LOK'n STORE
Self Storage

Lok'nStore Group Plc

Annual Report and Accounts
for the year ended 31 July 2017

Stock Code: LOK
www.loknstore.com

Welcome to Lok'nStore Group Plc

We are a leading company in the fast growing UK self-storage market. We opened our first self-storage centre in February 1995 and have grown consistently over the last 20 years. We currently operate 26 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 store openings
- Significant growth in third party management services
- The 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 8 and our Business Model on page 10.

"We have created a strong platform for an exciting period of rapid growth for Lok'nStore increasing profits and assets and reducing our debt. We have secured a notable increase in our new store pipeline to 11 stores which will add around 45% more space to our operation over the coming years. Lok'nStore's strategy of opening new landmark stores gives us confidence that Lok'nStore can continue to deliver rapidly growing dividends for our investors."

Andrew Jacobs **CEO OF LOK'NSTORE GROUP**

Commenting on the Group's results

www.loknstore.com
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Contents

Revenue

£16.65m

Group Adjusted EBITDA

£6.49m

Adjusted Net Asset Value per share

£4.16

Loan to Value Ratio

14%

Cash available for Distribution (CAD) per share

18.1p

2017 Highlights

Robust platform for rapid future growth

OVERVIEW

Positive trading

- Group Revenue £16.65m up 3.7% (2016: £16.06m) – like for like (LFL)[1] up 5.6%
- Group Adjusted EBITDA[2] £6.49m, up 3.1% (2016: £6.30m) – LFL up 5.4%
- Profit after taxation (adjusting for exceptional items)[3] £3.17m, up 28.8%[4] (2016: £2.46m)

Rising cash flow supports 11.1% dividend increase – progressive dividend policy

- Annual dividend 10 pence per share, up 11.1% (2016: 9 pence per share)
- Cash available for Distribution (CAD)[5] £5.17m, up 9.9% (2016: £4.71m)

Significant growth in asset value

- Net Assets up 24.7% to £89.1m
- Adjusted Net Asset Value[6] per share up 7.9% to £4.16 (2016: £3.86)

Strong balance sheet, efficient use of capital, low debt

- Sale of all 2,466,869 Treasury shares held raising £9.9m cash at average 405 pence per share (purchase cost 152 pence)
- Net debt down to £17.4m (2016: £23.5m)
- Loan to value ratio down to 14%[7] (2016: 20.8%)
- Extension of bank facility by 2 years until January 2023

More new stores to come delivering further growth

- Expanding pipeline of 11[8] new landmark stores taking total to 37
- 3 new stores opening this financial year
- Plus 4 further new sites secured
- Current pipeline adds 338,300 sq. ft. (26.1%) of extra trading space

Confident outlook

- Strong balance sheet and rapidly expanding new store pipeline position the Group well for future growth

For the definitions of the terms used in the highlights above refer to the notes section on page 74.

Chairman's Review

"We have a current pipeline of 11 new stores. This is by far the strongest pipeline I have seen during my time in the business."

We have been extremely busy again this year and have now built a platform for a period of rapid and sustainable growth. There are three components to this platform: a growing number of landmark stores, talented and committed people and a structurally undersupplied market where we are finding an unprecedented number of new store opportunities.

Landmark stores

As we open the doors at more landmark stores, and as these stores represent an ever growing proportion of our portfolio, it becomes clear that this strategy is driving the excellent results which I am pleased to introduce here. The Internet is now the source of the vast majority of our enquiries but when it comes to new customers, passing traffic is actually more important and rises to 50% in our recently opened landmark stores compared to 40% for the portfolio as a whole.

Talented and committed people

State-of-the-art buildings in prominent and increasingly retail locations certainly attract more customers. But this is not enough on its own. Our 9,500 customers also expect and deserve excellent service and value for money. We have a Trust Pilot score of 9.5 which means that 95% of customers rate the service they received as "good" or "excellent".

Customer reviews and recommendations are now more important than they have ever been in the 23 years since Andrew and I started the business. I was delighted to receive a telephone call earlier this year from an old friend who, I hadn't realised, is a customer at our Maidenhead store. She thought that the service she received was 'just exceptional'; the staff 'couldn't have been more helpful'; they 'went the extra mile' and even provided 'water for the dog'. I haven't heard from her for a while but she called me especially to tell me this because 'people can be quick to complain but are seldom vocal in their praise'.

Often our customers use our storage facilities at very stressful times, perhaps following the death of a relative, after divorce or when a house purchase has fallen through or a new business is taking off. This is why we aim to be the most helpful and friendly storage company. To do this we need the very best people.

Our people come from a variety of service sector backgrounds including retail, trade counters, hospitality and retail banking. To deliver exceptional trading results from our rapidly growing store base, we are recruiting and retaining the best talent.

We offer our people:

- Skills development in Sales, Customer Service and Team Leadership
- A great work/life balance
- Great career prospects throughout our rapidly expanding portfolio
- Financial rewards consisting of a good basic salary and excellent bonus schemes for success

It is a great time to be part of Lok'nStore. This year the Lok'nStore Academy received an 'Investing in Young People' Award from Junior Chamber International. The Academy demonstrates commitment to training our stars of today and tomorrow, allowing our people to develop in familiar surroundings, trained by our storage industry experts who have a wealth of experience and knowledge.

Since the Academy's inception in 2015 over 20% of our workforce have completed or are working towards a National Vocational Qualification in Customer Service, Sales or Team Leadership. The energy and enthusiasm to deliver on our objectives is clear to see throughout the team.

Welcome

OVERVIEW

Board changes

On 5 July 2017 the Company announced the retirement of Colin Jacobs as an Executive Director of the Company. Colin has been with the business from its founding in 1995. I would like to thank Colin for his significant contribution to the development of the Company over the last 22 years and wish him well on behalf of the entire Board.

