Lok'nStore Group Plc

Annual Report and Accounts

for the year ended 31 July 2015

Stock Code: LOK
www.loknstore.com

Welcome to Lok'nStore Group Plc

We are one of the leading companies in the fast growing UK self-storage market. We opened our first self-storage centre in Horsham, Sussex in February 1995 and have grown consistently over the last 20 years, currently operating 24 self-storage centres and two serviced document stores in Southern England.

Strengths of our Business

- Strong and increasing asset base
- The self-storage business is highly cash generative with high profit margins on established stores and all customers paying on a rolling 28 day basis
- Lok'nStore has a track record of strong and growing cash generation driving a progressive dividend policy
- New and replacement store openings over the next year
- Significant growth in third party asset management
- The specific property requirements of self-storage coupled with challenging local planning regimes create significant barriers to entry, especially in Southern England where Lok'nStore operates
- Experienced Board and Executive management team with clear strategic direction and proven business model

Read more about our Strategy on page 08
and our Business Model on page 10

"Full year results up strongly – more growth from new stores and more new stores to come."

Simon G Thomas Chairman

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Revenue

£15.42m

Group Adjusted EBITDA

£5.68m

Adjusted Net Asset Value per share

£3.02

Loan to Value Ratio

25.8%

Funds from Operations

£4.98m

2015 Highlights

Record financial results ahead of expectations on all measures

- Revenue £15.42 million up 10.9% (2014: £13.91 million)
- Adjusted EBITDA[1] £5.68 million up 23.1% (2014: £4.62 million)
- Operating profit[2] £3.66 million up 18.7% (2014 normalised: £3.08m)
- Profit before taxation[2] £2.65 million up 34.6% (2014 normalised: £1.97 million)
- Cost ratio reduced to 61.2%[3] (2014: 64.7%).

Strong cash flow supports 14.3% dividend increase – progressive dividend policy

- Annual dividend 8 pence per share up 14.3% (2014: 7 pence per share)
- Funds from Operations (FFO)[4] £4.98 million up 25.2% (2014: £3.97 million)
- FFO per share of 19.6 pence per share up 22.1% (2014: 16.1 pence per share)

Asset backed: Adjusted Net Asset Value per share[5] up 11.4% to £3.02 (2014: £2.71)

- Total assets now circa £100 million

Strong balance sheet, efficient use of capital, low debt

- Net debt down to £25.3 million (2014: £25.5 million)
- Loan to value ratio down to 25.8%[6] (2014: 28.2%)

Self-storage business performing strongly

- Store EBITDA £7.19[7] million up 18.6% (2014: £6.06 million)
- Store EBITDA margins up 3 percentage points to 53.7% (2014: 50.7%)
- Unit Pricing up 4.2%
- Total occupancy up 0.6% with 57,203 sq. ft. of new units fitted
- Ancillary sales up 6.3%

Document storage showing good volume growth

- Year-end boxes stored up 36.2%
- Revenue £1.96 million up 6.5% (2014: £1.84 million)

Growth from new stores and more new stores to come

- New and purpose built stores lettable space will represent 59% of owned store portfolio
- New Reading store opened October 2014
- New Aldershot store opened May 2015
- New Chichester store due to open by end 2015
- New Southampton and Bristol stores due to open spring 2016
- Constantly reviewing new store opportunities

Post Balance sheet

- Additional £2 million received on sale of old Reading store
- Sale of Swindon store for £3.5 million (2014 NBV £1.4 million)

1 Adjusted EBITDA is defined as profits before depreciation, amortisation, losses or profits on disposal, share-based payments, acquisition costs, non-recurring professional costs, finance income, finance costs and taxation.

2 2014 comparatives normalised for 2014 property impairment charge of £1.6 m.

3 Group operating costs as a percentage of Group revenue.

4 Funds from Operations (FFO) calculated as EBITDA minus net finance cost on operating assets.

5 Adjusted net asset value per share is the net assets adjusted for the valuation of leasehold stores and deferred tax divided by the number of shares at the year end. The shares held in the Group's employee benefits trust and treasury are excluded from the number of shares.

6 Calculation based on net debt of £25.3 million (2014: £25.5 million) and total property value of £97.8 million (2014: £90.5 million) set out in the Financial Review section of the Strategic Report.

7 Store adjusted EBITDA is Adjusted EBITDA (see above[1]) before central and head office costs.

Chairman's Review

Simon Thomas ■
Chairman

Strong growth and robust capital structure

Lok'nStore Group has traded strongly over the last year with turnover, profits and assets moving ahead rapidly. This has been and will continue to be reinforced by improvements to our existing stores combined with our programme of opening new, modern, purpose-built stores. This will result in a substantial increase in the proportion of our store space which is new or purpose built and will add further momentum to the growth of sales and profits with plenty of new capacity contributing to growth over the coming years.

The growth of sales, profit and asset values combined with innovative asset management has combined to achieve a reduction in the loan-to-value (LTV) ratio from 28.2% to 25.8% while we invested £3.6 million in stores this year and are proposing to increase the annual dividend pay-out by 14.3%.

Two other key performance indicators (KPI's), Funds from Operations (FFO) per share which guides the dividend pay-out and Net Asset Value (NAV) per share which demonstrates the underlying asset value have moved smartly ahead.

Trading positive

Revenue for the year was £15.42 million, up 10.9% year on year (2014: £13.91 million) driven by prices achieved for rented self-storage units which are up 4.2%. This strong turnover growth led to a 23.1% increase in Group Adjusted EBITDA. With low debt and interest costs this translates into Funds from Operations (FFO) per share growing by 22.1%. Tight control over operating costs has pushed the Group's margins and profits to record levels.

Properties and Net Asset Value

The year-end property valuation equates to a total value of properties held of £97.8 million (2014: £90.5 million) an 8% increase in value. (Note that these values are not fully reflected in the statement of financial position which states the operating leasehold stores at cost less accumulated depreciation).

Dividend

It is intended that the Company's future dividend payments will reflect the growth in the underlying cash generated by the business as reflected in the FFO. The interim dividend will represent approximately one-third of the total for the year and final dividend two-thirds. This year we are recommending a full year dividend of 8 pence per share. This is up 14.3% from 7 pence for the full year last year. The Group will therefore pay a final dividend of 5.67 pence per share on 21 December 2015 following the payment of an interim dividend of 2.33 pence per share in June 2015.

Outlook

The objective of our strategy is to continue to increase EBITDA per share over the coming years. We have created a strong platform for significant further growth and continue to focus our efforts on five key areas:

- Filling existing stores and improving pricing
- Developing new stores on a self-funded basis
- New site acquisitions
- Increasing the number of stores we manage for third parties
- Growing our document storage business

Lok'nStore is a progressive business with a record of consistent profit growth and cash generation and has built a firm base for the coming years. Recent strong trading has been, and will continue to be, reinforced by our programme of new, modern, purpose-built store openings and upgrades. This will result in a substantial increase in the proportion of our stores which are new or purpose built combined with a significant increase in our trading space.

Given the strong growth of sales, profits and asset values combined with the benefits of innovative asset management we believe we can achieve this without significantly increasing the loan-to-value (LTV) ratio or borrowings while continuing to increase the dividend pay-out.

Our dedicated and dynamic executive management team have capitalised on the improved economy and are well placed to continue our growth over the coming years. With the high barriers to entry created by the strong demand for property in South-East England and the difficulties of the local planning process, Lok'nStore's growing portfolio of high quality self-storage assets is set to deliver solid and increasing returns to investors over the coming years.

Simon G Thomas
Chairman
16 October 2015

"A substantial increase in the proportion of our store space which is new or purpose built will add further momentum to the growth of sales and profits"

Simon G Thomas ■ Chairman

Group at a Glance

Opening programme of six new stores - available space will increase by 12%

New and purpose built stores will increase from 37% to 59% of portfolio

Lok'nStore's Locations

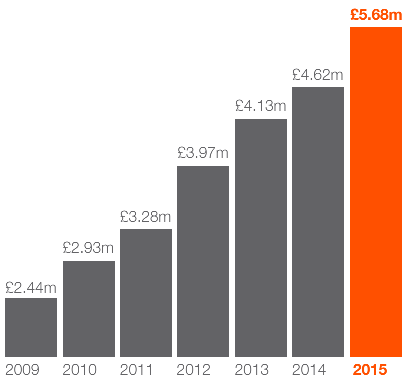
1 Aldershot
2 Ashford
3 Basingstoke
4 Bristol
5 Chichester
6 Crawley
7 Crayford
8 Eastbourne
9 Fareham
10 Farnborough
11 Harlow
12 Horsham
13 Luton
14 Maidenhead
15 Milton Keynes
16 Northampton Central
17 Northampton Riverside
18 Poole
19 Portsmouth
20 Reading
21 Southampton
22 Staines
23 Sunbury
24 Swindon
25 Tonbridge
26 Woking
27 Olney
28 Leatherhead

Read more about our Strategy and Marketplace on page 08

The Strategic Report

Andrew Jacobs
Chief Executive Officer

EBITDA Profit



This Strategic Report covers the following areas of our business:

- Strategy and business model
- The UK Self-Storage Market
- The Performance of our Stores
- Operational and Marketing Review
- Property Review
- Financial Review
- Principal Risks and Uncertainties in operating our Business

Our Strategy and business model

Introduction

Lok'nStore Group Plc is one of the leading companies in the fast growing UK self-storage market. We opened our first self-storage centre in Horsham, Sussex in February 1995 and have grown consistently over the last 20 years, currently operating 24 self-storage centres and two serviced document stores in Southern England. One replacement store and another new store will open in the coming year. We have been listed on the AIM Market since June 2000 and the board accounts for 35% of the Total Voting Rights (TVR) in the ordinary shares of the Company.

We offer self-storage, serviced document storage and management services to third party self-storage owners. Self-storage is available to both household and business customers at our highly branded Lok'nStore centres. Each centre is prominently located mainly in the affluent South-East of England in large towns and cities.

Our serviced document storage service offers businesses anything from secure storage of one media tape to full management of their business documentation with 24 hour retrieval. We excel in offering the best customer service at competitive prices for our customers.

Strategy

We develop and operate self-storage centres in prominent locations broadly in South-East England. Our eye-catching buildings with their distinctive orange livery create highly visible landmarks which continue to be a big contributor of new business for Lok'nStore.

Demand for self-storage by both business and domestic customers is driven by a combination of specific need based on changing circumstances but also linked to local economic activity and prevailing consumer and business confidence.

People and business are more space constrained in the relatively expensive areas of the South East. Barriers to entry in terms of competition for suitable sites and the difficulties in securing appropriate planning consents are also correspondingly higher.

The strengths of our business model are summarised in table form below:

The UK self-storage market

There remains significant opportunity in the UK self-storage market where there are an estimated 863 self-storage facilities providing approximately 35.7 million square feet of storage space. With a population estimated at 64.1 million people in the UK this equates to 0.56 square feet per person, compared to 7.3 square feet per person in the USA (Self-Storage Association 2015 UK Annual Survey).

The sector remains in good health. The Cushman & Wakefield 2015 Report for the Self-Storage Association says, "After a period of limited new store openings following the recession the self-storage sector is definitely beginning to grow, putting on around 1.3 million sq. ft. of space in 2014."The Report estimates that…." total annual turnover for the UK self-storage industry in 2014 was around £402 million from approximately 440 different operators, and they employed in excess of 2,100 staff (full time equivalent) As awareness of self-storage continues to grow, more businesses and individuals will use self-storage in a market that is supply constrained. The Report also states that the five largest operators (which includes Lok'nStore) manage 29.5% of the self-storage stores while in the US the top five own or manage only 11.5%.

Read more about our Strategy online www.loknstore.co.uk/investors

2015 Full Year Dividend

8 Pence

Our Business Model

"We believe there is the opportunity for significant further growth. The objective of our strategy is to continue to increase EBITDA and FFO profit per share over the coming years."

Simon G Thomas ■ Chairman

1 ATTRACTIVE MARKET DYNAMICS

- UK self-storage penetration in key urban conurbations remains relatively low
- Limited new supply coming onto the market - Lok'nStore is bucking the trend with significant new store development - Reading, Aldershot, Southampton, Bristol and Chichester
- The specific property requirements of self-storage coupled with challenging local planning regimes create significant barriers to entry, especially in Southern England where Lok'nStore operates
- Resilient through economic downturns
- Sector is growing

2 OUR COMPETITIVE STRENGTH

- Recognised brand
- Newer stores are prominent on arterial or main roads, with extensive frontage and high visibility
- Strong internet marketing delivering:-
  - traffic from mobile phones and desktop computers
  - online booking and reservation; click and collect for retail boxes and packaging
- Excellent customer service, customer feedback programme with store level customer satisfaction surveys, mystery shopper programme and quality control procedures
- Stores concentrated in the affluent South East England
- Newer stores have larger average store capacity - economies of scale, higher operating margins
- Secure financing structure with strong balance sheet
- Strong and increasing store asset base
- Experienced and committed board and executive management team with clear strategic direction, operational skills and a proven and robust business model

3 STABLE AND RISING INCOME STREAMS

& Strong Credit Risk Model

- Over 8,100 customers
- Mix of business and domestic customers
- High profit margins
- Low bad debt expense (0.25% of revenue in the year)
- Strong credit risk model (security deposits; customers pay in advance; lien on goods)
- Limited local competition

4 STRONG GROWTH OPPORTUNITIES

- Yield management as occupancy increases
- Demand increasing
- Site development out of strong operational cash flow and innovative financing solutions

5 TRANSLATION OF THE BUSINESS MODEL INTO HIGH QUALITY EARNINGS

- The self-storage business is strongly cash generative with high profit margins on established stores and all customers paying on a rolling 28 day basis
- Low technology & product obsolescence
- Maintenance fully expensed through profit and loss
- Lok'nStore has a track record of strong and growing cash generation driving a progressive dividend policy

The Performance of our Stores

"Lok'nStore is a progressive business which generates a rapidly growing cash flow from its strong asset base"

Andrew Jacobs ■ Chief Executive Officer

Growing Sales and Profits, Increasing Margins

Self-storage revenue for the year was £13.47 million up 11.6% (2014: £12.07 million).

Our total self-storage occupancy was up 0.6% and this was combined with strong unit price increases of 4.2%. During the year we fitted 57,203 sq. ft. of new self-storage units.

With costs firmly under control this revenue growth translates into rapid profit growth. We again managed to increase the overall adjusted EBITDA margin across all stores by 3 percentage points from 50.7% to 53.7%. The adjusted Store EBITDA margins of the freehold stores were 63.4% (2014: 62.7%) and the leasehold stores 40.7% (2014: 36.6%).

Total store EBITDA in the self-storage business, a key performance indicator of profitability and cash flow of the business, increased 18.6% to £7.19 million (2014: £6.06 million).

PORTFOLIO ANALYSIS AND PERFORMANCE BREAKDOWN	Number of stores	% of valuation	% of store EBITDA	Store EBITDA margin (%)	% lettable space Lok owned	When fully developed Number of stores	When fully developed % Lettable current space*	When fully developed Total % lettable space
AS AT 31 JULY 2014 FREEHOLD AND LONG LEASEHOLD	12	79.4	67.9	63.4	60.6	12	50.3	51.1
OPERATING LEASEHOLDS[1]	8	15.8	32.1	40.7	39.4	8	34.8	30.6
PIPELINE (FREEHOLD)	2	4.8	–	–	–	–	–	–
MANAGED STORES (TRADING)	4	–	–	–	–	6	14.9	18.3
MANAGED STORES (UNDER DEVELOPMENT)	1	–	–	–	–	–	–	–
TOTAL	27	100	100	53.7	100	26	100	100

- The average unexpired term of the Group's operating leaseholds is approximately 12 years and 8 months as at 31 July 2015 (13 years and 8 months: 31 July 2014)
- Freeholds account for 84.9% of property values (2014:83.9%)

*'Current space' figures include a fifth managed store. 'Total space' assumes all stores are fully fitted out & replacement of one current freehold with a pipeline store

The Performance of our Stores
continued

At the end of July 2015 33.5% of Lok'nStore's self-storage revenue was from business customers (2014: 33.3%) and 66.5% was from household customers, (2014: 66.7%). By number of customers 18.9% of our customers were business customers (2014: 19.0%) and 81.1% household customers (2014: 81.0%).

Ancillary Sales

Ancillary sales which consist of boxes and packaging materials, insurance and other sales increased 6.3% over the year accounting for 10.8% of self-storage revenues (2014: 11.4%).

We continue to promote our insurance to new customers with the result that 92% (2014: 93%). of our new customers purchased our insurance over the year and this has resulted in an increase in the percentage of our customers who are insured through Lok'nStore to 81% (2014: 78%).

Document storage business

Revenue and adjusted EBITDA have increased in our document storage business as operating metrics improve in response to the Company's more customer facing marketing stance. This approach has resulted in excellent customer feedback and puts us in a good position to win new business, with boxes stored increasing 36.2% and tapes stored up 12.4%. Revenue and profit will follow these volume metrics upwards.

Last year we consolidated our serviced document warehouse capacity, closing one of the three storage sites. This year we have undertaken a further fit-out of new warehouse racking in our site in Olney and we now have the capacity to significantly increase the number of boxes stored within our existing premises. As part of this strategy, additions of £0.46 million were made in the current year to fixtures, fittings and equipment (2014: £0.21 million).

Security

The safety and security of our customers and their goods remains our highest priority. We invest in CCTV, intruder and fire alarm systems and the remote monitoring of our stores out of hours. Importantly all of our stores are manned during opening hours.

Document Storage

Boxes Stored

36.2% ↑

Operational and Marketing Review

Marketing

During the year our marketing efforts have been focused on the internet and the presentation of our buildings to attract passing traffic.

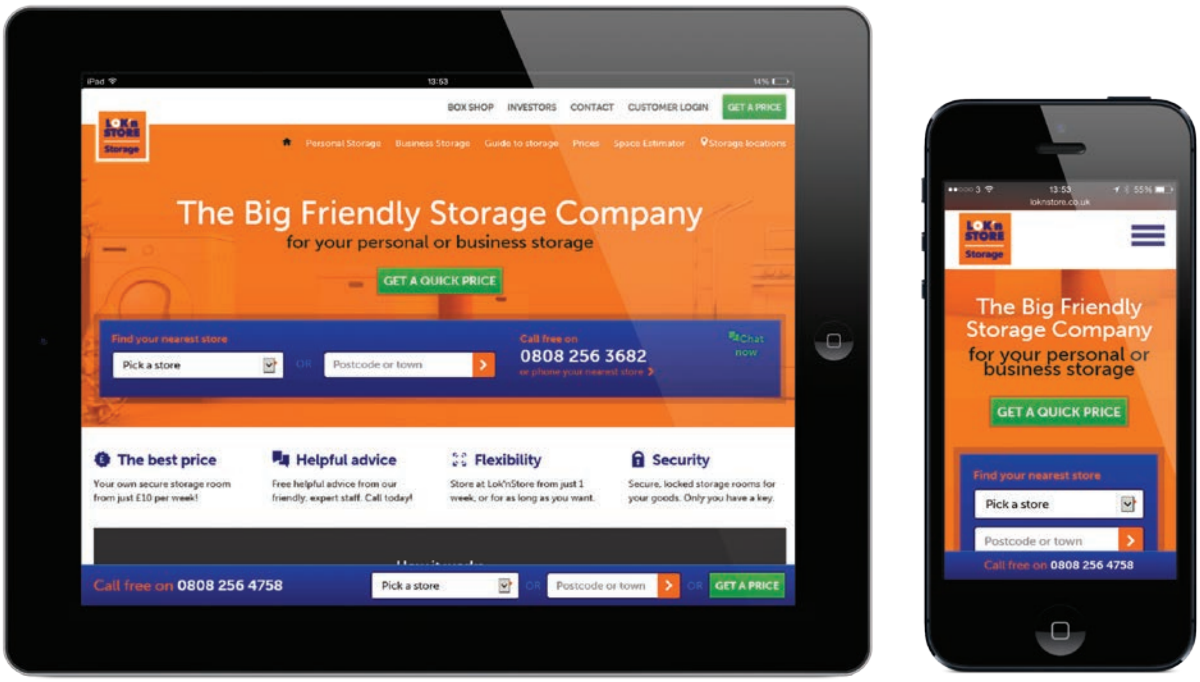
Printed directories account for a decreasing proportion of business over recent years and are now at a de minimis level. For the year total internet enquiries were up 2.3% on last year and total enquiries were up 0.4% across all stores. We will continue to manage our marketing budget with a strong focus on cost control and value for money.

