence Brindle
Chairman



Andrew Catsoulis
Managing Director

22 February 2021
Brisbane



**Building a better
working world**

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of National Storage REIT and the entities it controlled (the Group) during the half-year, which comprises the interim statement of financial position as at 31 December 2020, the interim statement of profit or loss, the interim statement of other comprehensive income, the interim statement of changes in equity and the interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter - Investment Property Fair Value

We draw attention to Note 8 of the financial report which describes the impact of the COVID-19 pandemic on the determination of fair value of the investment properties and how this has been considered by the Directors in the preparation of the financial report. Due to the heightened degree of valuation uncertainty, the property values may change significantly and unexpectedly over a relatively short period of time. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations*



2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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

Ernst & Young

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

Ric Roach
Partner
Brisbane
22 February 2021