Also effective from 5 July 2017 I have stepped down from the role of Executive Chairman and will now serve as Non-Executive Chairman.

Our new store pipeline and the UK self-storage market

The UK self-storage industry is generally acknowledged to be very supply-constrained with the latest Self Storage Association Annual Survey showing UK supply over the past five years only expanding by approximately 5.7%. We have a current pipeline of 11 new stores. This is by far the strongest pipeline I have seen during my time in the business. We are able to embark on this unprecedented level of growth because our debt levels are currently so low; a position that was much assisted by the sale of treasury shares earlier this year and the sale and manage-back deals of previous years.

Demand for established self-storage assets is also becoming stronger and provides transactional evidence which is very supportive to valuations. Since early 2015 there have been 17 transactions for 81 stores worth £420m. There have been four notable portfolio transactions in the UK over the last 12 months involving 45 stores at a cost of £270m. Three of the buyers were trade buyers from the US, the UK and South Africa and one was bought by a UK financial institution.

Our valuers Jones Lang LaSalle (JLL) have reflected the strength of market demand for prime self-storage assets in their valuations of our stores, in addition to the uplift achieved from our new store openings and improved trading at existing stores. JLL valued our trading stores at £119.6 million (2016: £112.7 million). With other land and property assets, this equates to a total value of land and properties held of £128.9 million (2016: £116.2 million), an 11% increase in value. These are exciting times indeed.

Robust platform for future dividend growth

We continue to implement our strategy objectives and these are detailed more fully in the Strategic Report.

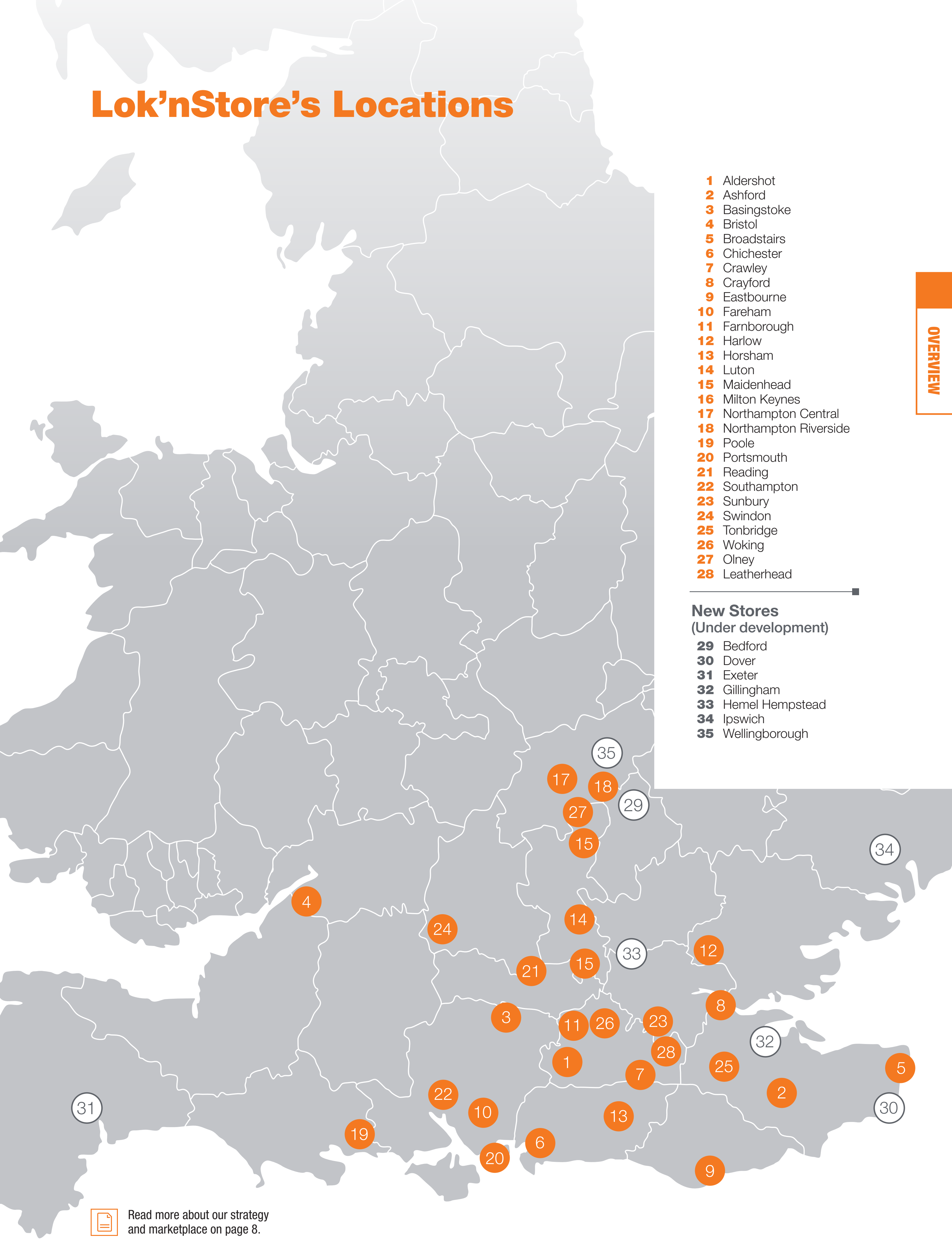
To reflect this performance we are proposing to increase the annual dividend pay-out by 11.1%. The Group will therefore pay a final dividend of 7.0 pence per share on 10 January 2018 following the payment of an interim dividend of 3.0 pence per share in June 2017 making a total annual dividend pay-out of 10 pence per share, up from 9 pence for the full year last year. This is the sixth consecutive year of substantial dividend growth.

Simon G. Thomas
Chairman
27 October 2017

We have 7 stores under development representing a combination of owned Stores and managed Stores.