The internet has rapidly taken over as the main media channel for our advertising and Lok'nStore has adapted to accommodate this change. Our website at www.loknstore.co.uk is one of the most established self-storage websites in the UK, having been operational since 2001. The website was significantly upgraded in February 2012 and has been extremely successful in driving online traffic. We continue to improve our work in search optimisation and are using social networks to reinforce our various messages.

This is a very dynamic area and we are committed to its continued development. New features this year include an online chat facility and a 'click and collect' box shop. We believe the internet provides a strong competitive advantage for the major operators such as Lok'nStore with large marketing budgets compared with those of the smaller self-storage operators.

Despite the inexorable rise of internet marketing, around 37% of our business still comes from passing traffic and signage, so the visibility of our stores remains very important to our marketing efforts. With their prominent positions, distinctive design and bright orange elevations, our stores raise the profile of the Lok'nStore brand. We continue to invest in new signage and lighting at our existing stores as well as creating striking designs for our new stores to promote and enhance their visual prominence.

During the year we spent 5.2% of self-storage revenue on marketing.



Stores Property Review

Strong cash flows and solid asset base create opportunities

Lok'nStore's strong operating cash flow, solid asset base, and tactical approach to its store property portfolio provide the Group with opportunities to improve the terms of its property usage in all stages of the economic cycle. Our focus on the trading business gives us many opportunities and our property decisions are always driven by the requirements of the trading business. Lok'nStore has 24 freehold, leasehold and managed stores trading. Of these, 20 stores are owned with 12 freehold or long leasehold, 8 leasehold and 4 further sites operate under management contracts following the opening of Aldershot in May 2015 Lok'nStore is attracting a steady stream of investment partners to help drive the growth of the operating business.

Bristol

In January 2014 Lok'nStore acquired a site in Longwell Green, Bristol. The site of approximately 0.9 acres is in a busy retail park and has planning permission to build a 50,000 sq. feet self-storage centre in Lok'nStore's modern and distinctive design. The total cost of the store when built and fitted-out, will be around £4 million and will add to Lok'nStore's high-quality portfolio of freehold, purpose built self-storage centres in prominent trading locations.

Sale of previous Reading store and opening new Reading store

In October 2014 Lok'nStore completed the sale of its store in Reading for an initial consideration of £2.9 million. After the year-end, on 2 August 2015, Lok'nStore also received an additional £2 million taking the total consideration to £4.9m. Refer Note 31 – Events after the Reporting Date. These additional proceeds will be recycled into the Group's opening programme of highly visible purpose-built new stores.

In October 2014 Lok'nStore completed the building, the transfer of its customers and opened its new Reading store on the site opposite the old store. The new store has 48,000 square feet of self-storage space, a 20% increase. The highly prominent location is directly accessible from the busy main road which connects Reading town centre to the M4 motorway. The cost of constructing and fitting the new store was funded from the sale proceeds of the old store demonstrating the Group's ability to expand its operating footprint out of existing financial resources.

Management contract – Aldershot

In May 2015 Lok'nStore opened a new managed store in Aldershot, Hampshire. The store is located in a prominent location on the main Aldershot roundabout above the A331, is visually striking and benefits from significant levels of passing traffic.

The store is managed for outside investors under the Lok'nStore brand. Lok'nStore has managed the building and subsequent operation of the store. Lok'nStore will generate a return on £2.5 million of the total development capital committed to the project, and a management fee for the construction, operation and branding of the store. This project is consistent with Lok'nStore's strategy of expanding the operating footprint of the business while maintaining its strong balance sheet.

Chichester

Lok'nStore has also signed a Management Services Agreement with an external investor to manage a new storage facility in Chichester, West Sussex which will open at the end of 2015. Lok'nStore will manage the construction, operation and branding of the store. Construction and refitting of the building is currently underway.

Portsmouth North

On 24 November 2014 the Company announced the sale of the Company's undeveloped site at Portsmouth North Harbour for £3 million. The disposal is conditional on the buyer achieving appropriate planning permission. The planning application has been filed and validated on 28 July 2015. If a planning determination is made as expected within the statutory period a decision should be expected by the end of 2015.

Sale and manage back of Swindon store

After the year-end, on 30 September 2015, Lok'nStore completed the sale of its Swindon store for £3.5 million in cash to an investment fund. Historically, Lok'nStore has operated two stores in Swindon, one leasehold and one freehold. Following the completion of £0.5m of capital expenditure to increase capacity the two stores were consolidated into one. This freehold store has now been sold. The two stores were valued at a total of £1.4 million at 31 July 2014. Lok'nStore will continue to manage the store as a branded Lok'nStore operation on behalf of the investor, and will receive management and performance fees. Refer Note 31 - Events after the Reporting Date.

Store portfolio

These projects are part of our strategy of actively managing our store operating portfolio to ensure we are maximising both trading potential and asset value. This includes strengthening our distinctive brand, increasing the size and number of our stores and replacing stores or sites where it will increase shareholder value. We prefer to own freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold stores. However we are happy to take leases on appropriate terms and benefit from the advantages of a lower entry cost, with further options to create value later in the site's development. Our most important consideration is always the trading potential of the store rather than the type of property tenure.

We currently have 24 stores trading. Of these 20 stores are owned with 12 freehold or long leasehold and 8 leasehold and 4 further sites operating under individual management contracts. With Chichester and Bristol opening in 2016 this will increase the number of stores we operate to 26 and will capitalise on our efficient operating systems and growing internet marketing presence. These arrangements demonstrate Lok'nStore's ability to attract investment partners and create innovative ownership to drive the growth of the operating business.

At the year end the average length of the 7 leases which were valued at July 2015 decreased by 12 months to 12 years and 8 months (2014: 13 years and 8 months). 7 out of 8 of our leasehold stores are inside the Landlord and Tenant Act providing us with a strong security of tenure. The leasehold sites produced 32.1% of the store EBITDA in the year (2014: 33.1%).

Store property assets and Net Asset Value

Lok'nStore's freehold and operating leasehold stores have been independently valued by Cushman & Wakefield (C&W) at £88.9 million (NBV £28.1 million) as at 31 July 2015 (2014: £79.1 million: NBV £30.1 million). Property valuation is referred to further in the Financial Review section of the Strategic Report and is detailed in Note 10b of the Notes to the financial statements.

Adding our stores under development at cost, our total property valuation is £97.8 million (2014: £90.5 million). This translates into an adjusted net asset value of £3.02 per share up 11.4% on last year (2014: £2.71 per share).

“Risk management has been a fundamental part of the development of Lok’nStore.”

Ray Davies Finance Director

Financial Review

Trading

Total revenue for the year grew 10.9% to £15.42 million (2014: £13.91 million). Group operating profit for the year is up 18.7% to £3.66 million (2014: £3.08 million) after adjusting 2014 by adding back last year's impairment of a development land asset charged to the Income Statement. Document storage revenue was up 6.5% to £1.96 million (2014: £1.84 million). Document storage adjusted EBITDA, before inter-company management charges, was £0.26 million (2014: £0.24 million).

Taxation

The Group will pay tax on the majority of its earnings this year and has made a tax provision of £0.54 million.

Earnings per share

Basic earnings per share (EPS) were 7.84 pence (2014: 0.81 pence per share). Diluted earnings per share were 7.64 pence (2014: 0.79 pence per share). If 2014 comparatives are normalised for the 2014 property impairment charge of £1.6 million added back to earnings, the 2014 EPS is adjusted to 7.39 pence per share and the 2014 diluted EPS to 7.21 pence per share.

Treasury shares

Although the Group did not purchase any Treasury shares during the year we are proposing to renew our on-going authority to buy back shares at this year's AGM to ensure the Group continues to have flexibility to make further purchases should it be considered to be in the best interests of shareholders to do so.

Management of interest rate risk

Lok'nStore has £27.7 million of debt currently drawn against its £40 million revolving credit facility. £20 million is at a fixed interest rate with £10 million fixed rate swap at a fixed 1 month sterling LIBOR rate of 1.2% and £10 million swap at a fixed 1 month sterling LIBOR rate of 1.15%. With 1 month LIBOR around 0.5%, this leaves a balance of £7.7 million floating at a current all-in rate of around 2.85% and results in an overall weighted average rate of 3.34%. The £20 million fixed rate is treated as an effective cash flow hedge and its fair value on a mark-to-market basis has fluctuated historically. Its current fair value of £0.12 million is currently stated as a non-current liability (2014: non-current asset: £0.05 million). (See Note 16).

Operating costs

This year through disciplined management we have again reduced overhead costs and contained overall cost growth to 4.8% despite staff costs increasing by 5.5% through a combination of strong sales bonuses and additional national insurance costs arising on the exercise of employee share options. Group operating costs amounted to £9.4 million for the year, a 4.8% increase from last year (2014: £9.0 million). Overall operating costs as a percentage of revenue have decreased and represent 61.2% as a cost ratio. (2014: 64.7%). This disciplined approach to costs ensures that as much as possible of the revenue growth contributes to increasing our profits.

Group	Increase/(Decrease) in costs %	2015 £'000	2014 £'000
Property costs	8.7	**4,010**	3,689
Staff costs	5.5	**4,188**	3,971
Overheads	(9.1)	**1,049**	1,153
Distribution costs	0.7	**190**	189
Total	4.8	**9,437**	9,002

Cash flow and financing

At 31 July 2015 the Group had cash balances of £2.4 million (2014: £2.2 million). Cash inflow from operating activities before investing and financing activities was up 17.0% to £6.0 million (2014: £5.2 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a five year revolving credit facility. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £12.3 million (2014: £12.3 million).

Gearing

There was £27.7 million of gross borrowings (2014: £27.7 million) representing gearing of 47.7% (2014: 56.5%) on net debt of £25.3 million (2014: £25.5 million). If leaseholds, which are stated at depreciated historic cost in the statement of financial position, are stated at their C&W valuation, gearing drops to 39.2% (2014: 45.4%). If the deferred tax liability carried at year-end of £12.2 million is ignored gearing drops further to 33.0% (2014: 38.0%).

Funds from Operations (FFO)

By excluding £0.3 million (2014: £0.5 million) of the interest costs of carrying the development sites from the total net interest charge of £1.0 million (2014: £1.1 million) the interest on the operating portfolio is £0.7 million for the year (2014: £0.6 million). Funds from operations (FFO) represented by adjusted EBITDA minus interest on the operating portfolio is therefore £4.98 million (2014: £3.97 million) up 25.2% equating to 19.6 pence per share, up 22.1% on last year (2014: 16.1 pence per share).

A component of the interest cost incurred by the Group arises from the £8.9 million (2014: £11.4 million) of development sites that the Group is currently carrying. The interest against this cost has not been capitalised but if it was the Group's adjusted profit would have been approximately £0.3 million higher for the year (2014: £0.5 million) on the assumption that the £8.9 million is fully funded by borrowings.

Analysis of Funds from Operations (FFO)

	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000
Group adjusted EBITDA	5,682	4,616
Net finance Costs	1,003	1,110
Interest costs relating to holding development assets	(297)	(467)
Net finance cost based on operations	706	643
Funds from Operations	4,976	3,973
Increase in Funds from Operations	25.2%	17.5%
	No.	No.
Adjusted shares in issue	25,356,668	24,719,027
FFO per share (annualised)	19.6 pence	16.1 pence
Increase in FFO per share	22.1%	14.4%

Capital expenditure and capital commitments

The Group has grown through a combination of new site acquisition, existing store improvements and relocations, and has concentrated on extracting value from its existing assets and developing through collaborative projects and management contracts. Capital expenditure during the year totalled £3.58 million (2014: £6.5 million). This was primarily the building at Bristol and Southampton, the expansion of capacity at our Swindon East Store and also limited expenditures at our other existing stores. Further expenditure on racking at the Saracen Olney store also increased capacity in our document storage business.

The Group has capital expenditure contracted but not provided for in the financial statements of £3.03 million (2014: £3.85 million) relating to new commitments on the Bristol and Southampton sites now under construction, remaining commitments on the fitting at Reading and various other minor works.

Statement of Financial Position

Net assets at the year-end were £53.0 million (2014: £45.2 million). Freehold and long leasehold property values at 31 July 2015 were £74.1 million (2014: £64.5 million). Refer to the table of property values below.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

Our eleven freehold properties and one long leasehold are held in the statement of financial position at fair value and have been valued by Cushman and Wakefield LLP (C&W). Refer to Note 10b) – property, plant and equipment and also to the accounting policies for details of the fair value of trading properties. The valuations of the leasehold stores held as 'operating leases' are not taken onto the statement of financial position. However seven of these have also been valued and these valuations have been used to calculate the adjusted net asset value position of the Group.

A deferred tax liability arises on the revaluation of the properties and on the rolled-over gain arising from the disposal of the Kingston and Woking sites in 2007 and Reading this year. It is not envisaged that any tax will become payable in the foreseeable future on these disposals due to the availability of rollover relief. The proceeds from the sale of the Reading store sold with the benefit of its permission for residential development have been reinvested into new store development. It is not the intention of the Directors to make any other significant disposals of operational stores, although individual disposals may be considered where it is clear that added value can be created by recycling the capital into other opportunities. (Refer Note 31b – Events after the Reporting Date.)

The Board will continue to commission independent valuations on its trading stores annually to coincide with its year-end reporting.

Under IFRS the valuations of our freehold property assets are included in the Statement of Financial Position at their fair value, but the IFRS rules do not permit the inclusion of any valuation in respect of our leasehold stores to the extent that they are classified as operating leases. The value of our operating leases in the valuation totals £14.8 million (2014: £14.6 million). Instead we have reported by way of a Note the underlying value of these leasehold stores in our revaluations and adjusted our Net Asset Value (NAV) calculation accordingly to include their value. This ensures comparable NAV calculations.

Analysis of Total Property Value

	No of stores/ sites	31 July 2015 Valuation £'000	No of stores/ sites	31 July 2014 Valuation £'000
Freehold & Long Leasehold valued by C & W[1] *	12	74,110	12	64,510
Short Leasehold valued by C & W[2]	7	14,760	7	14,570
Subtotal	19	88,870	19	79,080
Sites in development at cost[1]	3	8,888	4	11,409
Total	22	97,758	23	90,489

1 Total freeholds account for 84.9% of property values (2014:83.9%)
* Includes related fixtures and fittings (refer Note 10b)

Adjusted Net Asset Value per Share

Adjusted net assets per share is the net assets of the Group business adjusted for the valuation of leasehold stores and deferred tax divided by the number of shares at the year-end. The shares currently held in the Group's employee benefits trust (own shares held) and in treasury are excluded from the number of shares.

At July 2015 the adjusted net asset value per share increased 11.4% to £3.02 from £2.71 last year. This increase is a result of higher property values, cash generated from operations, offset in part by an increase in the shares in issue due to the exercise of share options by management and staff during the year.

Analysis of net asset value (NAV)	31 July 2015 £'000	31 July 2014 £'000
Net assets	**52,969**	45,210
Adjustment to include operating/short leasehold stores at valuation		
Add: C & W leasehold valuation[2]	**14,760**	14,570
Deduct: leasehold properties and their fixtures and fittings at NBV	**(3,339)**	(3,555)
	64,390	56,225
Deferred tax arising on revaluation of leasehold properties[3]	**(2,284)**	(2,203)
Adjusted net assets	**62,106**	54,022
Shares in issue	**Number**	Number
Opening shares	**27,809**	27,141
Shares issued for the exercise of options	**638**	668
Closing shares in issue	**28,447**	27,809
Shares held in treasury	**(2,467)**	(2,467)
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**25,357**	24,719
Adjusted net asset value per share after deferred tax provision	**£2.45**	£2.18
Adjusted net asset value per share before deferred tax provision		
Adjusted net assets	**62,106**	54,022
Deferred tax liabilities and assets recognised by the Group	**12,252**	10,870
Deferred tax arising on revaluation of leasehold properties[3]	**2,284**	2,203
Adjusted net assets before deferred tax	**76,642**	67,095
Closing shares for NAV purposes	**25,357**	24,719
Adjusted net asset value per share before deferred tax provision	**£3.02**	£2.71

2 The seven leaseholds valued by Cushman & Wakefield are all within the terms of the Landlord and Tenant Act (1954) giving a degree of security of tenure. The average length of the leases on the leasehold stores valued was 12 years and 8 months at the date of the 2015 valuation (2014 valuation: 13 years and 8 months). One leasehold store is not valued by C&W due to the relatively short unexpired period of its lease.

3 A deferred tax adjustment in respect of the uplift in the value of the leasehold properties has been included. Although this is a memorandum adjustment as leasehold properties are included in the Group's financial statements at cost and not at valuation, this deferred tax adjustment is included in the adjusted net asset value calculation in order to maintain a consistency of tax treatment between freehold and leasehold properties.

Summary

Lok'nStore is a progressive business which generates a rapidly growing cash flow from its strong asset base. With a low LTV of 25.8% and strong cash flow we have a firm base for growth. The value of the Group's property assets continue to increase underpinning a flexible trading model with low credit risk and tightly controlled operating costs.

Principal Risks and Uncertainties in operating our Business

Finance

Lok'nStore finances its current needs through a combination of strong operational cash flows and debt.

Cash deposits are placed with Lloyds Bank plc on a no-notice treasury deposit account which tracks base rate and currently yields 0.5% p.a. on all deposited balances. The Group's cash position is reviewed daily and cash is transferred daily between these accounts and the Group's operational current accounts as required.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. Historically, no trading in financial instruments had been undertaken but during 2012 the Group entered into two separate swap arrangements. Full details are set out in the Financial Review. Further information on our treasury arrangements is set out in Note 16.

The financial risk management objectives and policies of the Group, along with details of exposure to liquidity and cash flow risk are set out below and in Note 16 (Financial Instruments) to the financial statements.

Risk Management

Risk management has been a fundamental part of the development of Lok'nStore. We maintain a risk register which identifies and categorises our risks and provides an assessment of risk based on a combination of 'likelihood' and 'consequences and impact' on the business. This is reviewed regularly by management and the Board and underpins our structured approach to identifying, assessing and controlling risks that emerge during the course of operating the business. Its purpose is to support better decision-making through understanding the risks inherent in both the day-to-day operations and the strategic direction of the Group and their likely impact. This is a continuing and evolving process as we review and monitor the underlying risk elements relevant to the business.

Market Risk

Self-storage is a developing market with further opportunities for significant growth. Awareness of self-storage and how it can be used by customers is well understood in the United States, but historically has been relatively low throughout the UK. Survey and anecdotal evidence suggest this awareness is now rising in the UK. The rate of growth in branded self-storage operations in good trading locations continues to be limited by the challenge of acquiring sites at appropriate prices and obtaining planning permission.

Lok'nStore invests in prime locations where its criteria for site selection are met and which will enable it to develop high quality stores which are prominent with high visibility and strong branding. We believe this will place us in a strong trading position and may discourage competitors from entering that local market. However it is possible that Lok'nStore may be unable to execute this strategy which will inhibit its growth. Further it is possible that an increasing number of competitors in the industry may negatively impact Lok'nStore's existing operations.

We have a large customer base spread across 24 stores including those customers who have used Lok'nStore regularly over the years. Many of these periodically return as their circumstances and their storage needs change. Our self-storage customers are a broad mix of both domestic and business, generating around 66.5% and 33.5% respectively of our revenue (2014: 66.7% :33.3%).

Property Risk

The acquisition of new sites for development into self-storage centres is a key strategic objective of the business. We will continue to face significant competition for site locations from other uses such as hotels, car showrooms and offices as well as from the other self-storage operators.

The process of gaining planning permissions remains challenging. Lok'nStore may take on the risk of obtaining planning permission when acquiring sites in the face of competitive bids. In these cases we are obliged to undertake the planning, environmental and other property due diligence under tight timescales which creates greater risk in the process.

Nevertheless Lok'nStore's management has gained significant experience in operating in this property environment, acquiring sites on main roads in prominent locations and obtaining appropriate planning permissions.

We manage the construction of our properties carefully. The building of each store is handled through a design and build contract with established contractors. We employ an external team of professionals to monitor the progress of each development. The fitting of mezzanine floors and steel units is generally managed in-house using an established external professional team of sub-contractors who understand Lok'nStore's particular specifications.

Credit Risk

Lok'nStore's self-storage credit model is strong with customers paying four weekly in advance in addition to an initial four weeks rental deposit. We retain a legal lien over customers' goods which can be sold to cover their unpaid bills. Credit control remains tight with only £38,891 (2014: £34,692) of bad debts recognised during the year representing around 0.25% of revenue (2014: 0.20%). There was £8,714 of additional costs associated with recovery (2014: £5,603). Given the tight credit conditions in the wider economy our own credit control indicators are resilient, showing no appreciable signs of weakening during the year with the number of 'late letters' issued declining year-on-year and bad debts remaining at low levels.

Tax Risk

We regularly monitor proposed and actual changes in legislation in the tax regime affecting principally corporation tax, capital gains tax, VAT and Stamp Duty Land Tax (SDLT). We work with our professional advisors and through trade bodies to understand and mitigate or benefit from their effects.

Corporate Social Responsibility and Employee Risk

The Corporate Social Responsibility and Employee Risk within the business are discussed within the Corporate Responsibility Report.

Reputational Risk

Lok'nStore's business reputation is very important to the Group. Our management and staff work hard to protect and develop it. We always try to communicate clearly with our customers, suppliers, local authorities and communities, employees and shareholders and to listen and take account of their views. The Lok'nStore Group websites (www.loknstore.co.uk www.loknstore.com and www.saracendatastore.co.uk) are important avenues of communication and a source of information for employees, customers and investors. Employee communication is augmented by quarterly staff newsletters.

Approved by the Board of Directors and authorised for issue on 16 October 2015 and signed on its behalf by:

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Board of Directors and Advisers

Executive Directors

Simon Thomas ■
Chairman

Simon has been a Director of Lok'nStore since 1997 after a successful career in the publishing and finance sectors. He co-founded the emerging markets investment trust business at LCF Edmond de Rothschild. He has also worked at Swiss Bank Corporation, Nomura International and Reed International. Simon is a Non-Executive Director of Trucost plc, an environmental data company.

Simon is responsible for the composition and performance of the Board.

Andrew Jacobs ■
Chief Executive Officer

Andrew established Lok'nStore in February 1995 after eight years' experience as a stockbroker at Nomura International in London. He has an MPhil in Economics from Cambridge University and a BSc in Economics from the London School of Economics. Andrew is President and Deputy Chairman of Trucost plc, an environmental data company.

Andrew is responsible for strategy, corporate finance and property.

Ray Davies ■
Finance Director

Ray is a chartered accountant. He joined Lok'nStore in 2004 and has held a number of senior finance positions in the construction, and health and fitness sectors. In 1992, he was appointed Group Finance Director and Company Secretary of Dragons Health Clubs plc during a period of rapid and sustained growth. Following its acquisition by Crown Sports plc in 2000, he was appointed Finance Director of Crown Sports Clubs Division and Company Secretary of Crown Sports plc, a company listed on the London Stock Exchange. From 1984 to 1992 Ray was Group Finance Director and Company Secretary of Mark Scott Construction Group.

Ray is responsible for finance, administration and risk management.

Colin Jacobs ■
Director

Prior to joining Lok'nStore Colin worked for the Courts Group of Companies in sales and marketing functions.

Colin is responsible for identifying and negotiating new sites for Lok'nStore, and for business development.

Non-Executive Directors

Edward Luker
Senior Non-Executive Director

Joined Lok'nStore in 2007. Edward is a well-known figure in the UK property industry, having worked for CB Richard Ellis for 33 years, where he has been a Director and Partner for 20 years. In 1997/8 Edward was Chairman of the Investment Property Forum, the industry body, and has acted for a number of pensions in the creation of property investment funds. Edward is a Fellow of the Royal Institute of Chartered Surveyors and is currently Consultant and Chairman of the Investment Advisory Committee of CBRE Real Estate Finance Limited.

Edward sits on the Audit Committee and chairs the Remuneration Committee.

Richard Holmes
Non-Executive Director

Joined Lok'nStore in 2000. Richard is currently Group Marketing Director and Joint Managing Director-UK of Specsavers. Previously, Richard held a number of senior positions within the Boots organisation, including Director of Offer Development at Boots e-commerce business, Marketing Director of Boots the Chemist and Director of Health & Beauty. Richard was also Head of Strategy Development for Unilever's worldwide dental business and holds an MSc in Economics from Warwick University and a BSc in Economics from the London School of Economics.

Richard sits on the Remuneration Committee.

Charles Peal
Non-Executive Director

Joined Lok'nStore in 2007. Charles started his career in 1977 at 3i Group, the leading UK quoted Venture Capital Company. He was the Chief Executive of Legal and General Ventures from 1988 to 2000 and was a Director of various quoted private equity investment trusts and management buyouts. He is currently a Director of Warnborough Asset Management, an independent fund management business and Chairman of BLME Sharia'a Umbrella Fund SICAV-SIF.

Charles chairs the Audit Committee.

Directors and Advisers

Directors

SG Thomas	Chairman
A Jacobs	Chief Executive Officer
RA Davies	Finance Director
CM Jacobs	Director
ETD Luker	Senior Non-Executive Director
RJ Holmes	Non-Executive Director
CP Peal	Non-Executive Director

Secretary and Registered Office

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c/o Maclay Murray Spens LLP
One London Wall
London EC2Y 5AB

Nominated Adviser and Broker

finnCap Ltd
60 New Broad Street
London EC2M 1JJ

Auditor

RSM UK AUDIT LLP
(formerly Baker Tilly UK Audit LLP)
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Solicitors

Maclay Murray Spens LLP
One London Wall
London EC2Y 5AB

Goodman Derrick LLP
10 St Bride Street
London EC4A 4AD

Registrars

Capita Registrars
Capita Group plc
The Registry
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Beckenham
Kent BR3 4TU

Bankers

Lloyds plc
Lloyds Bank Corporate Markets
3rd Floor, 2 City Place
Beehive Ring Road
Gatwick
West Sussex RH6 0PA

Directors' Report

The Directors submit their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2015.

Principal Activity

The principal activity of the Group during the year was that of providing self-storage and related services.

Review of the Business and Future Developments

A detailed account of the Group's progress during the year and its future prospects are set out in the Chairman's Review, and the Strategic Report.

The key performance indicators are set out in the Highlights on page 2 and discussed in more detail in the Financial Review and the Performance of our Stores sections of the Strategic Report.

Going Concern

A review of the Group's business activities, together with the matters likely to influence its future development, performance and its position in the wider market are set out in the Strategic Report. The financial position of the Group, its cash flows and borrowing facilities are shown in the Statement of Financial Position, Cash Flow Statement and corresponding Notes and policies contained within the financial statements.

Further information concerning the Group's objectives, policies, its financial risk management objectives as well as details of financial instruments and credit and liquidity risk are also found in the Strategic Report and in the Notes to the financial statements.

The Directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and the Group have adequate resources and facilities to continue in operational existence for the foreseeable future based on Group cash balances of £2.4 million, (2014: £2.2 million) undrawn committed facilities at 31 July 2015 of £12.3 million (2014: £12.3 million) and cash generated from operations in the year to 31 July 2015 of £6.0 million (2014: £5.2 million). The Group continues to operate its five year £40 million revolving credit facility with Lloyds Bank plc in full compliance of its covenants and undertakings underlining the strength of the cash flow and the assets of the business. The facility has been in place since 20 October 2011 and runs until 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Dividend

In respect of the current year, the Directors propose that a final dividend of 5.67 pence per share (2014: 5 pence) will be paid on 21 December 2015 to shareholders on the register on 20 November 2015. The total estimated dividend to be paid is £1,444,693 based on the number of shares in issue on 5 October 2015 as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Events after the Reporting Date

Reportable events after the reporting date are set out in Note 31 in the financial statements.

Directors

The following Directors held office during the year and subsequently:

SG Thomas	ETD Luker
A Jacobs	RJ Holmes
RA Davies	CP Peal
CM Jacobs	

Details of the interests of the Directors in the shares of the Company are set out below and details of their remuneration are disclosed in Note 6 of the financial statements.

Biographical details of the Directors are set out on page 22.

Reappointment of Directors

In accordance with the Company's Articles of Association, Colin Jacobs and Edward Luker retire by rotation and each being eligible offer themselves for re-election at the next Annual General Meeting (AGM). Richard Holmes who has over 11 years tenure as a non-executive is required under the Companies Act 2006 to offer himself for re-election at every AGM and accordingly offers himself for election at the next AGM.

Directors' and Officers' Liability Insurance

The Company has liability insurance covering the Directors and Officers of the Company and its subsidiaries.

Substantial Shareholdings

The Directors have been notified or are aware that the following are interested in 3% or more of the issued Ordinary Share capital of the Company as at 5 October 2015:

	Current rank	% at 5 Oct 2015	Number of shares	Total shares in issue (excluding treasury shares)	% at 2 Oct 2014	Total shares in issue (excluding treasury shares)	Total shares in issue (excluding treasury shares)
Andrew Jacobs	1	**20.32**	5,305,200		20.95	5,314,000	
Miton Capital Partners	2	**11.79**	3,077,476		12.13	3,077,476	
Simon Thomas	3	**7.66**	2,000,000		8.30	2,106,385	
Cavendish Asset Management	4	**7.02**	1,831,700		7.25	1,839,200	
Slater Investments	5	**4.89**	1,275,501		4.51	1,144,501	
Charles Peal	6	**3.31**	865,000		2.78	705,000	
				26,102,803[1]			**25,364,739**

1 Represents total shares in issue (excluding treasury shares) at 5 October 2015

Market Valuation of Freehold Land and Buildings

The changes in property, plant and equipment during the year and details of property valuations at 31 July 2015 are shown in Note 10b to the Financial Statements. Further commentary on the property portfolio is contained in the Property Review and in the Financial Review.

Share Buy-back Authority

Authority will be sought at the Company's AGM on 26 November 2015 from shareholders to approve a share buyback authority. The buy-back authority will only be exercised in circumstances where the Directors regard such purchases to be in the best interests of shareholders as a whole.

Statement of Disclosure of Information to the Auditor

The Directors who were in office at the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Annual General Meeting

The Company's Annual General Meeting will be held on 26 November 2015 at 5.30pm at the offices of Goodman Derrick LLP 10 St Bride Street, London EC4A 4AD.

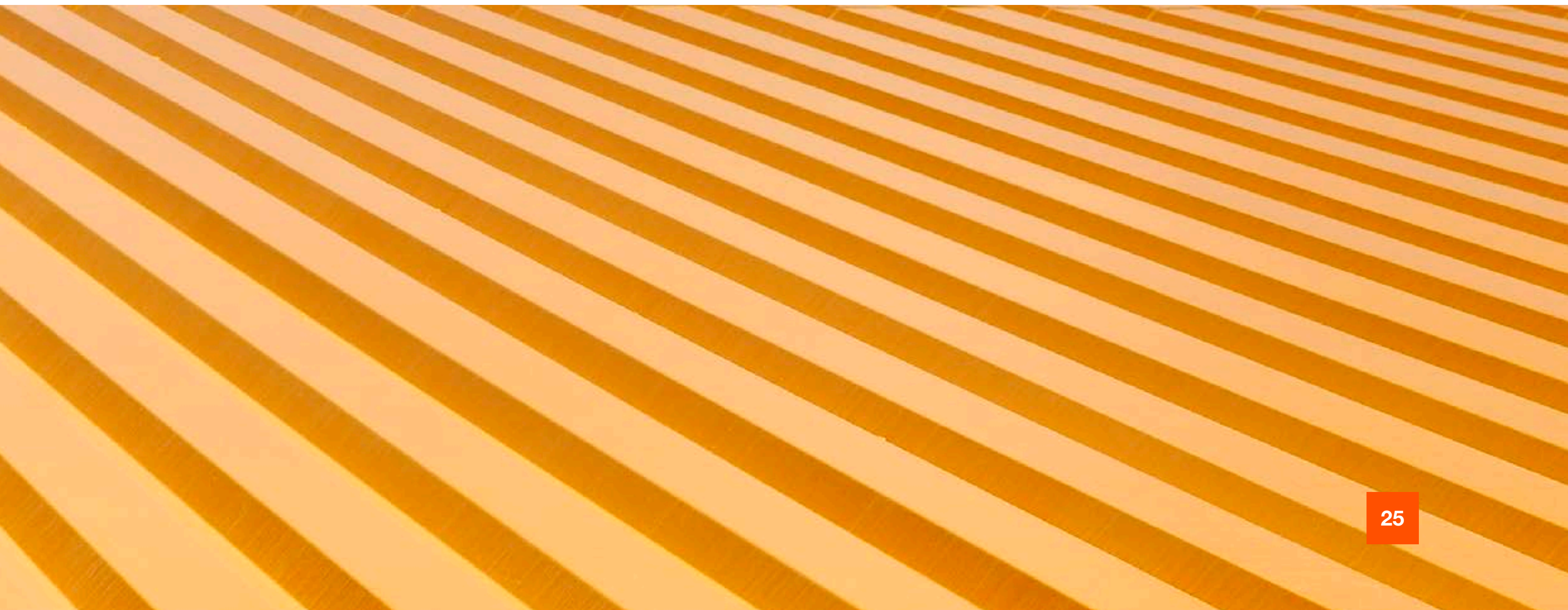
Auditor

A resolution to reappoint Baker Tilly UK Audit LLP, whose name will change on 26 October 2015 to RSM UK Audit LLP, as auditor will be put to the members at the Annual General Meeting.

A formal notice together with explanatory circular and Form of Proxy will be sent to shareholders.

On behalf of the Board.

Ray Davies
Director
16 October 2015



Corporate Social Responsibility Report

Corporate and Social Responsibilities

Lok'nStore conducts its business in a manner that reflects honesty, integrity and ethical conduct. We believe that the long-term success of the business is best served by respecting the interests of all our stakeholders. Management of social, environmental and ethical issues is of high importance to Lok'nStore. These issues are dealt with on a day-to-day basis by the Group's managers with principal accountability lying with the Board of Directors. We look for opportunities to address our responsibility to the environment, and we pay close attention to our energy use, carbon dioxide emissions, water use and waste production. A full assessment is set out below in our Environmental Policy.

Customers

We believe in clarity and transparency. Brochures and literature are written in plain English, explaining clearly our terms of business without hiding anything in the 'small print'. We are open and honest about our products and services and do not employ pressure selling techniques or attempt to take advantage of any vulnerable groups. If we make a mistake we acknowledge it, deal with the problem quickly, and learn from our error. We listen to our customers as we know that they can help us improve our service to them. In return a substantial amount of our business comes from previous customers, existing customers taking more space and customer referrals.

Suppliers

We are committed to conducting our business with suppliers in a fair and honest manner, with openness and integrity, operating in accordance with the terms and conditions agreed upon. We expect our suppliers to operate to these same principles.

Employees

At 31 July 2015 we had 145 employees (2014:143).

We treat our employees with dignity and respect and are committed to providing a positive attitude in the business and an enjoyable working environment. We have a professional open culture where staff can exchange ideas and offer suggestions for work and business improvement. This encourages our staff to build on their skills, through appropriate training and regular performance review. Regular training courses at our Farnborough Head Office support these objectives. We have a large conference room which can accommodate all our training requirements for the foreseeable future. This reduces outgoings and increases and improves contact between Head Office and the stores by bringing staff into Head Office for their training. This in turn contributes to attracting and retaining the right people which is key to the success of Lok'nStore.

The Lok'nStore Academy

During the financial year we launched the Lok'nStore Academy which has been received very positively by our people throughout the Group. The Academy brings some great strategic and operational benefits, including:

- Aligning all of our training and development under one "branded" project
- To build teams for the future through internal succession planning
- Enhancing the internal and external perception of the business as a great place to work, giving our people a sense of belonging and achievement through our training and development

The Academy encompasses all our "in house" training, quality audits (such as our monthly mystery shop programme and standards audits) and performance reviews. We have also developed an external National Vocational Qualification (NVQ) offering to help develop colleagues who show promise for the future with an external government funded supplier. The Lok'nStore Academy has been developed and introduced throughout the business with no increase in costs.

All employees are eligible to participate in our share ownership plans. Lok'nStore operates a Share Incentive Plan with 117 members (2014: 102), a total of 81% of employees participating in the Scheme (2014: 71%). This high level of participation is testament to the loyalty and commitment of our staff. Our personnel are committed and motivated and help maintain the exemplary levels of friendly service that Lok'nStore provides to its customers. I would like to thank all of our staff for their commitment to our business and for their hard work and efforts over the year to which the Group owes its continuing success.

Our Corporate Social Responsibility Report sets out our environmental policy and how we manage our impact on the environment, our policies and principles in relation to our responsibilities to stakeholders including suppliers, customers and employees.

Policy on Payment of Suppliers

The Group does not follow any formal code or standard on payment practice. The Company's policy, which is also applied by the Group, is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with standard payment practice, whereby all outstanding trade accounts are settled within the terms agreed with the supplier at the time of the supply or otherwise 30 days from invoice date. At the year-end the credit taken from suppliers by the Group was 56 days (2014: 46 days).

Health and Safety

The Board recognises the prime importance of maintaining high standards of Health & Safety and healthy working conditions for staff, customers, visitors, contractors and other people who may be affected by our business activities.

Lok'nStore has a Health and Safety Committee which meets to discuss issues relevant to Health and Safety within the Group under the overall supervision of Ray Davies, who carries Board responsibility for risk management. The meetings are chaired by the Finance Director.

The Health and Safety policy is reviewed by the Committee on an annual basis. It is also amended to include changes to Health and Safety Law as they occur. The Health and Safety policy clearly sets out the duties and responsibilities of the Chief Executive Officer, Managers and all staff within the Group.

Employee Benefit Trust

The Employee Benefit Trust owns 623,212 shares (2014: 623,212), the costs of which are shown as a deduction from shareholders' funds. Full details are provided in Note 26 - Own Shares.

Environmental Performance

Environmental Management and Performance

Lok'nStore Group has been measuring its environmental impacts for the last ten years. Monitoring focuses on environmental key performance indicators (KPIs), namely greenhouse gas emissions (GHG), water use and waste.

Our Environmental Policy is to effectively manage our waste, control our polluting emissions and to encourage our suppliers to minimise their impact on the environment. Trucost, the environmental reporting company has reviewed Lok'nStore Group plc's reporting of environmental matters in its Annual Report for the year ended 31 July 2015.

The Group's environmental report is fully in accordance with Government Guidelines, Environmental Key Performance Indicators: Reporting Guidelines for UK Business (2006).