These 7 stores will add 338,800 sq. ft. of new capacity adding 26.1% to the existing trading space of 1.29 million sq. ft.

Lok'nStore's Locations



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

New Stores
(Under development)

29 Bedford
30 Dover
31 Exeter
32 Gillingham
33 Hemel Hempstead
34 Ipswich
35 Wellingborough

Read more about our strategy and marketplace on page 8.

The Strategic Report

"We believe there is the opportunity for significant further growth."

THE STRATEGIC REPORT COVERS THE FOLLOWING AREAS OF LOK'NSTORE'S BUSINESS:

- Summary of Strategy, Performance and Outlook
- Lok'nStore's Business Model
- Operating and Marketing Review
- Property Review
- Financial Review
- Corporate Social Responsibility Report
- Principal Risks and Uncertainties in operating our Business

Summary of Strategy, Performance and Outlook

Lok'nStore Group has had a solid year successfully implementing all of our strategy objectives. Revenue, adjusted EBITDA profits and asset values have all moved ahead steadily while we have again strengthened our balance sheet.

Our rapidly expanding pipeline of new stores will substantially increase 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.

Positive trading

Group revenue for the year was £16.65m, up 3.7% year on year (2016: £16.06m). Like for Like (LFL) revenue stripping out the effect of the closure of the Staines store was up 5.6%. Further details on the Staines closure is reported in the Property Review. This revenue growth led to a 3.1% increase in Group Adjusted EBITDA profit and a LFL increase of 5.4%. Tight control over operating costs has also contributed in pushing the Group's profits to record levels.

Extension of existing £40m Banking Facility to six years

The Group has agreed a two year extension on its existing banking facility. The £40m facility will now run until January 2023. Together with our £11.4m of cash and future cash generated from operations, this will provide funding for more landmark site acquisitions and working capital. The cost of our debt averaged 1.66% in the year on £28.8m drawn.

Strong balance sheet

During the year Lok'nStore sold its entire holding of 2,466,869 Treasury shares at an average of 405 pence per share to a range of institutional and individual investors raising £9.9m of cash. The average purchase cost was 152 pence. We welcome these new Shareholders to the Company.

The sale of the shares from treasury will have no impact on earnings or taxable profits but has reduced debt, the loan to value ratio (LTV) and interest payable while increasing cash and current assets, so providing strong support for the Company's growth strategy.

The growth of sales, profit and asset values has allowed us to achieve a substantial reduction in the LTV ratio down to 14.0% (2016: 20.8%) and net debt down to £17.4m (2016: £23.5m) while we also invested £6.6m in store development in this period.

Pipeline of new Stores

Against this background of ever improving finances we have now secured a rapid increase in our new store pipeline to 11 stores by the reporting date, which will take the total to 37 stores. These will all be purpose-built landmark stores in highly prominent locations and will, over the coming years, add substantially to the Group's capacity for revenue, profit and asset growth.

Performance and Outlook

The table below sets our achievements for the last year against our objectives as set out in our 2016 report:

Objective		Achievements in Financial Year 2017
1. Continue to increase EBITDA over the coming years	✓	Like for like (LFL) Adjusted EBITDA up 5.4% in 2017.
2. Fill existing stores and improve pricing	✓	LFL Self-storage unit occupancy up 6.5% and LFL self-storage pricing up 0.8% in 2017.
3. Acquire more sites to build new landmark stores	✓	Gillingham and Wellingborough sites are on target to open in late 2017 and in spring 2018 respectively. Both are in prominent retail locations with little established competition. Immediately after the year-end we acquired a further site in a highly prominent location in Bedford, Bedfordshire. The store will open in 2018.
4. Increase the number of stores we manage for third parties	✓	During 2017 we completed and opened the Broadstairs store and the Hemel Hempstead store is scheduled to open at the end of 2017. In July 2017 we announced the signing of management contracts to develop and operate two new landmark stores in highly prominent locations in Exeter, Devon and Ipswich, Suffolk. Immediately after the year-end we signed a further site in Dover, Kent. The Dover store will bring the total number of managed stores to 11 out of a total of 33 stores.
5. Grow our document storage business	✓	In the financial year 2017 the turnover of our document storage business grew 7.1% with number of boxes up 10.1% and number of tapes stored up 17.5%.

Following this year of solid successes we have created a strong platform for an exciting period of growth for Lok'nStore.

Achievement of these objectives has increased the cash available for distribution (CAD) enabling a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet.

Our focus continues to be on four key areas:

1. Fill stores and improve pricing to continue increasing cash flow from the existing stores
2. Acquire more sites to build new landmark stores
3. Increase the number of stores we manage for third parties
4. Grow our document storage business

The UK self-storage market and Lok'nStore's position within it

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 1995 and have grown consistently over the last 20 years, currently operating 26 self-storage centres and two serviced document stores in Southern England.

We have been listed on the AIM Market since June 2000 and the Board accounts for 29% of the Total Voting Rights (TVR) in the ordinary shares of the Company.

We offer self-storage and serviced document storage from our own stores, and management services to third party storage owners. Self-storage and other storage services are 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.

We develop and operate self-storage centres in prominent locations. 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 economic activity and consumer and business confidence.

Households, businesses and other organisations are more space constrained in the relatively expensive areas of the South East. Barriers to entry in the form of competition for suitable sites and the difficulties in securing appropriate planning consents are also correspondingly higher.

Lok'nStore aims to build more landmark self-storage centres primarily across South-East England, to steadily increase the cash available for distribution (CAD) enabling a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet. We believe there is the opportunity for significant further growth underpinned by our rapidly expanding pipeline of new stores.

There remains significant opportunity in the UK self-storage market where there are an estimated 1,430 self-storage facilities providing approximately 4.2 million square feet of storage space. With a population of 65.2 million people in the UK this equates to only 0.64 square feet per person compared to 7.8 square feet per person in the USA (Self-Storage Association 2017 UK Annual Survey).

The sector remains in good health. The 2017 Report for the Self-Storage Association says that: "total annual turnover for the UK self-storage industry in 2016 was around £540 million . . . from approximately 693 different operators. When compared to Europe the UK has around 47% of the total European self-storage market."

In their valuation report JLL describe a rising number of transactions in the UK self-storage market demonstrating the increasing liquidity of the market. Since early 2015 there have been 17 transactions worth £420m for 81 stores, including four major transactions in 2017. These transactions were a UK trade buyer, a US trade buyer, a South African trade buyer and a UK financial buyer. This is the first time a UK financial investor has invested directly in the self-storage sector which is a significant step forward for the market.

Business Model

Our overriding objective is to:

Steadily increase the Cash available for Distribution (CAD) enabling a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet

by taking advantage of:

Attractive market dynamics	■ Growing sector ■ UK self-storage use remains relatively low ■ Limited new supply coming onto the market ■ Resilient through economic downturns
Our competitive strengths	■ Recognised brand with landmark stores ■ Excellent customer service ■ Strong balance sheet ■ Experienced Board with clear strategy
Stable and rising income streams and low credit risk	■ Over 9,650 customers (2016: 9,200) ■ Mix of business and domestic customers ■ Stores set mainly in the affluent South of England ■ Low bad debt expense and strong credit risk model
Strong growth opportunities	■ Demand increasing ■ Undersupplied market ■ Strong Internet marketing ■ Powerful economics of ‘Managed Stores’
Translation of the business model into high quality earnings	■ Low technology & product obsolescence ■ Track record of growing cash generation ■ Flexible approach to portfolio management ■ Progressive dividend policy

Operating and Marketing Review

"Visibility of our stores remains very important to our marketing efforts. We continue to invest in new signage and lighting at our existing stores as well as creating striking designs for our new landmark stores."

Positive self-storage business performance

- Self-storage revenue £13.91m up 3.4% (2016: £13.44m) – LFL up 5.7%
- Adjusted Store EBITDA £7.70m up 2.8% (2016: £7.49m) – LFL up 4.6%
- Unit Pricing up 0.8% LFL
- Unit occupancy up 6.5% LFL

With costs firmly under control, revenue growth translates into healthy profit growth.

Total adjusted store EBITDA in the self-storage business, a key performance indicator of profitability and cash flow of the business, increased 2.8% to £7.7m (2016: £7.49m). Like for like growth in store EBITDA was 4.6%

The overall adjusted EBITDA margin across all stores was very slightly down at 55.1% (2016: 55.3%) with the adjusted Store EBITDA margins of the freehold stores at 63.4% (2016: 64.6%) and the leasehold stores at 41.5% (2016: 41.7%).

Over the course of the year unit occupancy rose by a healthy 6.5% LFL and unit pricing growth was subdued at 0.8% LFL. Normalised occupancy which strips out stores which have opened or moved in the last 3 years was 69.8%. Out of 26 stores open 15 were trading at above 70% occupancy.

At the end of July 2017, 33.5% of Lok'nStore's self-storage revenue was from business customers (2016: 34%) and 66.5% was from household customers (2016: 66%). By number of customers 18.1% of our customers were business customers (2016: 18.5%) and 81.9% household customers (2016: 81.5%).

By the year-end we had 7 stores under management following the opening of the Broadstairs store in May 2017.

Portfolio Analysis and Performance Breakdown As at 31 July 2017

						When fully developed	
	Number of stores	% of Valuation	% of Adjusted Store EBITDA	Adjusted Store EBITDA margin (%)	% lettable space Lok owned	Number of stores	Total % lettable space
Freehold and Long Leasehold	12	82.5	71.5	63.3	63.9	14	49.8
Operating Leaseholds[1]	7	13.4	28.5	41.5	36.1	7	24.2
Pipeline (freehold)	2	4.1	–	–	–	–	–
Managed Stores (trading)	7	–	–	–	–	11	26.0
Managed Stores (under development)	4	–	–	–	–	–	–
Total	32[1]	100	100	55.1	100	32	100

[1] On 3 August 2017, contracts were exchanged on the purchase of a site in Bedford. Legal completion and building work will follow completion of relevant planning matters. Following completion, Lok'nStore will operate 33 stores. Lok'nStore will develop this site as a purpose-built landmark store.

The average unexpired term of the Group's operating leaseholds is approximately 10 years and 8 months as at 31 July 2017 (11 years and 8 months: 31 July 2016). The leaseholds produced 28.5% of the total store EBITDA in the year (2016: 30.5%).

Operating and Marketing Review
continued

Ancillary Sales

Ancillary sales which consist of boxes and packaging materials, insurance and other sales increased 2.6% over the year accounting for 11.2% of self-storage revenues (2016: 11.2%).

We continue to promote our insurance to new customers with the result that 91% (2016: 91%) of our new customers purchased our insurance over the year and this has resulted in 80% of all of our customers being insured through Lok'nStore (2016: 80%).

Serviced document storage revenue and profits up

- Revenue £2.33m up 7.1% (2016: £2.17m)
- Adjusted EBITDA £0.54m, up 3.8% (2016: £0.52m) (after adjustment for Lok'nStore Management charges)
- Number of boxes stored up 10.1%
- Number of tapes stored up 17.5%

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 10.1% and tapes stored up 17.5%.

Last year we consolidated the capacity of our serviced document warehouse, closing one of the three storage sites and fitting new racking in our main site. This has significantly increased the number of boxes that can be stored within our existing premises. As part of this continuing strategy of optimising the utilisation of trading space our two sites in Leatherhead have been consolidated into one trading unit which will reduce costs in the coming year.

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.