Highlights for the year ended 31 July 2015:

- Electricity generation from photovoltaic (PV) installations rose by 56% to 122 MWh (2014, 78 MWh), and Lok'nStore exported 34% more electricity to the national grid. Lok'nStore has moved to a new building in Reading, with its PV installation adding 21 MWh.
- Overall total GHG emissions are unchanged in comparison to the previous year, with 319 tonnes in 2015 (2014, 319 tonnes). Since the start of reporting, GHG emissions have been reduced by 73% from 1,189 tonnes in 2005. There has been a 10% reduction from 23 tCO2e/£m in 2014 to 21tCO2e/£m this year when normalised to turnover.
- Following the effective elimination of indirect emissions from electricity at its Lok'nStore facilities by the purchase of 100% renewable sourced electricity, the Group's direct emissions, which result from natural gas and vehicle fuel consumption, now account for 80% of overall GHG emissions. As direct gas and fuel use is now the largest source of GHG emissions, Lok'nStore has concentrated on reducing this impact. This year direct GHG emissions decreased to 255 tonnes (2014, 258 tonnes) a reduction of 11% when normalised to turnover.
- Total waste sent to landfill was reduced for the eleventh successive year to 168 tonnes (2014, 181 tonnes), a 16% reduction on a normalised basis.
- Water consumption intensity reduced 4% from 187 m3/£m in 2014 to 180 m3/£m this year.

Overall GHG emissions

Total GHG emissions have not changed compared to last year at 319 tCO2e. Since Lok'nStore began reporting its environmental performance in 2005, when emissions were 1,189 tonnes in the year, the current level represents a 73% reduction. When normalised to turnover there has been an 86% reduction from 2005.

Figure 1 shows the level of overall GHG emissions since the start of reporting. The figures include direct emissions from vehicles and gas boilers and indirect emissions from electricity. In previous years, emissions from hire vehicles were accounted for under indirect emissions. However, in 2015 Lok'nStore discontinued hiring vans to self-storage customers.

Until 2012 indirect GHG emissions from electricity consumption were higher than all direct emissions. However, due to using 100% renewable energy at its Lok'nStore facilities, direct GHG emissions from 2013 onwards have formed the bulk of overall GHG emissions. Lok'nStore will continue identifying opportunities to reduce its GHG emissions from natural gas consumption and vehicle fuel use.

Indirect GHG emissions (electricity)

For the seventh year running all of Lok'nStore Ltd's electricity was supplied by Green Energy plc. It has been confirmed by Green Energy that 100% of the electricity supplied to Lok'nStore Ltd has been from renewable sources. Since 2013 reporting, an emission factor of zero is applied to Lok'nStore's electricity consumption to account for its usage of renewables. That change effectively eliminates Lok'nStore's indirect emissions from electricity consumption, which now only reflect Saracen's electricity consumption.

Absolute indirect GHG emissions from electricity consumption increased from 55 tCO2e to 64 tCO2e. The increase is due to an increase in absolute electricity consumption at the Saracen facility by 25% from 2014. When normalised to turnover there has been a 5% increase in the GHG emissions and the intensity is 4 tCO2e per £m turnover.

Figure 2 shows absolute and normalised GHG emissions from electricity consumption over the last ten years

Electricity generation

Where it is appropriate Lok'nStore equips new stores with solar panel arrays. In 2014 Lok'nStore installed a 50kWp array at Maidenhead in addition to the installation at Poole. In its first full year of operation the Maidenhead array has generated 50 MWh of electricity. During 2015 Lok'nStore added a PV installation at the new Reading facility. In this period the Reading array has contributed 21 MWh, of which 20.8 MWh was used on site and 1% was exported to the grid.

The Maidenhead store uses underfloor heating from an air source heat pump and ventilation heat recovery systems. The Maidenhead PV system generated 50 MWh of electricity of which 18 MWh was exported to the grid while still providing over 35% of the store's annual electricity requirement.

During the reporting period the Poole system generated 50 MWh of electricity (2014, 51 MWh). Of this the bulk was used on site providing 33% of the store's annual electricity needs, with a balance of 7 MWh exported back to the grid (2014, 8 MWh).

The figure and tables below show the overall 2014 electricity generation from the PV systems, the consumption of this electricity at each site and the electricity exported to the national grid.

Environmental Performance

Table 1: Lok'nStore's photovoltaic installations — electricity generation

	2014	2015	% change
Generation (MWh) - Poole	51	50	-1%
Generation (MWh) - Maidenhead	27	50	85%
Generation (MWh) Reading-		21	
Total generation, MWh	78	122	56%
tCO_2e of generated electricity at national standard mix	39	56	46%

With the solar panel arrays installed at Poole, Maidenhead and now Reading, Lok'nStore was able to increase electricity generation by 56% compared to 2014. The total generation of 122 MWh would represent 56 tCO_2e if drawn from the national grid[1].

[1] Using DEFRA 2015 factor for UK electricity

Table 2: Lok'nStore's photovoltaic installations — electricity exported

	2014	2015	% change
Generation (MWh) - Poole	8	7	-6%
Generation (MWh) - Maidenhead	11	18	61%
Generation (MWh) Reading		0.20	
Total exported, MWh	19	26	34%
tCO_2e of exported electricity at national standard mix	9	12	26%

Lok'nStore exported 26 MWh to the national grid in 2015, which is an increase of 34% when compared to last year (2014, 19 MWh).

Direct GHG emissions

In 2011, Lok'nStore acquired the Saracen records management business which includes a document delivery and collection service. This has led to an 80% increase in the GHG emissions in comparison to the baseline year 2005. The Group introduced a new van fleet fitted with Euro V compliant diesel engines which greatly improved fuel efficiency. Overall, vehicle fuel GHG emissions were reduced by 13% on a normalised basis to 14 tCO2e/£m.

Emissions from gas boilers have not changed considerably with 34 tCO_2e in 2015, (35 tCO_2e) which is a reduction of 3%. Direct GHG emissions intensity reduced from 3 to 2 tCO_2e tonnes per £m turnover.

Overall the Group's direct carbon footprint has decreased from 258 to 255 CO_2e tonnes. Normalised to turnover direct GHG emissions decreased from 19 to 17 CO_2e tonnes per £m, which is an 11% reduction.

Figure 4 shows absolute and normalised GHG emissions from natural gas consumption and vehicle fuel consumption over the last eleven years.

Waste generation and recycling

In line with the Group's waste management strategy we continue to monitor waste generation and recycling levels.

For the eleventh successive year Lok'nStore reduced the quantity of waste produced. Waste sent to landfill fell to 168 tonnes in 2015, from 181 tonnes in the previous period, a 16% reduction when normalised to turnover. Total waste sent to landfill and recycled has risen from 404 tonnes to 408 tonnes, but represents a reduction of 9% in waste generation when normalised to turnover. The proportion of waste recycled has increased from 53% to 59%.

We also monitor hazardous (sanitary) waste, but the amount is negligible.

Figure 5 shows absolute and normalised landfill waste produced over the last eleven years.

Since the acquisition of Saracen, the Group also monitors its contracted waste produced (i.e. consumer waste sent to Saracen for secure disposal). In 2015, Saracen recycled 344 tonnes of shredded paper on behalf of its customers (2014, 181 tonnes), recycling close to 90% more paper than the previous year. It also disposed of 1.75 tonnes of media, exhibition items and PC equipment, which is nearly three times as much as in 2014 (0.61 tonne). Other categories of waste recycled, like compacted shrink film, were not recorded by Lok'nStore this year although the quantities are very small. Trucost recommends that Lok'nStore continues recording all waste categories year on year to achieve their waste reduction targets and to monitor contracted waste disposal.

Water consumption

The water consumption intensity reduced from 662 m^3/£m in 2005 to 180 m^3/£m last year, this KPI is now an extremely sensitive and useful indicator of any anomalous use or leakage. On a normalised basis this year's decrease to 180 m^3/£m, represents a 4% reduction compared to 2014. However, the 2015 consumption of 2,780 m^3 of water (2014, 2,603 m^3) represents a 7% increase, with anomalies that are under investigation.

Figure 6 shows absolute and normalised water use over the last eleven years.

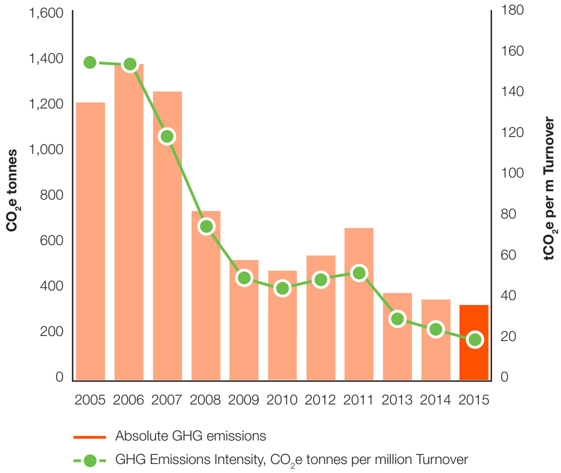


Figure 1: Direct and indirect GHGemissions

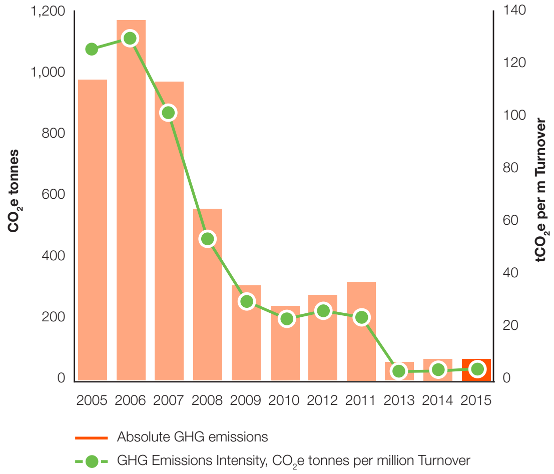


Figure 2: GHG emissions from electricity consumption

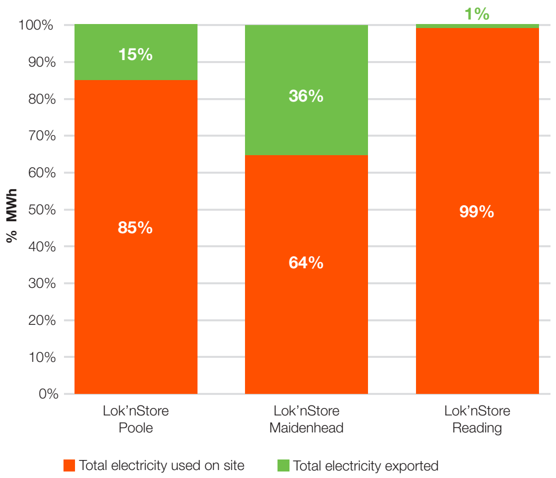


Figure 3: Lok'nStore's photovoltaic installations – electricity generation

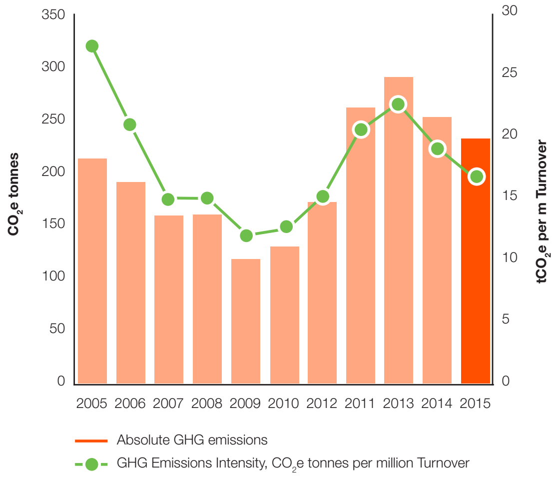


Figure 4: GHG emissions from natural gas and vehicles

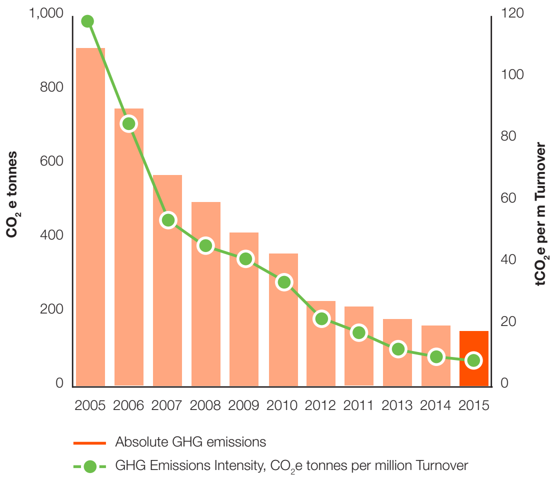


Figure 5: Landfill waste

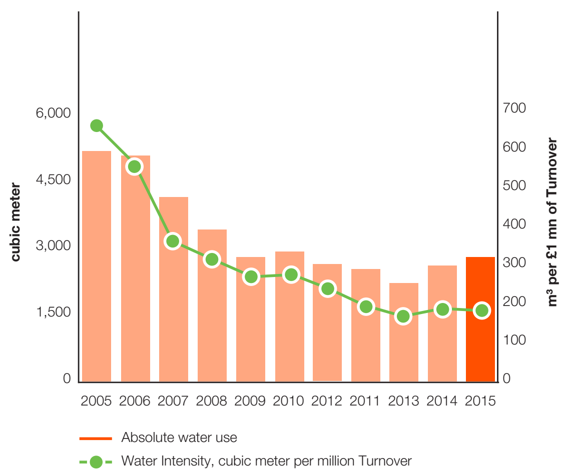


Figure 6: Water use

Environmental Performance

Greenhouse Gases	Definition	Data Source and Calculation Methods	Absolute Tonnes CO_2e 2014	Absolute Tonnes CO_2e 2015	Normalised* Tonnes CO_2e Per £m Turnover 2014	Normalised* Tonnes CO_2e Per £m Turnover 2015	% change in normalised quantity
Gas	Emissions from utility boilers	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines	35	**34**	3	**2**	-12%
Vehicle Fuel	Diesel and petrol used in company vans and by employees on company business	Fuel invoices, recorded mileage or satellite tracking converted according to Defra Guidelines	223	**221**	16	**14**	-11%
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O)	Calculated according to Defra Guidelines	258	**255**	19	**17**	-11%

(Direct Impacts (Operational); Quantity)

Waste	Definition	Data Source and Calculation Methods	Absolute Tonnes 2014	Absolute Tonnes 2015	Normalised* Tonnes Per £m Turnover 2014	Normalised* Tonnes Per £m Turnover 2015	% change in normalised quantity
Landfill	General office waste, which includes a mixture of paper, card, wood, plastics and metals	Volume of waste generated per annum, calculated by recording the number of bins and skips removed, converted to tonnes according to Defra Guidelines	181	**168**	13	**11**	-16%
Recycled	General office waste recycled, primarily cardboard, and fluorescent lights	Volume of waste recycled per annum, calculated by recording the number of bins and skips removed for recycling, converted to tonnes according to Defra Guidelines	223	**240**	16	**16**	-3%

Greenhouse Gases	Definition	Indirect Impacts (Supply Chain) Data Source and Calculation Methods	Quantity: Absolute Tonnes CO_2e 2014	Absolute Tonnes CO_2e 2015	Normalised* Tonnes CO_2e Per £m Turnover 2014	Normalised* Tonnes CO_2e Per £m Turnover 2015	% change in normalised quantity
Energy Use	Directly purchased electricity, which generates Greenhouse Gases including CO_2 emissions	Yearly consumption of directly purchased electricity in kWh collected, converted according to Defra Guidelines	55	**64**	4	**4**	5%

Water	Definition	Data Source and Calculation Methods	Quantity: Absolute m^3 2014	Absolute m^3 2015	Normalised* m^3 Per £m Turnover 2014	Normalised* m^3 Per £m Turnover 2015	% change in normalised quantity
Supplied Water	Consumption of piped water. No water directly abstracted by the Group	Yearly consumption of purchased water	2,603	**2,708**	187	**180**	-4%

Greenhouse Gases	Definition	Indirect Impacts — Downstream Data Source and Calculation Methods	Quantity: Absolute Tonnes CO_2e 2014	Absolute Tonnes CO_2e 2015	Normalised* Tonnes CO_2e Per £m Turnover 2014	Normalised* Tonnes CO_2e Per £m Turnover 2015	% change in normalised quantity
Vehicle Fuel	Petrol and diesel used by customers in van hire fleet	Recorded mileage, converted according to Defra Guidelines	6		0.4		–100%

Figures are rounded up

* Normalised based on annual turnover for the respective years.

Corporate Governance

Introduction

The UK Corporate Governance Code is intended to promote the principles of openness, integrity and accountability. The Group and Board fully support these principles. In view of the size and nature of the Group, the Directors have taken into consideration the recommendations of the Guidance for Smaller Quoted Companies produced by the Quoted Companies Alliance and applied the principles that they consider relevant to the Group.

Narrative Statement

Directors

There is a Board of Directors, which is set up to control the Group and consists of four Executive and three Non-Executive Directors. The Board considers all of the Non-Executive Directors to be independent of the Group save for Richard Holmes who by virtue of over eleven years tenure as a non-executive is not considered to be independent. SG Thomas is Chairman of the Board and the Board has a formal schedule of matters reserved for its consideration and decision. This schedule includes approval of financial strategy, major investments, review of performance, monitoring risk, ensuring adequate capital resources are available and reporting to shareholders. The Chairman is not independent as he is a substantial shareholder of the Company and was formerly the Chief Executive.

The full Board meets at least every three months to discuss a range of significant matters including strategic decisions, major acquisitions and Group performance. A procedure to enable Directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all Directors.

Each Board meeting receives the latest financial information available which consists of detailed management accounts with the relevant comparisons to budget. A current trading appraisal is given by the Executive Directors.

Each member of the Board is subject to the re-election provisions of the Articles of Association, which require them to offer themselves for re-election at least once every three years. In the event of a proposal to appoint a new Director, this is discussed at a full Board meeting with each member being given the opportunity to meet the individual concerned prior to any formal decision being taken. Richard Holmes who has over nine years' tenure as a non-executive is now required under the Companies Act 2006 to offer himself for re-election at every Annual General Meeting and accordingly offers himself for election at the next AGM.

Directors' Remuneration

The Remuneration Committee consists of Edward Luker (Chairman of the Committee) and Richard Holmes. The Committee meets and considers, within existing terms of reference, the remuneration policy and makes recommendations to the Board for each Executive Director. The Committee's remuneration policy aims to design a package that will align the interests of Executive Directors and those of shareholders. The Executive Directors' remuneration consists of a package of basic salary, bonuses and share options, which are linked to corporate achievements and these levels are determined by the Remuneration Committee. The details of each Director's remuneration are set out in Note 6 in the financial statements.

The Committee meets once a year and considers proposals from the Chairman and Chief Executive Officer.

Shareholders' Relations

The Directors meet and discuss the performance of the Group with shareholders during the year. Queries raised by a shareholder, either verbally or in writing, are promptly answered by whoever is best placed on the Board to do so. At the AGM the Board give a presentation of events and progress during the year and Directors are individually introduced to shareholders at the Meeting. Attendee shareholders are encouraged to mix and engage with the Directors after the formal business of the AGM has concluded.

Accountability and Audit

The Board believes that the Annual Report and Accounts play an important part in presenting all shareholders with an assessment of the Group's position and prospects. The Chairman's Review contains a detailed consideration of the Group's position and prospects.

Internal Control

The Board is responsible for ensuring that the Group has in place a system of internal control. In this context, internal control is defined as those policies and processes established to ensure that business objectives are achieved cost effectively, assets and shareholder value are safeguarded, and laws, regulations and policies are complied with. Controls can provide reasonable but not absolute assurance that risks are identified and adequately managed to achieve business objectives and to minimise material errors, losses and fraud or breaches of laws and regulations.

The Group operates a strict system of internal financial control, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a comprehensive system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group.

The Group continues to develop the internal audit function utilising operational management to make unannounced store visits as part of a process supported by audit control checklists and other procedures. This undertaking has contributed to sales by promoting efficient store management, but also addresses risk and credit control, cash and store banking, and space and customer management. The internal audit checks are designed to ensure any fraud or mismanagement is quickly identified.

The Group has a whistle blowing procedure within its staff handbook, which is issued to all staff. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without concern of victimisation or disciplinary action.