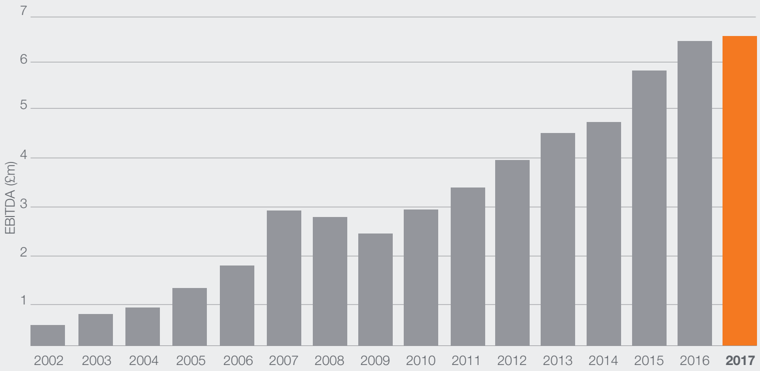
Marketing

During the year our marketing efforts have continued to focus on the presentation of our buildings to attract passing traffic and Internet marketing. 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 and generate an increasing proportion of our business. We continue to invest in new signage and lighting at our existing stores as well as creating striking designs for our new landmark stores to promote and enhance their visual prominence.

The Internet continues to be the main media channel for our advertising. Our website at www.loknstore.co.uk is one of the most established self-storage websites in the UK. The website delivers a high level of customer experience across desktop, tablet and smartphone devices. This is a very dynamic area and we are committed to its continued development. 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.

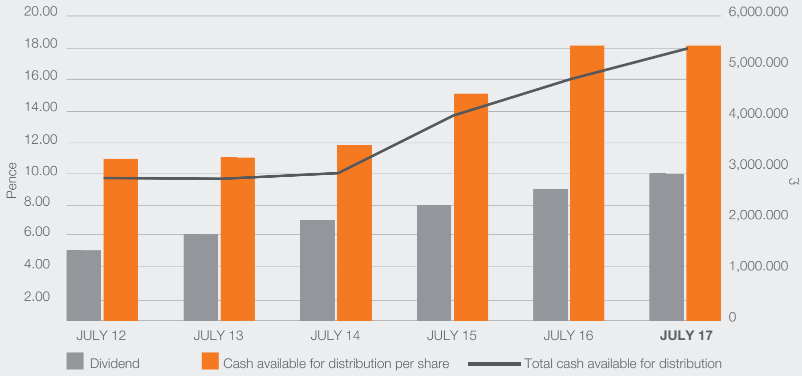
The Year in Figures

Consistent growth of profits



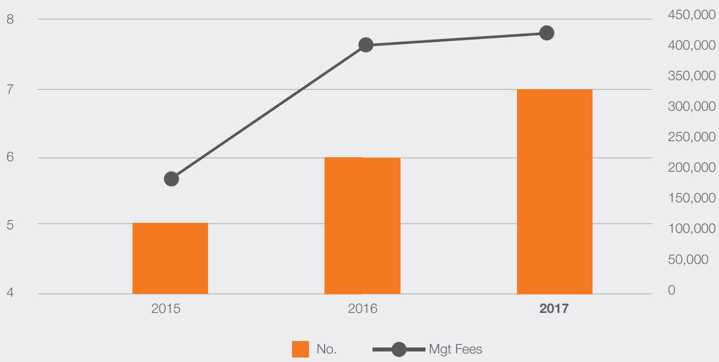
Revenue and EBITDA profits have moved ahead steadily. With costs firmly under control, revenue growth translates into healthy profit growth.

Progressive dividend from increasing cash available for distribution



The dividend payment has increased by 11.1% and the cash available for distribution (CAD) by 9.9% in line with our stated objective to increase CAD to enable a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet.

Number of and fees from managed stores



New management contracts were signed in July 2017 to develop and operate three new stores in Exeter, Ipswich and Dover. When developed, these Managed Stores will add around 125,000 sq. ft. to the trading portfolio and bring the total number of Managed Stores to 11 out of a total of 33 stores.

Property Review

Store and portfolio strategy

Lok'nStore has 26 freehold, leasehold and managed stores trading. Of these, 19 stores are owned with 12 freehold (or long leasehold) and 7 leaseholds. All of our leasehold stores are inside the Landlord and Tenant Act providing us with a strong security of tenure. The average unexpired term of the Group's operating leaseholds is approximately 10 years and 8 months as at 31 July 2017. 7 stores are trading under management contracts.

We have a pipeline of 7 new stores representing a combination of owned Stores and managed Stores. These 7 stores will add 338,800 sq. ft. of new capacity adding 26.1% to the existing trading space of 1.29 million sq. ft. Following completion, Lok'nStore will operate 33 stores.

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.

Flexible approach to site acquisition

All of the projects detailed below are part of our strategy of actively managing our 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 property tenure.

Growth from new stores and more new stores to come

- Broadstairs store opened – early trading strong

Stores in advance stages of development

- Wellingborough – scheduled to open this financial year
- Hemel Hempstead – scheduled to open this financial year
- Gillingham – scheduled to open this financial year

Acquisition of site for a new landmark store (Immediately post balance sheet – August 2017)

- Bedford – scheduled to open next financial year

We will develop this site as a purpose-built landmark store. Our eye-catching buildings with their distinctive orange Lok'nStore branded livery and prominent Lok'nStore signage create highly visible landmarks which continue to be a big contributor of new business. Building work will follow completion of all relevant planning matters.

Three new stores to be developed under management contracts

- Exeter – scheduled to open next financial year
- Ipswich – scheduled to open next financial year
- Dover – scheduled to open next financial year

Management contracts were signed in July 2017 to develop and operate three new stores. The new sites are in prominent retail locations in Exeter, Ipswich and Dover. Opening for these stores is scheduled for end of 2018. When developed, these will add around 125,000 sq. ft. to the trading portfolio and bring the total number of managed stores to 11 out of a total of 33 stores.