Audit Committee

The Company has an established Audit Committee, to whom the external auditor, Baker Tilly UK Audit LLP, reports. The Committee consists of Charles Peal (Chairman of the Committee) and Edward Luker. It is responsible for the relationship with the Group's external auditor and the review of the Group's financial reporting and internal controls.

The Committee meets prior to the announcement of annual results to consider the Auditors' Findings Report and consider any corresponding recommendations, and would convene at other times should it be necessary.

The Audit Committee also undertakes a formal assessment of the auditor's independence each year, which includes:

- a review of non-audit services provided to the Group and related fees;
- discussion with the auditor of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner every five years; and
- obtaining written confirmation from the auditor that, in their professional judgement, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 5 to the financial statements.

The Committee is satisfied that the external auditor remains independent in the discharge of their audit responsibilities.

The Board supports the highest standards in corporate governance, appropriate to its size, and continues to consider the UK Corporate Governance Code as well as the Group's procedures to maintain proper control and accountability. In common with many small companies, a nomination committee has not been established and appointments to the Board are decided on by the Board as a whole.

On behalf of the Board

Simon G Thomas
Chairman
16 October 2015

Directors' Responsibilities in the Preparation of Financial Statements

The Directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company Financial Statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Lok'nStore Group plc websites.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Lok'nStore Group plc

We have audited the group and parent company financial statements ("the financial statements") on pages 36 to 71. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 July 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Clark (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
EC4A 4AB
16 October 2015

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2015

	Notes	2015 £'000	2014 £'000
Revenue	1a	15,424	13,910
Total property, staff, distribution and general costs	2a	(9,742)	(9,294)
Adjusted EBITDA[1]		5,682	4,616
Amortisation of intangible assets		(165)	(165)
Depreciation and loss on sale of motor vehicles		(1,440)	(1,251)
Equity settled share based payments		(211)	(119)
Impairment of development land asset	10b	–	(1,604)
Irrecoverable property costs		(209)	–
		(2,025)	(3,139)
Operating profit[1]		3,657	1,477
Finance income	3	141	26
Finance cost	4	(1,144)	(1,136)
Profit before taxation	5	2,654	367
Income tax expense	7	(686)	(170)
Profit for the year		1,968	197
Profit attributable to:			
Owners of the parent	25	1,968	197
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Increase in property valuation		8,009	6,281
Deferred tax relating to change in property valuation		(1,578)	(1,261)
		6,431	5,020
Items that may be subsequently reclassified to profit and loss			
(Decrease)/increase in fair value of cash flow hedges		(170)	322
Deferred tax relating to cash flow hedges		38	(72)
		(132)	250
Other comprehensive income		6,299	5,270
Total comprehensive income for the year		8,267	5,467
Attributable to:			
Owners of the parent		8,267	5,467
Earnings per share			
Basic	9	7.84p	0.81p
Diluted	9	7.64p	0.79p

1 Adjusted EBITDA and operating profit are defined in the accounting policies section of the Notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 July 2015

	Share capital £'000	Share premium £'000	Other reserves £'000	Revaluation reserve £'000	Retained earnings £'000	Attributable to owners of the parent £'000	Non-controlling interest £'000	**Total equity £'000**
1 August 2013	**272**	**1,013**	**10,511**	**21,665**	**6,631**	**40,092**	**280**	**40,372**
Profit for the year	–	–	–	–	197	197	–	**197**
Other comprehensive income:								
Increase in property valuation net of deferred tax	–	–	–	5,020	–	5,020	–	**5,020**
Increase in fair value of cash flow hedges net of deferred tax	–	–	250	–	–	250	–	**250**
Total comprehensive income for the year	–	–	250	5,020	197	5,467	–	**5,467**
Transactions with owners:								
Dividend paid	–	–	(1,543)	–	–	(1,543)	–	**(1,543)**
Share based payments	–	–	119	–	–	119	–	**119**
Transfers in relation to share based payments	–	–	(742)	–	742	–	–	**–**
Acquisition of non-controlling interests	–	–	–	–	280	280	(280)	**–**
Exercise of share options	7	788	–	–	–	795	–	**795**
Total transactions with owners	7	788	(2,166)	–	1,022	(349)	(280)	**(629)**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(207)	207	–	–	**–**
1 August 2014	**279**	**1,801**	**8,595**	**26,478**	**8,057**	**45,210**	**–**	**45,210**
Profit for the year	–	–	–	–	1,968	1,968	–	**1,968**
Other comprehensive income:								
Increase in property valuation net of deferred tax	–	–	–	6,431	–	6,431	–	**6,431**
Increase in fair value of cash flow hedges net of deferred tax	–	–	(132)	–	–	(132)	–	**(132)**
Total comprehensive income for the year	–	–	(132)	6,431	1,968	8,267	–	**8,267**
Transactions with owners:								
Dividend paid	–	–	–	–	(1,847)	(1,847)	–	**(1,847)**
Share based payments	–	–	211	–	–	211	–	**211**
Transfers in relation to share based payments	–	–	(298)	–	298	–	–	**–**
Deferred tax credit relating to share options[1]	–	–	309	–	–	309	–	**309**
Exercise of share options	6	813	–	–	–	819	–	**819**
Total transactions with owners	6	813	222	–	(1,549)	(508)	–	**(508)**
Transfer realised gain on asset disposal	–	–	–	(421)	421	–	–	**–**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(249)	249	–	–	**–**
31 July 2015	**285**	**2,614**	**8,685**	**32,239**	**9,146**	**52,969**	**–**	**52,969**

FINANCIAL REPORT

Company Statement of Changes in Equity

For the year ended 31 July 2015

	Share capital £'000	Share premium £'000	Retained deficit £'000	Other reserves £'000	**Total £'000**
1 August 2013	**272**	**1,013**	**(735)**	**4,433**	**4,983**
Total comprehensive income	–	–	(174)	–	**(174)**
Dividend paid	–	–	–	(1,543)	**(1,543)**
Share based payments	–	–	–	119	**119**
Transfers in relation to share based payments	–	–	742	(742)	**–**
Exercise of share options	7	788	–	–	**795**
31 July 2014	**279**	**1,801**	**(167)**	**2,267**	**4,180**
Total comprehensive income	–	–	(139)	–	**(139)**
Share based payments	–	–	–	211	**211**
Transfers in relation to share based payments	–	–	298	(298)	**–**
Exercise of share options	6	813	–	–	**819**
31 July 2015	**285**	**2,614**	**(8)**	**2,180**	**5,071**

Statements of Financial Position

31 July 2015

Company Registration No. 04007169

	Notes	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Assets					
Non-current assets					
Intangible assets	10a	3,758	3,923	–	–
Property, plant and equipment	10b	87,802	77,679	–	–
Investments	11	–	–	2,106	1,895
Development loan capital	12	2,779	–	–	–
Amounts due from subsidiary undertakings	29	–	–	2,965	2,285
Derivative financial instruments	17b	–	51	–	–
		94,339	81,653	5,071	4,180
Current assets					
Inventories	13	141	131	–	–
Trade and other receivables	14	2,479	2,901	–	–
Cash and cash equivalents	16	2,435	2,178	–	–
Total current assets (excluding non-current assets classified as held for sale)		5,055	5,210	–	–
Non-current assets classified as held for sale	10d	–	2,900	–	–
Total assets		99,394	89,763	5,071	4,180
Liabilities					
Current liabilities					
Trade and other payables	15	(5,971)	(5,900)	–	–
Current tax liabilities	7	(535)	(338)	–	–
		(6,506)	(6,238)	–	–
Non-current liabilities					
Borrowings	17a	(27,548)	(27,445)	–	–
Derivative financial instruments	17b	(119)	–	–	–
Deferred tax	18	(12,252)	(10,870)	–	–
		(39,919)	(38,315)	–	–
Total liabilities		(46,425)	(44,553)	–	–
Net assets		52,969	45,210	5,071	4,180
Equity					
Equity attributable to owners of the parent					
Called up share capital	19	285	279	285	279
Share premium		2,614	1,801	2,614	1,801
Other reserves	24	8,685	8,595	2,180	2,267
Retained earnings/(deficit)	25	9,146	8,057	(8)	(167)
Revaluation reserve		32,239	26,478	–	–
Total equity attributable to owners of the parent		52,969	45,210	5,071	4,180

Approved by the Board of Directors and authorised for issue on 16 October 2015 and signed on its behalf by:

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Consolidated Statement of Cash Flows

For the year ended 31 July 2015

	Notes	2015 £'000	2014 £'000
Operating activities			
Cash generated from operations	27a	5,984	5,241
Income tax paid		(338)	–
Net cash generated from operations		5,646	5,241
Investing activities			
Development loan capital		(2,650)	–
Purchase of property, plant and equipment		(3,583)	(6,485)
Proceeds from disposal of property, plant and equipment		2,901	19
Interest received		12	26
Net cash used in investing activities		(3,320)	(6,440)
Financing activities			
Proceeds from new borrowings		–	919
Repayment of borrowings		–	(5)
Finance costs paid		(1,041)	(1,033)
Equity dividends paid		(1,847)	(1,543)
Proceeds from issue of ordinary shares (net)		819	795
Net cash used in financing activities		(2,069)	(867)
Net increase/(decrease) in cash and cash equivalents in the year		257	(2,066)
Cash and cash equivalents at beginning of the year		2,178	4,244
Cash and cash equivalents at end of the year		2,435	2,178

No statement of cash flows is presented for the Company as it had no cash flows in either year.

Accounting Policies

General Information
Lok'nStore Group plc is an AIM listed company incorporated and domiciled in England and Wales. The address of the registered office is One London Wall, London EC2Y 5AB, UK. Copies of this Annual Report and Accounts may be obtained from the Company's head office at 112 Hawley Lane, Farnborough, Hants, GU14 8JE, or the investor section of the Company's website at http://www.loknstore.co.uk

Basis of accounting
The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations as adopted by the European Union and comply with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretation Committee relevant to its operations and effective for accounting periods beginning on or after 1 August 2014.

The financial statements have been prepared on the historic cost basis except that certain trading properties and derivative financial instruments are stated at fair value.

Adoption of new and revised standards
The following relevant new standards, interpretations and amendments have been adopted in the year but have no significant impact.

IFRS 10: Consolidated Financial Statements
IFRS 11: Joint Arrangements
IFRS 12: Disclosure of Interest in Other Entities
Amendment to IAS 19: Employee Benefits
Amendment to IAS 27: Separate Financial Statements
Amendment to IAS 28: Investments in Associates and Joint Ventures
Amendment to IAS 32: Offsetting Financial Assets and Financial Liabilities
Amendment to IAS 36: Impairment of Assets
Amendment to IAS 39: Financial Instruments: Recognition and Measurement

Standards in issue but not yet effective
At the date of approval of these financial statements, the following principal standards and interpretations which were in issue but not yet effective:

Standards, interpretations and amendments Not Yet Endorsed		Effective date: Periods commencing on or after
IFRS 9	Financial Instruments	1 Jan 18
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 Jan 16
IFRS11	Accounting for Acquisitions of Interests in Joint Operations	1 Jan 16
IFRS15	Revenue from Contracts with Customers	1 Jan 18
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 16
IAS 27	Equity Method in Separate Financial Statements	1 Jan 16
IAS 1	Disclosure Initiative	1 Jan 16

The Directors do not anticipate that the adoption of these Standards will have a significant impact on the financial statements of the Group.

There were no other Standards or Interpretations, which were in issue but not yet effective at the date of authorisation of these financial statements, that the Directors anticipate will have a material impact on the financial statements of the Group.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 July each year. Control is achieved where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power to vary those returns.

Intra-group transactions, balances, and unrealised gains and losses on transactions between Group companies are eliminated on consolidation, except to the extent that intra-group losses indicate an impairment.

Accounting Policies

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred, the amount of any non-controlling interest and the fair value of any previous interest in the acquired entity over the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as a non-current asset.

Any deficiency of the consideration transferred, the amount of any non-controlling interest and the fair value of any previous interest in the acquired entity below the fair value of identifiable assets and liabilities of a subsidiary (i.e. discount on acquisition) is recognised directly in profit or loss.

Goodwill is reviewed for impairment at least annually. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units, and goodwill is allocated to these units. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses in relation to goodwill are recognised immediately in profit or loss and are not reversed in subsequent periods.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

When determining whether goodwill is impaired the carrying value of the cash generating unit is adjusted to include the goodwill attributable to the non-controlling interest when the non-controlling interest has been measured as a proportionate share of the net identifiable assets of the subsidiary.

Non-controlling interests

Non-controlling interests are measured at the proportionate share of the non-controlling interest's identifiable net assets in the relevant subsidiary.

Profit or loss and each component of other comprehensive income are allocated between the owners of the parent and non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. Any differences between the adjustment to the non-controlling interest and the fair value of consideration paid or received are recognised in equity.

Going concern

The Directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and the Group have adequate resources and facilities to continue in operational existence for the foreseeable future based on Group cash balances and cash equivalents of £2.4 million (2014: £2.2 million), undrawn committed bank facilities at 31 July 2015 of £12.3 million (2014: £12.3 million), and cash generated from operations in the year to 31 July 2015 of £6.0 million (2014: £5.2 million). The Group continues to operate its five year £40 million revolving credit facility with Lloyds Bank plc. The facility has been in place since 20 October 2011 and runs until 19 October 2016. The Group is fully compliant with all bank covenants and undertakings and is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods and services provided in the ordinary course of the Group's activities, net of discount, VAT and after eliminating sales within the Group.

The Group recognises revenue when the amount of the revenue can be reliably measured and when goods are sold and title has passed. Revenue from services provided is recognised evenly over the period in which the services are provided.

a) Self-storage revenue

Self-storage services are provided on a time basis. The price at which customers store their goods is dependent on size of unit and store location. Customers are invoiced on a four-weekly cycle in advance and revenue is recognised based on time stored to date within the cycle. When customers vacate they are rebated the unexpired portion of their four weekly advance payment (subject to a seven day notice requirement).

b) Retail sales

The Group operates a 'pack shop' within each of its storage centres for selling storage related goods such as boxes, tape and bubble-wrap. Sales include sales to the public at large as well as self-storage customers. Sales of goods are recognised at point of sale when the product is sold to a customer.

c) Insurance

Customers may choose to insure their goods in storage. The weekly rate of insurance charged to customers is calculated based on the tariff per week for each £1,000 worth of goods stored by the customer. This charge is retained by Lok'nStore and covers the cost of the block policy and other costs. Customers are invoiced on a four-weekly basis for the insurance cover they use and revenue is recognised based on time stored to date within the cycle.

d) Management fee income

Management fees earned for managing stores not owned by the Group are recognised over the period for which the services are provided.

e) Serviced archive and records management

Customers are invoiced typically monthly in advance for the archive storage of their boxes, tapes and files and revenue is recognised based on time stored to date within the monthly cycle. In respect of the provision of additional services, such as document box or tape collection and retrieval from archive, customers are invoiced typically monthly in arrears and revenue is recognised in line with the provision of these services.

Segmental information

In accordance with the requirements of IFRS8 Operating Segments, the Group has reviewed its identifiable business segments and the information used and provided internally to the Board, which is considered to be the Chief Operating Decision Maker, in order to make decisions about resource allocation and performance management. Financial information is reported to the Board with revenue and profit analysed between self-storage activity and serviced archive and records management activity. All activities arise in the United Kingdom.

Adjusted EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA), is defined as profits from operations before all depreciation and amortisation charges, share-based payments and other non-recurring costs, finance income, finance costs and taxation.

Store adjusted EBITDA

Store adjusted EBITDA is defined as adjusted EBITDA (see above) but before central and head office costs.

Operating profit

Operating profit is defined as profit after all costs except finance income, finance costs and taxation.

Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

Current tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because some items of income or expense are taxable or deductible in different years or may not be taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable in the future arising from the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the 'balance sheet liability method'. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the reporting date.

Tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

Retirement benefits

The amount charged to profit or loss in respect of pension costs is the contributions payable to money purchase schemes in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position. There are no defined benefits schemes.

Accounting Policies

Equity share-based payments

The cost of providing share-based payments to employees is charged to profit or loss over the vesting period of the related share options. The cost is based on the fair value of the options determined using the Black-Scholes pricing model, which is appropriate given the vesting and other conditions attaching to the options. The value of the charge may be adjusted to reflect expected and actual levels of vesting.

Property lease premiums

Costs relating to the acquisition of long leases are classified as a non-current asset in the statement of financial position. Costs may include lease premiums paid on entering such a lease and other related costs. Following the opening of a store during the year amounts held under lease premiums are transferred to property plant and equipment. (See Note 10c).

Property, plant and equipment

Freehold properties and long leasehold properties (classified as finance leases) are measured at fair value which represents the Group's assessment of the highest and best use of the asset. A comprehensive external valuation is performed at each reporting date. Once a store is opened lease premiums are transferred to property, plant and equipment and carried at their transferred cost less any accumulated depreciation.

Short leasehold improvements, fixtures, fittings and equipment, and motor vehicles are carried at cost less accumulated depreciation.

Assets in the course of construction and land held for development of new stores ('development property assets') are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is provided on all property, plant and equipment other than freehold land and development property assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life as follows:

Freehold property	over 50 years straight line
Long leasehold property and lease premium	over unexpired lease period or renewal term
Short leasehold improvements	over unexpired lease period or renewal term
Fixtures, fittings and equipment	5% to 15% reducing balance
Computer equipment	over two years straight line
Motor vehicles	25% reducing balance

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate on an annual basis. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The additional depreciation arising from the revaluation of freehold and long leasehold properties is separately presented on the face of the statement of comprehensive income and transferred from the revaluation reserve to retained earnings each year.

Intangible assets (other than goodwill)

Customer relationships acquired in a business combination are measured initially at fair value and are subsequently amortised on a straight-line basis over their estimated useful lives (20 years).

Impairment of property, plant and equipment and intangible assets (other than goodwill)

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss is subsequently reversed, the carrying amount of the assets or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leased assets and obligations

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to profit or loss in proportion to the remaining balance outstanding.

All other leases are 'operating leases' and the annual rentals are charged to profit or loss on a straight-line basis over the lease term. Payments made on entering into or acquiring a leasehold that is accounted for as an operating lease are amortised over the lease term once the property is brought into use.

Investments

Shares in subsidiary undertakings are considered long-term investments and are classified as non-current assets in the Parent Company's statement of financial position. All investments are stated at cost. Provision is made for any impairment in the value of non-current asset investments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based upon estimated selling prices less any costs of disposal. Provision is made for obsolete and slow moving items.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provision of the instrument.

Bank borrowings and finance costs

Interest-bearing bank loans are recorded at the proceeds received net of direct issue costs. Issue costs are amortised against the carrying value amount of the loan over the period of the loan with the cost recognised in profit and loss as part of finance costs.

Borrowing costs are recognised in profit or loss in the year in which they are incurred, unless the costs are incurred as part of the development of a qualifying asset, when they will be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Commencement of capitalisation is the date when the Group incurs expenditure for the qualifying asset, incurs borrowing costs and undertakes activities that are necessary to prepare the assets for their intended use. In the case of suspension of activities during extended periods, the Group suspends capitalisation. The Group ceases capitalisation of borrowing costs when substantially all of the activities necessary to prepare the asset for use are complete.

All of the Group's current qualifying assets predate the date of adoption and accordingly, under the transitional adoption arrangements, no borrowing costs have been capitalised in the current year or in prior years.

Derivative financial instruments and hedge accounting

The Group's activities expose it to interest rate risk. The Group uses interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative or for any other purposes.

The use of financial derivatives is governed by the Group's policies as approved by the board of directors. The Group documents its risk management objectives and strategy for undertaking hedging transactions within the Group's Risk Register. The Group also documents its assessment both at hedge inception and on an on-going basis to assess whether the derivatives that are used are effective in offsetting changes in fair value or cash flows of the hedged items.

Derivative financial instruments are measured at fair value and the fair values of the hedged derivative instruments are disclosed in Note 17b. Movements on the hedging reserve in other comprehensive income are shown in Note 24a. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item has more than 12 months to run, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Instruments quoted in an active market are measured at their current bid price. For instruments that are not quoted in an active market, the fair value is estimated using a valuation technique. Techniques that are used by the Group include comparisons to recent market transactions or reference to other instruments which are substantially the same, discounted cash flow analysis and option pricing models. Inputs to such techniques rely on market inputs where such information is readily available. Where such information is not available entity-specific inputs are used.

Cash flow hedges

Hedges of exposures to variable cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss are accounted for as cash flow hedges when the hedging criteria has been achieved. The Group designates certain derivative instruments as hedges of the variable rate borrowings. The effective portion of changes in the fair value is recognised in other comprehensive income whilst the gain or loss on the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged item affects profit or loss. However when a forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred into other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset.

Accounting Policies

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Interest bearing loans and overdrafts are initially measured at fair value net of direct transaction costs and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Trade payables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprises cash and short-term deposits and other short term highly liquid investments that are readily convertible to a known amount of cash. The carrying amounts of these assets approximate to their fair value and the risk of changes in value is not significant.

Impairment of financial assets

Financial assets are assessed for indications of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the asset have been reduced.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Net debt

Net debt comprises the borrowings of the Group less cash and liquid resources.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Employee Benefit Trust

The Group operates an employment benefit trust and has de facto control of the shares held by the trust and bears their benefits and risks. The Group records certain assets and liabilities of the trust as its own. Finance costs and administrative expenses are charged as they accrue.

Own shares

The cost of own shares held by the employee benefit trust ('ESOP shares') and treasury shares is shown as a deduction from retained earnings. Earnings per share are calculated on the net shares in issue.

Critical accounting estimates and judgements

The preparation of consolidated financial statements under EU-IFRS requires management to make estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual outcomes may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Estimate of fair value of trading properties

The Group values its self-storage stores using a discounted cash flow methodology which is based on current and projected net operating income. Principal assumptions underlying management's estimation of the fair value are those relating to stabilised occupancy levels; expected future growth in storage rents and operating costs, maintenance requirements, capitalisation rates and discount rates. A more detailed explanation of the background and methodology adopted in the valuation of the Group's trading properties is set out in Note 10b. The carrying value of land and buildings held at valuation at the reporting date was £61.0 million (2014: £51.4 million) as shown in the table in Note 10b.

b) Assets in the course of construction and land held for pipeline store development ('Development property assets')

The Group's development property assets are held in the statement of financial position at historic cost and are not valued externally. In acquiring sites for redevelopment into self-storage facilities, the Group estimates and makes judgements on the potential net lettable storage space that it can achieve in its planning negotiations, together with the time it will take to achieve maturity occupancy level. In addition, assumptions are made on the storage rent that can be achieved at the store by comparison with other stores within the portfolio and within the local area. These judgements, taken together with estimates of operating costs and the projected construction cost, allow the Group to calculate the potential net operating income at maturity, projected returns on capital invested and hence to support the purchase price of the site at acquisition. Following the acquisition, regular reviews are carried out taking into account the status of the planning negotiations, and revised construction costs or capacity of the new facility, for example, to make an assessment of the recoverable amount of the development property. The Group reviews all development property assets for impairment at each reporting date in the light of the results of these reviews. Once a store is opened, it is valued as a trading store.

The carrying value of development property assets at the reporting date was £8.9 million (2014: £11.4 million). Please see Note 10b for more details.

c) Estimate of fair value of intangible assets acquired in business combination

The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives important to the Group's financial position and performance. At 31 July 2015 intangible assets, excluding goodwill, amounted to £2.65 million (2014: £2.81 million). The valuation method used and key assumptions are described in Note 10a.

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The estimated useful life of customer relationships principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. Typically, the customer base for a serviced archive business is relatively inert. Corporate customers do not tend to switch service providers and indeed they incur box withdrawal charges should they do so. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

d) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Notes to the Financial Statements

For the year ended 31 July 2015

1a Revenue

Analysis of the Group's revenue is shown below:

Stores trading	2015 £'000	2014 £'000
Self-storage revenue	11,851	10,510
Other storage related revenue	1,434	1,349
Ancillary store rental revenue	4	4
Management fees	176	128
Sub-total	13,465	11,991
Stores under development		
Non-storage income	3	79
Sub-total	13,468	12,070
Document storage revenue	1,956	1,840
Total revenue	15,424	13,910

1b Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board to allocate resources to the segments and to assess their performance. All of the Group's activities occur in the United Kingdom.

Financial information is reported to the Board with revenue and profit analysed between self-storage activity and serviced document storage activity.

Segment revenue comprises of sales to external customers and excludes gains arising on the disposal of assets and finance income. Segment profit reported to the Board represents the profit earned by each segment before acquisition costs and other non-recurring set-up costs, finance income, finance costs and tax. For the purposes of assessing segment performance and for determining the allocation of resources between segments, the Board uses a measure of adjusted EBITDA (as defined in the accounting policies) and reviews the non-current assets attributable to each segment as well as the financial resources available. All assets are allocated to reportable segments. Assets that are used jointly by segments are allocated to the individual segments on a basis of revenues earned. All liabilities are allocated to individual segments other than borrowings and tax. Information is reported to the Board of Directors on a product basis as management believe that the activity of self-storage and the activity of serviced document storage expose the Group to differing levels of risk and rewards due to the length, nature, seasonality and customer base of their respective operating cycles.

The segment information for the year ended 31 July 2015 is as follows:

2015	Self-storage 2015 £'000	Serviced archive & records management 2015 £'000	Total 2015 £'000
Revenue	13,468	1,956	15,424
Adjusted EBITDA	5,420	262	5,682
Management charges	25	(25)	–
Segment Adjusted EBITDA	5,445	237	5,682
Depreciation	(1,340)	(100)	(1,440)
Amortisation of intangible assets	–	(165)	(165)
Equity settled share based payments	(211)	–	(211)
Irrecoverable property costs	(209)	–	(209)
Segment profit/(loss)	3,685	(28)	3,657
Central costs not allocated to segments:			
Finance income			141
Finance costs			(1,144)
Profit before taxation			2,654
Income tax expense			(686)
Consolidated profit for the financial year			1,968

1b Segmental information continued

2014	Self-storage 2014 £'000	Serviced archive & records management 2014 £'000	Total 2014 £'000
Revenue	12,070	1,840	13,910
Adjusted EBITDA	4,378	238	4,616
Management charges	25	(25)	–
Segment Adjusted EBITDA	4,403	213	4,616
Depreciation and loss on sale	(1,135)	(116)	(1,251)
Amortisation of intangible assets	–	(165)	(165)
Equity settled share based payments	(119)	–	(119)
Impairment of development land asset	(1,604)	–	(1,604)
Segment profit/(loss)	1,545	(68)	1,477
Central costs not allocated to segments:			
Finance income			26
Finance costs			(1,136)
Profit before taxation			367
Income tax expense			(170)
Consolidated profit for the financial year			197

Corporate transactions and the treasury function are managed centrally and therefore are not allocated to segments. Sales between segments are carried out at arm's length. The serviced archive segment with over 360 customers has a greater customer concentration with its ten largest corporate customers accounting for 34.6% (2014: 31.4%) of revenue, its top 50 customers accounting for 63.3% (2014: 59.3%) and its top 100 customers accounting for 79.9% (2014: 74.7%) of revenue. The self-storage segment with over 7,750 customers has no individual self-storage customer accounting for more than 1% of total revenue and no group of entities under common control (e.g. Government) accounts for more than 10% of total revenues.

2015	**Self-storage 2015 £'000**	**Serviced archive & records management 2015 £'000**	**Total 2015 £'000**
Segment assets	93,296	6,098	**99,394**
Segment liabilities	(18,341)	(536)	**(18,877)**
Borrowings			**(27,548)**
Total liabilities			**(46,425)**
Capital expenditure	3,126	457	**3,583**

2014	Self-storage 2014 £'000	Serviced archive & records management 2014 £'000	Total 2014 £'000
Segment assets	83,803	5,960	89,763
Segment liabilities	(16,379)	(729)	(17,108)
Borrowings			(27,445)
Total liabilities			(44,553)
Capital expenditure[1]	6,269	215	6,484

1 Capital expenditure includes fixed asset additions (Note 10b) and additions to property lease premiums (Note 10c)

The amounts presented to the Board with respect to total assets and total liabilities are measured in a manner consistent with the financial statements and are allocated based on the operations of the segment. Borrowings are managed centrally on a Group basis and are therefore not allocated to segments.

Notes to the Financial Statements

For the year ended 31 July 2015

2a Property, staff, distribution and general costs

	2015 £'000	2014 £'000
Property and premises costs	4,010	3,689
Staff costs	4,188	3,971
General overheads	1,049	1,153
Distribution costs	190	189
Retail products cost of sales (see Note 2b)	305	292
	9,742	9,294

2b Cost of sales of retail products

Cost of sales represents the direct costs associated with the sale of retail products (boxes, packaging etc.), the ancillary sales of insurance cover for customer goods and the provision of van hire services, all of which fall within the Group's ordinary activities.

	2015 £'000	2014 £'000
Retail	130	149
Insurance	33	32
Van hire/other	2	6
	165	187
Serviced archive consumables and direct costs	140	105
	305	292

2c Other costs

	2015 £'000	2014 £'000
Impairment of development land asset (see Note 10b)	–	1,604
Irrecoverable property costs[1]	209	–
	209	1,604

1 Site demolition costs not recoverable from the prospective purchaser of the Portsmouth North site.

3 Finance income

	2015 £'000	2014 £'000
Bank interest	141	26

All interest receivable arises on cash and cash equivalents (see Note 16).

4 Finance costs

	2015 £'000	2014 £'000
Bank interest	925	912
Non-utilisation fees and amortisation of bank loan arrangement fees	219	223
Other interest	–	1
	1,144	1,136

5 Profit before taxation

	2015 £'000	2014 £'000
Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment	1,440	1,224
Amortisation of intangible assets	165	165
Operating lease rentals – land and buildings	1,562	1,529

Amounts payable to Baker Tilly UK Audit LLP and their associates for audit and non-audit services:

	2015 £'000	2014 £'000
Audit services		
– UK statutory audit of the Company and consolidated accounts	45	43
Other services		
– the auditing of accounts of associates of the Company pursuant to legislation	14	17
Other services supplied pursuant to such legislation		
– interim review	7	8
Tax services		
– compliance services	26	48
– advisory services	13	16
	105	132
Comprising:		
Audit services	59	60
Non-audit services	46	72
	105	132

6 Employees

	2015 No.	2014 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	113	107
Administration	30	30
	143	137

	2015 £'000	2014 £'000
Costs for the above persons:		
Wages and salaries	3,451	3,336
Social security costs	443	426
Pension costs	87	54
	3,981	3,816
Share based remuneration (options)	211	119
	4,192	3,935

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £132,543 (2014: £129,068) have been capitalised as additions to property, plant and equipment as they are directly attributable to the acquisition of these assets. All other employee costs are included in staff costs in the statement of comprehensive income.

In relation to pension contributions, there was £9,260 (2014: £3,913) outstanding at the year-end.

Notes to the Financial Statements

For the year ended 31 July 2015

6 Employees continued

Directors' remuneration

2015	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive:						
A Jacobs	204,000	38,000	4,055	246,055	156,399	**402,454**
SG Thomas	51,000	9,500	3,724	64,224	50,975	**115,199**
RA Davies	110,000	15,500	3,063	128,563	55,437	**184,000**
CM Jacobs	57,834	6,500	3,177	67,511	152,865	**220,376**
Non-Executive:						
RJ Holmes	20,033	–	–	20,033	–	**20,033**
ETD Luker	25,500	–	–	25,500	–	**25,500**
CP Peal	20,400	–	–	20,400	–	**20,400**
	488,767	**69,500**	**14,019**	**572,286**	**415,676**	**987,962**

2014	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive:						
A Jacobs	200,000	34,000	3,328	237,328	–	237,328
SG Thomas	50,000	8,500	3,702	62,202	222,773	284,975
RA Davies	100,000	18,250	2,789	121,039	19,822	140,861
CM Jacobs	56,700	7,701	3,143	67,544	879	68,423
Non-Executive:						
RJ Holmes	20,000	–	–	20,000	13,286	33,286
ETD Luker	25,000	–	–	25,000	–	25,000
CP Peal	20,000	–	–	20,000	–	20,000
D Hampson	11,667	–	–	11,667	–	11,667
	483,367	68,451	12,962	564,780	256,760	821,540

Pension contributions of £30,475 (2014: £30,475) were paid by the Group on behalf of RA Davies and are not included in the Directors' emoluments table above. The highest paid Director did not accrue any pension rights during the year. The benefits in kind all relate to medical insurance premiums paid on behalf of the Directors.

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes in respect of qualifying service is one (2014: one).

7 Taxation

	2015 £'000	2014 £'000
Current tax:		
UK corporation tax at 20.7% (2014: 22.4%)	535	338
Deferred tax:		
Origination and reversal of temporary differences	100	(311)
Adjustments in respect of prior periods	51	143
Total deferred tax charge/(credit)	151	(168)
Income tax expense for the year	686	170

The charge for the year can be reconciled to the profit for the year as follows:

	2015 £'000	2014 £'000
Profit before tax	2,654	368
Tax on ordinary activities at the standard rate of corporation tax in the UK of 20.7% (2014: 22.4%)	549	82
Expenses not deductible for tax purposes	2	3
Depreciation of non-qualifying assets	85	41
Share based payment charges in excess of corresponding tax deduction	–	26
Adjustments in respect of prior periods – deferred tax	51	143
Other timing differences	(1)	–
Impact of change in rate on timing differences	–	7
Sale of Reading recognised for tax purposes	–	(132)
Income tax expense for the year	686	170
Effective tax rate	26%	46%

The UK's main rate of corporation tax has reduced to 20% from 1 April 2015. The applicable rate for this period is 20.7%.

In addition to the amount charged to profit or loss for the year, deferred tax relating to the revaluation of the Group's properties of £1,577,896 (2014: £1,261,062) and the movement in the fair value of cash flow hedges of £(37,549) (2014: £72,051) has been recognised as a debit/credit directly in other comprehensive income (see Note 18 on deferred tax).

8 Dividends

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2013 (4.33 pence per share)	–	1,053
Interim dividend for the six months to 31 January 2014 (2.00 pence per share)	–	490
Final dividend for the year ended 31 July 2014 (5.0 pence per share)	1,258	–
Interim dividend for the six months to 31 January 2015 (2.33 pence per share)	589	–
	1,847	1,543

In respect of the current year the Directors propose that a final dividend of 5.67 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £1,444,693 based on the number of shares in issue at 6 October 2015 as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 19 November 2015; the record date 20 November 2015; with an intended payment date of 21 December 2015.

Notes to the Financial Statements

For the year ended 31 July 2015

9 Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares.

	2015 £'000	2014 £'000
Profit for the financial year attributable to owners of the parent	1,968	197

	2015 No. of shares	2015 No. of shares
Weighted average number of shares		
For basic earnings per share	25,102,032	24,392,144
Dilutive effect of share options[1]	654,598	589,427
For diluted earnings per share	25,756,630	24,981,571

623,212 (2014: 623,212) shares held in the Employee Benefit Trust and 2,466,869 (2014: 2,466,869) Treasury shares are excluded from the above (see Note 26).

	2015 £'000	2014 £'000
Earnings per share		
Basic	7.84p	7.39p[2]
Diluted	7.64p	7.21p[2]

1 Further options that could potentially dilute EPS in the future are excluded from the above because they are not dilutive in the period presented. Full details of share options are included in Notes 20 to 23.
2 2014 comparatives normalised for 2014 property impairment charge of £1.6 m added back to earnings

10a Intangible assets

Group	Goodwill £'000	Contractual customer relationships £'000	Total £'000
Cost at 1 August 2013	1,110	3,309	4,419
Amortisation at 1 August 2013	–	(331)	(331)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2014	–	(496)	(496)
Net book value at 31 July 2014	1,110	2,813	3,923
Cost at 1 August 2014	1,110	3,309	4,419
Amortisation at 1 August 2014	–	(496)	(496)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2015	–	(661)	(661)
Net book value at 31 July 2015	1,110	2,648	3,758

All goodwill and customer relationships are allocated to the serviced document storage cash-generating unit (CGU) identified as a separate business segment.

The remaining amortisation period of the contractual customer relationships at 31 July 2015 is 15 years and 11 months (2014: 16 years 11 months).

The values for impairment purposes are based on past and current experience of trading, estimated future cash flows and external information where relevant and derived from the following key assumptions:

- a discount rate of 11%
- estimated useful lives of customer relationships (20 years)
- short term sustainable growth rates of 5% (next 5 years)
- thereafter long term sustainable growth rates of 2.0%
- sensitivity: the Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. A cut in projected sales growth by around 7% would result in the carrying value of goodwill being reduced to its recoverable amount.

10b Property, plant and equipment

Group	Development property assets at cost £'000	Land and buildings at valuation £'000	Long leasehold land and buildings at valuation £'000	Short leasehold improvements at cost £'000	Fixtures, fittings and equipment at cost £'000	Motor vehicles at cost £'000	Total £'000
Cost or valuation							
1 August 2013	**8,716**	**50,774**	**–**	**2,544**	**16,148**	**145**	**78,327**
Additions	4,297	17	148	16	2,007	–	**6,485**
Transfer from lease premium (Note 10c)	–	–	2,800	–	–	–	**2,800**
Non-current assets classified as held for sale	–	(2,900)	–	–	–	–	**(2,900)**
Disposals	–	–	–	–	–	(154)	**(154)**
Reclassification	–	–	(87)	–	87	–	**–**
Revaluations	**–**	**3,521**	**2,260**	**–**	**–**	**–**	**5,781**
31 July 2014	**13,013**	**51,412**	**5,121**	**2,560**	**18,242**	**(9)**	**90,339**
Depreciation							
1 August 2013	–	–	–	1,509	8,855	77	**10,441**
Depreciation	–	487	13	90	623	11	**1,224**
Impairment	1,604	–	–	–	–	–	**1,604**
Disposals	–	–	–	–	–	(109)	**(109)**
Revaluations		(487)	(13)	–	–	–	**(500)**
31 July 2014	**1,604**	**–**	**–**	**1,599**	**9,478**	**(21)**	**12,660**
Net book value at 31 July 2014	**11,409**	**51,412**	**5,121**	**961**	**8,764**	**12**	**77,679**
Cost or valuation							
1 August 2014	**13,013**	**51,412**	**5,121**	**2,560**	**18,242**	**32**	**90,380**
Additions	1,504	525	–	3	1,551	–	**3,583**
Disposals	–	–	–	–	(289)	(2)	**(291)**
Reclassification	(4,025)	2,958	–	–	1,067	–	**–**
Revaluations	–	6,140	1,304	–	–	–	**7,444**
31 July 2015	10,492	61,035	6,425	2,563	20,571	30	**101,116**
Depreciation							
1 August 2014	**1,604**	**–**	**–**	**1,599**	**9,478**	**19**	**12,700**
Depreciation	–	572	23	91	751	3	**1,440**
Disposals	–	–	–	–	(230)	(1)	**(231)**
Revaluations	–	(572)	(23)	–	–	–	**(595)**
31 July 2015	**1,604**	**–**	**–**	**1,690**	**9,999**	**21**	**13,314**
Net book value at 31 July 2015	**8,888**	**61,035**	**6,425**	**873**	**10,572**	**9**	**87,802**

If all property, plant and equipment were stated at historic cost the carrying value would be £47.5 million (2014: £44.5 million).

Capital expenditure during the year related to the ongoing building at Bristol and Southampton, the expansion of capacity at our Swindon East Store and also limited expenditures at our other existing stores. Further expenditure on racking at the Saracen Olney store also increased capacity in our serviced document storage business.

Property, plant and equipment (non-current assets) with a carrying value of £87.8 million (2014: £77.7 million) are pledged as security for bank loans.