Vacated Southampton building

In 2016 we opened a new self-storage facility in Southampton, close to our old store but in a much more prominent position. This left the old store vacant. Market evidence suggested that there is a substantial market in Southampton for car parking for cruise liner passengers and that this property was appropriate to this use. The building has now been converted and started trading as "ParknCruise" in May 2017. Early bookings are encouraging.

Managed Store Service

Over recent years we have been developing our management store services to third party storage owners. We have eight stores under management with seven of these open and trading and one under development, and scheduled to open in 2017. 3 further managed stores will open in 2018.

In the case of managed stores Lok'nStore receives a standard monthly fee, a performance fee based on certain objectives and a fee on successful exit. In some cases we charge acquisition, planning and branding fees. This allows us to earn revenue from our expertise and knowledge of the storage industry without having to commit our capital, to amortise various fixed central costs over a wider operating base, and to drive more visits to our website moving it up the rankings and benefiting all the stores we both own and manage.

In this year we earned £0.42m (2016: £0.44m) in management fees. We expect this to increase steadily over the coming years. The comparative 2016 figure was enhanced by accrued fees prior to the period which could not be booked until year ended 2016. Excluding these prior period accrued fees, Management fees from Managed Stores was up 3.8%. Underlying management fee growth after adjusting for single one-off payments is 6.7%.

Management fees	**Group Year ended 31 July 2017 £**	Group Year ended 31 July 2016 £
Management Fees	**420,117**	404,864
Prior period accrued fees	**–**	34,390
Total management fees	**420,117**	439,254

Closure of Staines store

Our leasehold store in Staines was on a short lease outside of the Landlord and Tenant Act (1954) and has now been closed. There were no dilapidations payments made to the landlord.

Because the Staines store was outside of LTA (1954) and on a short lease it has never been valued as an asset in our accounts. The carrying book value in the financial statements was therefore *de minimis*.

The headline revenue and occupancy figures for December 2016 onwards were negatively impacted to some degree by the influence of the closure, but for the sake of transparency and simplicity we have chosen to show like-for-like figures stripping out this effect only where it makes a qualitative difference.

Store property assets and Net Asset Value

- Adjusted total assets now *circa* £153.5m (2016: £135.1m), up 13.6% on last year
- Adjusted net asset value of £4.16 per share, up 7.9% on last year

Lok'nStore's freehold and operating leasehold stores have been independently valued by Jones Lang LaSalle (JLL) at £119.6m (cost £45.3m) as at 31 July 2017 (2016: £112.7m: cost £46.9m). The change in 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 and land and buildings held at director valuation, our total property valuation is £127.8m (2016: £116.2m). This translates into an adjusted net asset value of £4.16 per share up, 7.9% on last year (2016: £3.86 per share).

The increase in the property values of properties which were also valued last year was 6.14%.

Financial Review

Record financial results

- Group Revenue £16.65m, up 3.7% (2016: £16.06m) – like for like (LFL) up 5.6%
- Group Adjusted EBITDA £6.49m, up 3.1% (2016: £6.30m) – LFL up 5.4%
- Profit before taxation (adjusting for exceptional items[9]) £4.08m, up 11.0% (2016: £3.67m)
- Profit after taxation (adjusting for exceptional items[9]) £3.17m, up 28.8% (2016: £2.46m)

In the year there were a number of small one-off items including some management fees booked after the year-end, some additional costs in the ParknCruise set-up as well as some exceptional expenses incurred in order to assist in saving future costs. While these individual items are of themselves immaterial, their combined effect was to moderate the out turn of profit before tax growth to 11.1% (adjusted for the exceptional receipt in the previous year).

Taxation

The Group will pay tax on its earnings at an effective tax rate of 20% and has made a tax provision of £0.8m. (2016: £0.6m). The deferred tax provision which is calculated at forward corporation tax rates of 17% and is substantially a tax provision against the potential crystallisation (sales) of revalued properties and past 'rolled over' gains amounts to £16.4 million (2016: £15.4 million) (see note 18).

Earnings per share

Basic earnings per share (EPS) were 11.0 pence (2016: 16.60 pence per share). Diluted EPS were 10.64 pence (2016: 16.24 pence per share). If 2016 figures are adjusted to eliminate the 2016 exceptional property sale gain of £1.94m, the 2016 EPS is adjusted to 9.08 pence per share and the 2016 diluted EPS to 8.88 pence per share.

Earnings per share (EPS)	**Year ended 31 July 2017 £'000**	Year ended 31 July 2016 £'000
Profit for the year	**3,061**	4,282
Exceptional Gain on sale of Reading site	**–**	(1,940)
Adjusted earnings	**3,061**	2,342

	No. of shares	No. of shares
Weighted average number of shares		
For basic earnings per share	**27,780,676**	25,791,821
Dilutive effect of share options	**999,657**	577,882
For diluted earnings per share	**28,780,333**	26,369,643
Basic EPS (pence)	**11.02p**	9.08p
Diluted EPS (pence)	**10.64p**	8.88p

Treasury shares

Sale of treasury shares: In November 2016 Lok'nStore sold 1,975,000 ordinary shares of 1 pence each held in treasury. The shares were sold to a range of institutional investors at a price of 400 pence per share. (The Company acquired the shares at an average price of 150.3 pence.)

On 26 April 2017 Lok'nStore sold the remaining 491,869 ordinary shares in treasury to a range of institutional investors at a price of 425 pence per Ordinary Share. Both treasury sales were undertaken to satisfy demand for the Company's shares, and to improve liquidity.

The sale of these shares will have no impact on earnings or taxable profits but has reduced debt, LTV and interest payable while increasing cash and current assets. This provides strong support for the Company's growth strategy.