Notes to the Financial Statements

For the year ended 31 July 2015

10b Property, plant and equipment continued

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2015, a professional valuation was prepared by Cushman & Wakefield LLP (C&W) in respect of eleven freehold, one long leasehold and seven operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation - Professional Standards, published by The Royal Institution of Chartered Surveyors ("the Red Book"). The valuations were prepared on the basis of Fair Value as a fully equipped operational entity having regard to trading potential. The valuation was provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the Red Book C&W have confirmed that:

- One of the members of the RICS who has been a signatory to the valuation provided to the Company for the same purposes as this valuation have been a signatory since January 2004. The second member has been a signatory since 2014.
- C&W have prepared eleven previous valuations for the same purpose as this valuation on behalf of the Company.
- C&W do not provide other significant professional or agency services to the Company.
- In relation to the preceding financial year of C&W the proportion of the total fees payable by the Company to the total fee income of the firm is less than 5%.

The valuation report indicates a total valuation for all properties valued of £88.9 million (2014: £79.1 million) of which £74.1 million (2014: £64.5 million) relates to freehold and long leasehold properties, and £14.8 million (2014: £14.6 million) relates to properties held under operating leases.

Freehold and long leasehold land and buildings are carried at valuation in the statement of financial position. Short leasehold improvements at properties held under operating leases are carried at cost rather than valuation in accordance with IFRS.

For the trading properties the valuation methodology explained in more detail below is based on fair value as fully equipped operational entities, having regard to trading potential. Of the £74.1 million valuation of the freehold and long leasehold properties £6.7 million (2014: £5.1 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £67.4 million (2014: £59.4 million) relates to freehold and long leasehold properties.

The 2015 valuation includes and reflects movements in value which have resulted from the operational performance of the stores and movements in the investment environment.

Market uncertainty

C&W's valuation report comments on valuation uncertainty resulting from low liquidity in the market for self-storage property. C&W Note that in the UK since Q1 2013 there have only been four transactions involving multiple assets and 10 single asset transactions. C&W state that due to the lack of comparable market information in the self-storage sector, there is greater uncertainty attached to their opinion of value than would be anticipated during more active market conditions.

Valuation Methodology

C&W have adopted different approaches for the valuation of the leasehold and freehold assets as follows:

Freehold and long leasehold property

The valuation is based on a discounted cash flow of the net operating income projected over a 10-year period and a notional sale of the asset at the end of the 10th year.

Assumptions

a. Net operating income is based on projected revenue received less projected operating costs together with a central administration charge representing 6% of the estimated annual revenue subject to a cap and a collar. The initial net operating income is calculated by estimating the net operating income in the first 12 months following the valuation date.

b. The net operating income in future years is calculated assuming either straight-line absorption from day one actual occupancy or variable absorption over years 1 to 4 of the cash flow period, to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 19 trading stores (both freeholds and leaseholds) averages 68.4% (2014: 67.9%). The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth.

c. The capitalisation rates applied to existing and future net cash flows have been estimated by reference to underlying yields for industrial and retail warehouse property, yields for other trading property types such as hotels and student housing, bank base rates, 10-year money rates, inflation and the available evidence of transactions in the sector. On average for the 19 stores the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 7.76% (2014: 8.11%). This rises to 10.02% (2014: 10.64%) based on the projected cash flow for the first year following estimated stabilisation in respect of each property.

10b Property, plant and equipment continued

d. The future net cash flow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 11.25% (2014: 12.0%).

e. Purchaser's costs of 5.8% have been assumed initially and sale plus purchaser's costs totalling 7.8% are assumed on the notional sales in the 10th year in relation to the freehold and long leasehold stores.

The fair value hierarchy within which the Fair Value Measurements are categorised is level 3, in accordance with IFRS 13 fair value measurements.

Property held under Operating Leaseholds

The same methodology has been used as for freehold property, except that no sale of the assets in the 10th year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's operating leaseholds is approximately 12 years and 8 months as at 31 July 2015 (13 years and 8 months: 31 July 2014). Valuations for stores held under operating leases are not reflected in the statement of financial position and the assets in relation to these stores are carried at cost less accumulated depreciation.

In 2011, one of the Group store's leases were renegotiated and includes a ten year option to renew the leases from March 2026 to March 2036. The option to extend is only operable in the event that all four of the leases applicable to this store are extended and this option is personal to Lok'nStore or another "major self-storage operator", to be approved by the landlord (approval not to be unreasonably withheld). The C&W valuation on this store is based on this Special Assumption that the option to extend the lease for 10 years is exercised. This is consistent with the approach taken in previous years.

10c Property lease premiums

The Maidenhead site opened as a new trading store in December 2013. Following the opening of this store the amounts being held under lease premium were transferred in 2014 to property plant and equipment in order to keep all costs associated with the store in one asset category.

Group	**2015 £'000**	2014 £'000
Balance at start of year	–	2,800
Transfer to property plant and equipment	–	(2,800)
Balance 31 July	–	–

10d Non-current assets held for sale

£2.9 million of the asset relating to the existing trading store at Reading was presented as held for sale in the comparative figures. This follows the agreement to sell the site for residential development for £2.9 million. The sale completed in this financial year on 31 October 2014.

Notes to the Financial Statements

For the year ended 31 July 2015

11 Investments

Company Investments in subsidiary undertakings	£'000
31 July 2012	**1,682**
Capital contributions arising from share-based payments	94
31 July 2013	**1,776**
Capital contributions arising from share-based payments	119
31 July 2014	**1,895**
Capital contributions arising from share-based payments	211
31 July 2015	**2,106**

The Company holds more than 20% of the share capital of the following companies, all of which are incorporated in England and Wales:

	Class of shareholding	% of shares and voting rights held Directly	Indirectly	Nature of entity
Lok'nStore Limited *	Ordinary	100	–	Self-storage
Lok'nStore Trustee Limited[1] *	Ordinary	–	100	Trustee
Southern Engineering and Machinery Company Limited[1] *	Ordinary	–	100	Land
Semco Machine Tools Limited[2] *	Ordinary	–	100	Dormant
Semco Engineering Limited[2] *	Ordinary	–	100	Dormant
Saracen Datastore Limited[1]	Ordinary	–	100	Serviced Document Storage

1 These companies are subsidiaries of Lok'nStore Limited.
2 These companies are subsidiaries of Southern Engineering and Machinery Company Limited and did not trade during the year.
* The company has taken the exemption from audit under Section 479A of the Companies Act 2006.

The fair value of these investments has not been disclosed because it cannot be measured reliably as there is no active market for these equity instruments. The Company currently has no plans to dispose of these investments.

12 Development capital

In May 2015 Lok'nStore opened a new managed store in Aldershot, Hampshire. The store is managed for outside investors under the Lok'nStore brand. Lok'nStore has managed the building and subsequent operation of the store. Lok'nStore will generate a return on £2.5 million of the total development capital committed to the project, and a management fee for the construction, operation and branding of the store.

	Group 2015 £'000	Group 2014 £'000
Development capital	**2,779**	–

13 Inventories

	Group 2015 £'000	Group 2014 £'000
Consumables and goods for resale	**141**	131

The amount of inventories recognised as an expense during the year was £184,716 (2014: £208,587) and is included as an expense in cost of sales.

14 Trade and other receivables

	Group 2015 £'000	Group 2014 £'000
Trade receivables	**1,302**	1,542
Other receivables	**640**	666
Prepayments and accrued income	**537**	693
	2,479	2,901

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Trade receivables

In respect of its self-storage business the Group does not typically offer credit terms to its customers and hence the Group is not exposed to significant credit risk. All customers are required to pay in advance of the storage period. Late charges are applied to a customer's account if they are more than 10 days overdue in their payment. The Group provides for receivables based upon sales levels and estimated recoverability. There is a right of lien over the customers' goods, so if they have not paid within a certain time frame, the Company has the right to sell the items they store to cover the debt owed by the customer. Trade receivables that are overdue are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

For individual self-storage customers the Group does not perform credit checks. However this is mitigated by the fact that all customers are required to pay in advance, and also to pay a deposit of four weeks' storage income. Before accepting a new business customer who wishes to use a number of the Group's stores, the Group uses an external credit rating to assess the potential customer's credit quality and defines credit limits by customer. There are no customers who represent more than 5% of the total balance of trade receivables.

In respect of its document storage business, customers are invoiced typically monthly in advance for the storage of their boxes, tapes and files. The provision of additional services, such as document boxes or tape collection and retrieval from archive, typically are invoiced monthly in arrears. The serviced archive segment with over 360 customers has a greater customer concentration – refer Note 1(b) segmental information.

Included in the Group's trade receivables balance are receivables with a carrying amount of £202,546 (2014: £235,470) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds a right of lien over its self-storage customers' goods if these debts are not paid. The average age of these receivables is 39 days past due (2014: 39 days past due).

Ageing of past due but not impaired receivables

	Group 2015 £'000	Group 2014 £'000
0–30 days	**119**	132
30–60 days	**43**	63
60+ days	**41**	40
Total	**203**	235

Movement in the allowance for bad debts

	Group 2015 £'000	Group 2014 £'000
Balance at the beginning of the year	**163**	149
Impairment losses recognised	**39**	34
Amounts written off as uncollectible	**(28)**	(20)
Balance at the end of the year	**174**	163

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further provision required.

Notes to the Financial Statements

For the year ended 31 July 2015

14 Trade and other receivables continued

Ageing of impaired trade receivables

	Group 2015 £'000	Group 2014 £'000
0–30 days	–	–
30–60 days	–	–
60+ days	174	163
Total	174	163

15 Trade and other payables

	Group 2015 £'000	Group 2014 £'000
Trade payables	1,901	2,031
Taxation and social security costs	464	149
Other payables	1,173	1,139
Accruals and deferred income	2,433	2,581
Total	5,971	5,900

The Directors consider that the carrying amount of trade and other payables and accruals and deferred income approximates fair value.

16 Financial instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the borrowings disclosed in Note 17a, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. The Group's banking facilities require that management give regular consideration to interest rate hedging strategy. The Group has complied with this during the year.

The Group's Board reviews the capital structure on an on-going basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group seeks to have a conservative gearing ratio (the proportion of net debt to equity). The Board considers at each review the appropriateness of the current ratio in light of the above. The Board is currently satisfied with the Group's gearing ratio.

The gearing ratio at the year-end is as follows:

Capital Management

	Group 2015 £'000	Group 2014 £'000
Gross borrowings	(27,701)	(27,701)
Cash and cash equivalents	2,435	2,178
Net debt	(25,266)	(25,523)
Total equity	52,968	45,210
Net debt to equity ratio	47.7%	56.4%

The decrease in the Group's gearing ratio arises principally through the combined effect of an increase in the C&W valuation of its properties, and cash generated from operations.

Exposure to credit and interest rate risk arises in the normal course of the Group's business.

A Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of interest rates. The Group currently has two interest rate swaps with Lloyds Bank plc which run until October 2016. These have been maintained and are reported fully in the Financial Review and in Note 17b.

16 Financial instruments continued

B Debt management

Debt is defined as non-current and current borrowings, as detailed in Note 17a. Equity includes all capital and reserves of the Group. The Group is not subject to externally imposed capital requirements.

The Group borrows through a senior five year term revolving credit facility, arranged through Lloyds Bank Group plc secured on its store portfolio and other Group assets with a net book value of £99.4 million (2014: £89.8 million). Borrowings are arranged to ensure the Group fulfils its strategy of growth and development of its stores and to maintain short-term liquidity. As at the reporting date the Group has a committed revolving credit facility of £40 million (2014: £40 million). This facility expires on 19 October 2016. Undrawn committed facilities at the year-end amounted to £12.3 million (2014: £12.3 million).

C Interest rate risk management

The Group's policy on interest rate management is agreed at Board level and is reviewed on an on-going basis. All borrowings are denominated in Sterling and are detailed in Note 17a. The Group has a number of revolving loans within its overall revolving credit facility and as such is exposed to interest rate risks at the time of renewal arising from any upward movement in the LIBOR rate. The Group continues its two cash flow hedging interest rate swap arrangements in order to reduce the risk of such upward movements in LIBOR rate. These instruments and the movement in their fair values are detailed in Note 17b.

The following interest rates applied during the financial year:

a) London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds Bank plc margin based on a loan to value covenant test for the revolving advances amounting to £27.7 million (2014: £27.7 million).
b) 40% of the applicable margin in 1 above for non-utilisation (i.e. that part of the facility which remains undrawn from time to time). As at 31 July 2015 the prevailing non-utilisation charge is calculated at a rate of 0.94%.
c) Rates prevailing on the Group's Interest rate swaps. See Note 17b.

Cash balances held in current accounts attract no interest but surplus cash is transferred daily to a treasury deposit account which earns interest at the prevailing money market rates[1]. All amounts are denominated in Sterling. The balances at 31 July 2015 are as follows:

	Group 2015 £'000	Group 2014 £'000
Variable rate treasury deposits[1]	1,744	1,927
SIP trustee deposits	46	56
Cash in operating current accounts	602	113
Other cash and cash equivalents	43	82
Total cash and cash equivalents	2,435	2,178

1 Money market rates for the Group's variable rate treasury deposit track Lloyds Bank plc base rate. The rate attributable to the variable rate deposits at 31 July 2015 was 0.5%.

The Group reviews the current and forecast projections of cash flow, borrowing and interest cover as part of its monthly management accounts review. In addition, an analysis of the impact of significant transactions is carried out regularly, as well as a sensitivity analysis of the impact of movements in interest rates on gearing and interest cover.

D Interest rate sensitivity analysis

In managing interest rate risk the Group aims to reduce the impact of short-term fluctuations on the Group's earnings, without jeopardising its flexibility. Over the longer term, permanent changes in interest rates may have an impact on consolidated earnings.

At 31 July 2015, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £77,005 (2014: £77,005) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £77,005 (2014: £77,005). There would have been no effect on amounts recognised directly in other comprehensive income. The sensitivity has been calculated by increasing by 1% the average variable interest rate of 2.85% applying to the variable rate borrowings of £7.7 million in the year (2014: £7.7 million / 2.84%).

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16 Financial instruments continued

E Cash management and liquidity

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note B above is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Short-term money market deposits are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk.

F Foreign currency management

The Group operates solely in the United Kingdom and as such all of the Group's financial assets and liabilities are denominated in Sterling and there is no exposure to exchange risk.

G Credit risk

The credit risk management policies of the Group with respect to trade receivables are discussed in Note 14.

The credit risk on liquid funds is limited because the counterparty is a bank with high credit ratings assigned by international credit-rating agencies, in line with the Group's policy which is to borrow from major institutional banks when arranging finance.

The Group's maximum exposure to credit risk at 31 July 2015 was £1,468,261 (2014: £1,711,258) on receivables and £2,435,399 (2014: £2,177,630) on cash and cash equivalents. Additionally, the Group has provided development loan capital in respect of the Aldershot store development, a managed contract. The current balance outstanding at 31 July 2015 was £2,778,824. These amounts are secured by way of a fixed priority first charge and a debenture over all of the Aldershot assets.

H Maturity analysis of financial liabilities

The undiscounted contractual cash flow maturities are as follows:

2015 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	–	–	–
From one to two years	–	27,701	205
Due after more than one year	–	–	205
Due within one year	3,857	–	925
Total contractual undiscounted cash flows	**3,857**	**27,701**	**1,130**

2014 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	–	27,701	205
From one to two years	–	–	924
Due after more than one year	–	–	1,129
Due within one year	3,656	–	923
Total contractual undiscounted cash flows	3,656	27,701	2,052

16 Financial instruments continued

I Fair values of financial instruments

	2015 £'000	2014 £'000
Categories of financial assets and financial liabilities		
Financial assets		
Trade and other receivables	**1,468**	1,711
Cash and cash equivalents	**2,435**	2,178
Development loan capital	**2,779**	–
Financial liabilities		
Trade and other payables	**(3,857)**	(3,656)
Bank loans	**(27,548)**	(27,445)

The fair values of the Group's cash and short-term deposits and those of other financial assets equate to their carrying amounts. The Group's receivables and cash and cash equivalents are all classified as loans and receivables and carried at amortised cost. The amounts are presented net of provisions for doubtful receivables and allowances for impairment are made where appropriate. Trade and other payables and bank borrowings are all classified as financial liabilities measured at amortised cost.

J Company's financial instruments

The Company's financial assets are amounts owed by subsidiary undertakings amounting to £3.0 million (2014: £2.3 million) which are classified as loans and receivables, and the investment in its subsidiary undertaking of £0.2 million (excluding capital contributions). These amounts are denominated in Sterling, are non-interest bearing, are unsecured and fall due for repayment within one year. No amounts are past due or impaired. The Company has no financial liabilities.

17a Borrowings

	Group 2015 £'000	Group 2014 £'000
Non-current		
Bank loans repayable in one to two years – Gross	**27,701**	–
Bank loans repayable in more than two years but not more than five years – Gross	**–**	27,701
Deferred financing costs	**(153)**	(256)
Net bank borrowings	**27,548**	27,445
Non-current borrowings	**27,548**	27,445

The £40 million revolving credit facility with Lloyds Bank plc is secured by legal charges and debentures over the freehold and leasehold properties and other tangible assets of the business with a net book value of £95.6 million together with cross-company guarantees from Group companies. The revolving credit facility is for a five-year term and expires on 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The loans bear interest at the London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds Bank plc margin based on a loan to value covenant test.

17b Derivative financial instruments

The Group continues to operate two separate £10 million interest rate swaps as a cash flow hedge with Lloyds Bank plc, both effective from 31 May 2012, the first at a fixed 1 month sterling LIBOR rate of 1.2% and the second at a fixed one-month sterling LIBOR rate of 1.15%. Both swaps run up to the expiration of the current banking facility in October 2016. The balance of the drawn facility of £7.7 million (2014: £7.7 million) remains at a floating rate.

		Currency	Principal £	Maturity date	Fair value 2015 £'000	Fair value 2014 £'000
3032816LS	Interest rate swap	GBP	10,000,000	20/10/2016	**(63)**	20
3047549LS	Interest rate swap	GBP	10,000,000	20/10/2016	**(56)**	31
			20,000,000		**(119)**	51

The movement in fair value of the interest rate swaps of £169,925 (2014: £321,654) has been recognised in other comprehensive income in the year.

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18 Deferred tax

Deferred tax liability	Group 2015 £'000	Group 2014 £'000
Liability at start of year	10,870	9,705
Charged/(credited) to income for the year	151	(168)
Tax debited directly to other comprehensive income	1,540	1,333
Credit to share based payment reserve	(309)	–
Liability at end of year	12,252	10,870

The following are the major deferred tax liabilities and assets recognised by the Group and the movements during the year:

	Accelerated Capital Allowances £'000	Tax losses £'000	Intangible assets £'000	Other temporary differences £'000	Revaluation of properties £'000	Rolled over gain on disposal £'000	Share options £'000	Total £'000
At 1 August 2013	**1,075**	**(6)**	**596**	**(35)**	**6,242**	**1,833**	**–**	**9,705**
Charge/(credit) to income for the year	366	6	(33)	(8)	(495)	(4)	–	(168)
Charge to other comprehensive income	–	–	–	72	1,261	–	–	1,333
At 31 July 2014	**1,441**	**–**	**563**	**29**	**7,008**	**1,829**	**–**	**10,870**
Charge/(credit) to income for the year	267	–	(33)	1	–	(42)	(42)	151
Charge/(credit) to other comprehensive income	–	–	–	(38)	1,578	–	–	1,540
Credit to share based payment reserve	–	–	–	–	–	–	(309)	(309)
At 31 July 2015	**1,708**	**–**	**530**	**(8)**	**8,586**	**1,787**	**(351)**	**12,252**

A deferred tax asset of £350,706 arises in respect of the share options in existence at 31 July 2015 and due to its material size has now been recognised in the accounts. No deferred tax asset arises in relation to the remainder of the share options as at 31 July 2015 as the share price at the year-end is below the exercise price of the options.