Purchase of treasury shares: The Group did not purchase any Treasury shares during the year. We are proposing to renew our ongoing authority to buy back shares at this year's AGM to ensure the Group continues to have flexibility to make purchases should it be considered to be in the best interests of Shareholders to do so.

Operating costs

- Cost ratio flat at 59% (2016: 59%)

We have a strong record of reducing our Group operating costs each year; however, we cautioned at our 2016 year-end results that although we maintain a disciplined approach to costs, continuing to reduce them is increasingly challenging while delivering both strong revenue growth and an acceleration of our store opening programme.

Group operating costs amounted to £9.84m for the period, a 4.2% increase year on year (2016: £9.44m) which derived from higher rates bills as we opened landmark stores, extra staffing in document storage and higher Internet marketing costs.

Property costs which mainly constitute rent and rates have risen by 6.8% as we felt the effects of higher rates bills as we opened our new landmark stores at Southampton and Bristol and have incurred rates on our development site at Wellingborough. Rents payable remained static and utility costs rose modestly. Excluding rates, other property costs fell by 2.6%. Overhead costs are running 2.7% lower for the full year 2017.

Staff costs increased by 3.7% as we increased staffing at our serviced document storage unit to cope with increased volumes of incoming items. Across the rest of the Group there was no increase in staff costs despite additional national insurance costs arising on the exercise of employee share options.

Overall the cost increases are mainly driven by the expansion of the business and we are seeing little other cost pressures. Looking beyond 2017, property costs within the Saracen business will be further driven down as part of a continuing strategy within the Saracen document storage business of optimising the utilisation of trading space. Immediately after the year-end and as reported in note 31(b) (Events after the Reporting date) the two warehouse units in Leatherhead have now been consolidated into one trading unit. This will remove approximately £0.1 million of property costs annually going forward.

Overall operating costs as a percentage of revenue have remained flat and represent 59% as a cost ratio. (2016: 59%).

Group	Increase/ (Decrease) in costs %	2017 £'000	2016 £'000
Property costs	6.8	**4,179**	3,913
Staff costs	3.7	**4,389**	4,232
Overheads	(2.7)	**1,098**	1,128
Distribution costs	0.4	**171**	170
Total	4.2%	**9,837**	9,443

Strong balance sheet, efficient use of capital, low debt

- Two year extension to £40m Bank facility on same terms
- Net debt down to £17.4m (2016: £23.5m)
- Loan to value ratio (LTV) down to 14% (2016: 20.8%)
- Gearing down
- Cost of debt averaged 1.66% in the year on £28.8m drawn.

Extension of existing £40m Banking Facility to six years

Following the agreement of new facilities with Royal Bank of Scotland on improved terms last year, the Group has agreed a two year extension on its existing banking facility. The £40m facility will now run until January 2023 and will provide continued funding for site acquisitions as well as working capital for the development of the business over the medium term.

The Group is not obliged to make any repayments prior to the facilities expiration in January 2023 and bank covenants and interest margin on existing facilities are unaffected by this extension of term. The facility also provides for the possibility of an additional accordion of up to £10m which if taken up during the term of the facility will increase facilities available to £50m.

Management of interest rate risk

Of the £28.8m of gross debt currently drawn against the £40m revolving credit facility, £20m was at a fixed interest rate with £10m fixed rate swap at a fixed 1 month sterling LIBOR rate of 1.2% and £10m swap at a fixed 1 month sterling LIBOR rate of 1.15%. Both swaps expired 20 October 2016 and the Group's all-in floating rate dropped to 1.65% on its entire gross debt.

Under the current bank facility the Group is not committed to enter into hedging instruments but rather to keep such matters under review. Given our low level of indebtedness, low Loan to Value and high interest cover, combined with the wider uncertainties within the economy of Brexit likely to produce low rates for longer, it is not the intention of the Group to enter into an interest rate hedging arrangement at this time.

Cash flow and financing

At 31 July 2017 the Group had cash balances of £11.4m (2016: £5.3m). Cash inflow from operating activities before investing and financing activities was £5.5m (2016: £3.8m) and the sale of the Treasury shares raising £9.9m further added to our cash position. As well as using cash generated from operations to fund some capital expenditure, the Group has a six year revolving credit facility. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £11.2m (2016: £11.2m).

Gearing

At year-end there was £28.8m of gross borrowings (2016: £28.8m) representing gearing of 19.6% (2016: 32.9%) on net debt of £17.4m (2016: £23.5m). The leaseholds are stated at depreciated historic cost in the statement of financial position. If these leaseholds are adjusted for the uplift in value to their reported Jones Lang LaSalle (JLL) valuation, gearing drops to 16.9% (2016: 27.6%). If the deferred tax liability carried at year-end of £16.4m (2016: £15.4m) is excluded gearing drops further to 14.6% (2016: 23.4%).

Strong cash flow supports 11.1% dividend increase

- Annual dividend 10 pence per share, up 11.1% (2016: 9 pence per share)
- Cash available for Distribution (CAD) from operations £5.17m, up 9.9% (2016: £4.71m)
- Cash available for Distribution (CAD) of 18.1 pence per share (2016: 18.1 pence per share)

Cash available for Distribution (CAD)

Cash available for Distribution (CAD) provides a clear picture of ongoing cash flow available for dividends. To illustrate this fully the table below shows the calculation of CAD.

Analysis of Cash Available for Distribution (CAD)

CAD

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
Group Adjusted EBITDA	**6,493**	6,295
Less: Net finance costs (per Income Statement)	**(297)**	(735)
Capitalised maintenance expenses	**(90)**	(110)
New Works Team	**(138)**	(134)
Current tax	**(792)**	(606)
Total deductions	**(1,317)**	(1,585)
Cash Available for Distribution	**5,176**	4,710
Increase in CAD over last year	**9.9%**	

	Number	Number
Closing shares in issue	**28,679,711**	26,019,241
CAD per share (annualised)	**18.1p**	18.1p

Total CAD has increased by 9.9% as a result of higher EBITDA profit and a much lower finance charge. At a per share level this has been balanced by the sale of treasury shares increasing the number of shares so the CAD per share remained constant at 18.1 pence despite the de-risking of the business.