19 Share capital

Authorised:	2015 £'000	2014 £'000
35,000,000 ordinary shares of 1 pence each (2014: 35,000,000)	350	350

Allotted, issued and fully paid ordinary shares	£'000	£'000
Balance 1 August	279	272
Options exercised 637,641 shares (2014: 667,915 shares)	6	7
Balance 31 July	285	279

	Called up, allotted and fully paid Number	Called up, allotted and fully paid Number
Number of shares at 31 July	28,446,749	27,809,108

The Company has one class of ordinary shares which carry no right to fixed income.

20 Equity settled share-based payment plans

The Group operates two equity-settled share-based payment plans, an approved and an unapproved share option scheme, the rules of which are similar in all material respects. The Enterprise Management Initiative Scheme (EMI) is closed to new grants of options as the Company no longer meets the HMRC small company criteria.

The Company has the following share options:

2015 Summary	**At at 31July 2014 No of options**	**Granted**	**Exercised**	**Lapsed/ surrendered**	**At at 31July 2015 No of options**
Enterprise Management Initiative Scheme	**41,414**	**–**	**(41,414)**	**–**	**–**
Unapproved Share Options	**2,276,111**	**–**	**(535,321)**	**(23,611)**	**1,717,179**
Approved CSOP Share Options	**246,286**	**18,653**	**(60,906)**	**(26,389)**	**177,644**
Total	**2,563,811**	**18,653**	**(637,641)**	**(50,000)**	**1,894,823**

2014 Summary	At at 31July 2013 No of options	Granted	Exercised	Lapsed/ surrendered	At at 31July 2014 No of options
Enterprise Management Initiative Scheme	163,368	–	(121,954)	–	41,414
Unapproved Share Options	2,156,583	587,939	(468,411)	–	2,276,111
Approved CSOP Share Options	233,775	93,061	(77,550)	(3,000)	246,286
Total	2,553,726	681,000	(667,915)	(3,000)	2,563,811

The following table shows options held by Directors under all schemes.

					At 31 July 2015		
	Total at 31 July 2014	Options granted	Options exercised	EMI Scheme	Unapproved Scheme	Approve CSOP share otions	**Total at 31 July 2015**
2015							
Executive Directors							
A Jacobs – Unapproved	**580,000**	**–**	**(200,000)**	**–**	**380,000**	**–**	**380,000**
SG Thomas – Unapproved	**220,000**	**–**	**(50,000)**	**–**	**170,000**	**–**	**170,000**
RA Davies – Unapproved	581,977	–	(50,000)	–	531,977	–	**531,977**
RA Davies – CSOP	14,493	–	–	–	–	14,493	**14,493**
RA Davies total	**596,470**	**–**	**(50,000)**	**–**	**531,977**	**14,493**	**546,470**
CM Jacobs – EMI	31,414	–	(31,414)	–	–	–	**–**
CM Jacobs – Unapproved	259,509	–	(113,841)	–	145,668	–	**145,668**
CM Jacobs – CSOP	29,077	–	(8,500)	–	–	20,577	**20,577**
CM Jacobs total	**320,000**	**–**	**(153,755)**	**–**	**145,668**	**20,577**	**166,245**
Non-Executive Directors							
ETD Luker – Unapproved	15,000	–	–	–	15,000	–	**15,000**
C P Peal – Unapproved	10,000	–	–	–	10,000	–	**10,000**
Non-Executive total	**25,000**	**–**	**–**	**–**	**25,000**	**–**	**25,000**
All Directors total	**1,741,470**	**–**	**(453,755)**	**–**	**1,252,645**	**35,070**	**1,287,715**

The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after two and a half or three years. No options have been granted under the EMI approved scheme in the year (2014: nil) and no options remain in this scheme.

The exercise price of the options is equal to the closing mid-market price of the shares on the trading day previous to the date of the grant. The exercise of options awarded has been subject to a key non-market performance condition being the achievement of an annual revenue target of £10 million. This condition has now been achieved. Exercise of an option is subject to continued employment. The life of each option granted is six and a half to seven years. There are no cash settlement alternatives.

Notes to the Financial Statements

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20 Equity settled share-based payment plans continued

The expected volatility is based on a historical review of share price movements over a period of time, prior to the date of grant, commensurate with the expected term of each award. The expected term is assumed to be six years which is part way between vesting (two and a half to three years after grant) and lapse (10 years after grant). The risk free rate of return is the UK gilt rate at date of grant commensurate with the expected term (i.e. six years).

The total charge for the year relating to employer share-based payment schemes was £210,558 (2014: £118,586), all of which relates to equity-settled share-based payment transactions.

21 Enterprise Management Initiative Scheme

The Company operates a share option scheme under the Enterprise Management Initiative (EMI), the vesting conditions of which have been met.

Movements in the year are shown in the table below.

	Options 2015 number	Weighted average exercise price 2015 pence	Options 2014 number	Weighted average exercise price 2014 price
Outstanding at 1 August	**41,414**	**152.97**	163,368	144.00
Exercised during the year	**(41,414)**	**152.97**	(121,954)	140.55
Outstanding at 31 July	**–**	**–**	41,414	152.97
Exercisable at 31 July	**–**	**–**	41,414	152.97

The following table shows options held by Directors under this scheme.

	As at 31 July 2014	Granted	Surrendered	Exercised	As at 31 July 2015	Exercise price (pence)	Date from which excerisable	Expiry date
CM Jacobs	31,414	–	–	(31,414)	**–**	–	–	–
	31,414	–	–	(31,414)	**–**	–	–	–

There were no options issued under this scheme during the year, no options remained at the year end and the scheme is now closed.

22 Unapproved Share Options

The Company issues unapproved share options, the vesting conditions of which have been met.

Movements in the year are shown below:

	Options 2015 number	Weighted average exercise price 2015 pence	Options 2014 number	Weighted average exercise price 2014 price
Outstanding at 1 August	**2,276,111**	**144.68**	2,156,583	133.00
Granted during the year	**–**	**–**	587,939	168.96
Forfeited during the year	**(23,611)**	**207.00**	–	–
Exercised during the year	**(535,321)**	**129.21**	(468,411)	118.73
Outstanding at 31 July	**1,717,179**	**148.65**	2,276,111	144.68
Exercisable at 31 July	**1,152,443**	**139.49**	1,409,975	141.69

The options outstanding at 31 July 2015 had a weighted average remaining contractual life of 5.3 years (2014: 5.5 years). The exercise prices for shares exercisable at 31 July 2015 ranged from 56.5 pence per share to 269.5 pence per share.

There were no options issued under this scheme during the year.

22 Unapproved Share Options continued

The following sets out the movements in the year in respect of unapproved share options held by the Directors of the Company.

	As at 31 July 2014	Granted	Exercised /lapsed	As at 31 July 2015	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	580,000	–	(200,000)	380,000	56.5 – 213.5	20/01/07 – 31/07/17	20/01/15 – 31/07/24
S Thomas	220,000	–	(50,000)	170,000	56.5 – 213.5	31/07/10 – 31/07/17	31/07/17 – 31/07/24
R Davies	581,977	–	(50,000)	531,977	56.5 – 213.5	30/07/07 – 31/07/17	30/07/15 – 31/07/24
C Jacobs	259,509	–	(113,841)	145,668	107.0 – 269.5	28/11/09 – 31/07/24	28/11/16 – 31/07/24
ETD Luker	15,000	–	–	15,000	56.5	31/07/12	31/07/19
C Peal	10,000	–	–	10,000	56.5	31/07/12	31/07/19
Total	1,666,486	–	(413,841)	1,252,645			

23 CSOP Approved Share Options

On 2 June 2010 the Group adopted a Company Share Option Plan (CSOP). The CSOP achieved HMRC approval on 28 June 2010. There are no performance conditions attached to share options issued under CSOP.

Movements in the year are shown below:

	Options 2015 number	Weighted average exercise price 2015 pence	Options 2014 number	Weighted average exercise price 2014 pence
Outstanding at 1 August	246,286	144.48	233,775	107.00
Granted during the year	18,653	287.50	93,061	207.00
Forfeited during the year	(26,389)	113.68	(3,000)	117.17
Exercised during the year	(60,906)	101.47	(77,550)	86.79
Outstanding at 31 July	177,644	178.82	246,286	144.48
Exercisable at 31 July	44,727	97.35	86,422	97.77

The options outstanding at 31 July 2015 had a weighted average remaining contractual life of 7.1 years (2014: 8.4 years). The exercise prices for shares exercisable at 31 July 2015 ranged from 85.0 pence per share to 108.5 pence per share.

The inputs into the Black-Scholes model used to value the options granted during the year are as follows:

Date of grant	Expected life (years)	Share price at date of grant (pence)	Exercise price (pence)	Expected volatility (%)	Expected dividend yield (%)	Risk free interest rate (%)	Fair value charge per award (pence)
31 July 2015	6	287.5	287.5	26.2	2.5	1.43	56.06

The following CSOP approved share options have been granted to Directors of the Company.

	As at 31 July 2014	Granted	Exercised/ lapsed	As at 31 July 2015	Exercise price (pence)	Date from which exercisable	Expiry date
R Davies	14,493	–	–	14,493	207.0	31/07/14	31/07/24
C Jacobs	29,077	–	(8,500)	20,577	85.0 – 207.0	31/07/13 – 31/07/17	31/07/20 – 31/07/24
	43,570	–	(8,500)	35,070			

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24a Other reserves

Group	Cash flow hedge reserve £'000	Merger reserve £'000	Other reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2013	**(217)**	**6,295**	**2,837**	**34**	**1,562**	**10,511**
Share based payments	–	–	–	–	119	**119**
Transfer to retained earnings in relation to share based payments	–	–	–	–	(742)	**(742)**
Cash flow hedge reserve net of tax	250	–	–	–	–	**250**
Dividends paid	–	–	(1,543)	–	–	**(1,543)**
31 July 2014	**33**	**6,295**	**1,294**	**34**	**939**	**8,595**
Share based payments	–	–	–	–	211	**211**
Transfer to retained earnings in relation to share based payments	–	–	–	–	(298)	**(298)**
Cash flow hedge reserve net of tax	(132)	–	–	–	–	**(132)**
Tax credit relating to share options	–	–	–	–	309	**309**
31 July 2015	**(99)**	**6,295**	**1,294**	**34**	**1,161**	**8,685**

The merger reserve represents the excess of the nominal value of the shares issued by Lok'nStore Group plc over the nominal value of the share capital and share premium of Lok'nStore Limited as at 31 July 2001.

The other distributable reserve and the capital redemption reserve arose in the year ended 31 July 2004 from the purchase of the Company's own shares and a cancellation of share premium.

Share based payment reserve

Under IFRS2 there is the option to make transfers from the share based payment reserve to retained earnings in respect of accumulated share option charges where the options have either been exercised or have lapsed post-vesting. The total amounts calculated and accordingly transferred to retained earnings amounted to £298,268 (2014: £741,806).

24b Other reserves

Company	Other reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2013	**2,657**	**1,776**	**4,433**
Share based payments	–	119	**119**
Transfer to retained earnings in relation to share based payments	–	(742)	**(742)**
Dividends paid	(1,543)	–	**(1,543)**
31 July 2014	**1,114**	**1,153**	**2,267**
Share based payments	–	211	**211**
Transfer to retained earnings in relation to share based payments	–	(298)	**(298)**
31 July 2015	**1,114**	**1,066**	**2,180**

25 Retained earnings

Group	Retained earnings before deduction of own shares £'000	Own shares (Note 26) £'000	Retained earnings Total £'000
1 August 2013	**10,872**	**(4,241)**	**6,631**
Profit attributable to owners of Parent for the financial year	197	–	**197**
Transfer from revaluation reserve (Additional depreciation on revaluation)	207	–	**207**
Transfer from share based payment reserve (Note 24a)	742	–	**742**
Transfer from non-controlling interest	280	–	**280**
31 July 2014	**12,298**	**(4,241)**	**8,057**
Profit attributable to owners of Parent for the financial year	1,968	–	**1,968**
Transfer from revaluation reserve (Additional depreciation on revaluation)	249	–	**249**
Transfer from share based payment reserve (Note 24a)	298	–	**298**
Transfer realised gain on asset disposal	421	–	**421**
Dividend paid	(1,847)	–	**(1,847)**
31 July 2015	**13,387**	**(4,241)**	**9,146**

The transfer from revaluation reserve represents the additional depreciation charged on revalued assets net of deferred tax.

The Own Shares Reserve represents the cost of shares in Lok'nStore Group plc purchased in the market and held in the Employee Benefit Trust to satisfy awards made under the Group's share incentive plan and shares purchased separately by Lok'nStore Limited for Treasury Account. These treasury shares have not been cancelled and were purchased at an average price considerably lower than the Group's adjusted net asset value. These shares may in due course be released back into the market to assist liquidity of the Company's stock and to provide availability of a reasonable line of stock to satisfy investor demand as and when required.

The Company has taken advantage of the exemption available under the Companies Act 2006 not to present the Company income statement of Lok'nStore Group plc. The Company loss for the year was £139,354 (2014: £173,882).

26 Own shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
31 July 2014 and 31 July 2015	**623,212**	**499,910**	**2,466,869**	**3,741,036**	**4,240,946**

Lok'nStore Limited holds a total of 2,466,869 of Lok'nStore Group plc ordinary shares of 1p each for treasury with an aggregate nominal value of £24,669 purchased for an aggregate cost of £3,741,036 at an average price of £1.503 per share. These shares represent 8.7% (2014: 8.9%) of the Parent Company's called-up share capital. The maximum number of shares held by Lok'nStore Limited in the year was 2,466,869. No shares were disposed of or cancelled in the year.

The Group operates an Employee Benefit Trust (EBT) under a settlement dated 8 July 1999 between Lok'nStore Limited and Lok'nStore Trustee Limited, constituting an employees' share scheme.

Funds are placed in the trust by way of deduction from employees' salaries on a monthly basis as they so instruct for purchase of shares in the Company. Shares are allocated to employees at the prevailing market price when the salary deductions are made.

As at 31 July 2015, the Trust held 623,212 (2014: 623,212) ordinary shares of 1 pence each with a market value of £1,791,735 (2014: £1,290,049). No shares were transferred out of the scheme during the year (2014: nil).

No dividends were waived during the year. No options have been granted under the EBT.

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27 Cash flows

(a) Reconciliation of profit before tax to cash generated from operations

	2015 £'000	2014 £'000
Profit before tax	2,654	367
Depreciation	1,440	1,224
Amortisation of intangible assets	165	165
Impairment of development land asset	–	1,604
Equity settled share based payments	211	119
Interest receivable	(141)	(27)
Interest payable	1,144	1,136
(Increase)/decrease in inventories	(10)	7
Decrease/(increase) in receivables	423	(484)
Increase in payables	98	1,102
Cash generated from operations	5,984	5,241

(b) Reconciliation of net cash flow to movement in net debt

Net debt is defined as non-current and current borrowings, as detailed in Note 17a less cash and cash equivalents.

	2015 £'000	2014 £'000
Increase/(decrease) in cash in the year	257	(2,066)
Change in net debt resulting from cash flows	–	(914)
Movement in net debt in year	257	(2,980)
Net debt brought forward	(25,523)	(22,543)
Net debt carried forward	(25,266)	(25,523)

28 Commitments under operating leases

At 31 July 2015 the total future minimum lease payments as a lessee under non-cancellable operating leases were as follows:

	Group 2015 £'000	Group 2014 £'000
Land and buildings		
Amounts due:		
Within one year	1,546	1,543
Between two and five years	5,725	5,732
After five years	8,054	8,740
	15,325	16,015

Operating lease payments represent rentals payable by the Group for certain of its properties. Typically leases are negotiated for a term of 20 years and rentals are fixed for an average of five years.

29 Related party transactions

The following balances existed between the Company and its subsidiaries at 31 July:

	2015 £'000	2014 £'000
Net amount due from Lok'nStore Limited	2,965	2,285

The amount due from Lok'nStore Limited is interest free. The balance is repayable on demand, however the Company has no present intention to demand repayment within one year and so the amount has been presented as a non-current asset as at 31 July 2015.

The Company provides share options for the employees of Lok'nStore Limited. The capital contributions arising from these share-based payments are separately disclosed under investments in Note 11.

29 Related party transactions continued

The aggregate remuneration of the Directors, who are the key management personnel of the Group, is set out below. Further information on the remuneration of individual Directors is found in Note 6.

	2015 £'000	2014 £'000
Short term employee benefits	988	822
Post-employment benefits	30	30
Share-based payments	211	68
Total	1,229	920

The Group uses Trucost plc, an environmental research company, to provide information and undertake performance assessment of the environmental effect of its business activities. Trucost plc is a company in which Andrew Jacobs and Simon Thomas have a beneficial interest. The total fees payable to Trucost plc in respect of its environmental assessment and reporting for the year was £6,000 (2014: £6,000). The balance outstanding to Trucost plc at year-end was £nil (2014: £nil).

During the year the Group had an agreement with Keith Jacobs, a brother of Andrew Jacobs and Colin Jacobs, for the provision of marketing services and support on a consultancy basis. The fees payable to Keith Jacobs during the year under this arrangement were £25,663 (2014: £23,256). This agreement has now been terminated. There were no amounts outstanding due to Keith Jacobs at the year-end (2014: £nil). The maximum balance outstanding at any time during the year is £4,774 (ex VAT) (2014: £3,789).

30a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £3.03 million (2014: £3.85 million) relating to commitments on the Bristol and Southampton stores now under construction, remaining commitments on the fitting at Reading and various other minor works.

30b Bank borrowings

The Company has guaranteed the bank borrowings of Lok'nStore Limited, a subsidiary company. As at the year-end, that company had gross bank borrowings of £27.7 million (2014: £27.7 million).

31 Events after the reporting date

a) Additional £2 million received for sale of Reading site

The Group has received an additional £2 million from the purchaser of the original Reading store site in return for relinquishing any remaining rights to receive further payments in connection with the sale of the property. This sum is in addition to the £2.9 million received from the purchaser on 31 October 2014, taking the total consideration to £4.9m.

These additional proceeds will be recycled into the Group's opening programme of highly visible purpose-built new stores.

b) Sale and manage back of Swindon store

On 30 September 2015 the Group completed the sale of its Swindon East store for £3.5 million in cash to an investment fund. Historically, the Group has operated two stores in Swindon, one leasehold and one freehold. Following the completion of £0.5m of capital expenditure to increase capacity at its freehold store the two stores were consolidated into one. The Swindon East store has now been sold. The two stores were valued at a total of £1.4 million at 31 July 2014.

The Group will continue to manage the store as a branded Lok'nStore operation on behalf of the investor, and will receive management and performance fees.

The proceeds of this transaction will be recycled into projects such as the new stores currently under construction in Southampton and Bristol.

Glossary

Abbreviation	
Adjusted EBITDA	Earnings before all depreciation and amortisation charges, losses or profits on disposal, share-based payments, acquisition costs, and non-recurring professional costs, finance income, finance costs and taxation
AGM	Annual General Meeting
APD	Auditing Practices Board
Bps	Basis points
C&W	Cushman & Wakefield
CAC	Contributory asset charges
Capex	Capital expenditure
CGU	Cash generating units
CO_2e	Carbon dioxide emissions
CSOP	Company Share Option Plan
EBT	Employee Benefit Trust
EMI	Enterprise Management Incentive Scheme
EU	European Union
FFO	Funds from operations
GHG	Greenhouse gas
HMRC	Her Majesty's Revenue & Customs
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LIBOR	London Interbank Offered Rate
LTV	Loan to value ratio
MWh	Megawatt hour
Operating Profit	Earnings before interest and tax (EBIT)
PESM	Partial Exemption Special Method
RICS	Royal Institution of Chartered Surveyors
SMO	Standard Method Override Calculation
sq. ft.	Square feet
Store adjusted EBITDA	Adjusted EBITDA (see above) but before central and head office costs.
VAT	Value Added Tax

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