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 £6.63m (2016: £6.99m). This was primarily the construction works at our development sites in Gillingham and Wellingborough and the refurbishment of the old Southampton store for cruise parking.

The Group has capital expenditure contracted but not provided for in the financial statements of £2.6m (2016: £1.1m).

Statement of Financial Position

Net assets at the year-end were £89.1m (2016: £71.5m). Freehold and long leasehold properties were independently valued at 31 July 2017 at £102.9m (2016: £96.1m). Refer to the table of property values below.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

It is the Group's policy to commission an independent external valuation of its properties at each year-end.

Our eleven freehold properties and one long leasehold are held in the statement of financial position at fair value and have been valued by JLL. 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, these have also been valued and these valuations have been used to calculate the adjusted net asset value position of the Group. The value of our operating leases in the valuation totals £16.7m (2016: £16.6m) and 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.

A deferred tax liability arises on the revaluation of the properties and on the rolled-over gain arising from the disposal of some trading stores. 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 old Reading store 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.

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

Analysis of Total Property Value

	No. of stores/ sites	31 July 2017 Valuation £	No. of stores/ sites	31 July 2016 Valuation £
Freehold & Long Leasehold valued by JLL[1]	**12**	**102,900,000**	12	96,125,000
Short Leasehold valued by JLL[2]	**7**	**16,725,000**	7	16,575,000
Freehold land and buildings at Director valuation[3]	**1**	**4,195,479**	1	3,000,000
Subtotal	**20**	**123,820,479**	20	115,700,000
Sites in development at cost	**2**	**5,124,567**	2	457,826
Total	**22**	**128,945,046**	22	116,157,826

1 Includes related fixtures and fittings (refer note 10b).

2 The seven leaseholds valued by JLL 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 10 years and 8 months at the date of the 2017 valuation (2016 valuation: 11 years and 8 months).

3 For more details (refer note 10b – Directors' valuation).

Total freeholds and long leasehold account for 87.0% of property values (2016: 85.7%).

Adjusted Net Asset Value per Share

- Adjusted Net Asset Value per share up 7.9% to £4.16 (2016: £3.86)

Adjusted net assets per share are the net assets of the Group 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 (zero) are excluded from the number of shares.

At July 2017 the adjusted net asset value per share (before deferred tax) increased 7.9% to £4.16 from £3.86 last year. This increase is a result of higher property values as the strength of our landmark stores is recognised and 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. The sale of Treasury shares at the average price of £4.05 was largely neutral on this figure.

Analysis of Net Asset Value (NAV)

	Group 31 July 2017 £'000	Group 31 July 2016 £'000
Net assets		
Adjustment to include operating/short leasehold stores at valuation	**89,119**	71,475
Add: JLL leasehold valuation	**16,725**	16,575
Deduct: leasehold properties and their fixtures and fittings at NBV	**(2,878)**	(3,065)
	102,966	84,985
Deferred tax arising on revaluation of leasehold properties[1]	**(2,354)**	(2,432)
Adjusted net assets	**100,612**	82,553

Shares in issue	**Number**	Number
Opening shares in issue	**29,109**	28,447
Shares issued for the exercise of options	**194**	662
Closing shares in issue	**29,303**	29,109
Shares held in treasury	**–**	(2,467)
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**28,680**	26,019
Adjusted net asset value per share after deferred tax provision	**£3.51**	£3.17
Adjusted net asset value per share before deferred tax provision		
Adjusted net assets	**100,612**	82,553
Deferred tax liabilities and assets recognised by the Group	**16,363**	15,361
Deferred tax arising on revaluation of leasehold properties[1]	**2,354**	2,432
Adjusted net assets before deferred tax	**119,329**	100,346
Closing shares for NAV purposes	**28,680**	26,019
Adjusted net asset value per share before deferred tax provision	**£4.16**	£3.86

1 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 robust business with an excellent credit model, low debt and gearing and which is strongly cash generative from an increasing asset base. The business operates within the UK self-storage sector which is still relatively immature. With a low loan to value and flexible bank facilities through to 2023, this market presents an excellent opportunity for further growth of the business. Recently opened landmark stores in Broadstairs, Bristol, Southampton, and Chichester and our strong pipeline of more landmark stores demonstrate the Group's ability to use those strengths to exploit the opportunities available.

Corporate Social Responsibility Report

Corporate and social responsibilities

Lok'nStore conducts its business in a manner that reflects honesty, integrity and ethical conduct. 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.

We believe that the long-term success of our business is best served by respecting the interests of all of 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 2017 we had 167 employees (2016: 150).

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

This will be the second year of running the Lok'nStore Academy which brings 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

During the year, 6 employees successfully completed National, Vocational Qualifications under the sponsorship of the Academy. The Academy has had a good impact on the sales skills of our customer facing teams, with specific increase seen in the conversion of new enquiries from our website as a direct result of the Academy workshops. We also successfully promoted 3 internal candidates to Centre Managers following the completion of our management development training.

The Academy encompasses all "in-house" training, quality audits such as our monthly mystery shop programme and standards audits and performance reviews.

Share ownership plans

All employees are eligible to participate in our share ownership plans. Lok'nStore operates a Share Incentive Plan with 129 members (2016: 124), a total of 78% of employees participating in the Scheme (2016: 81%). 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. The Board would like to thank all of our staff for their commitment to our business and for their hard work and efforts over the year.

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 43 days (2016: 50 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 Property Risk Committee which meets every other month and considers issues relevant to Health and Safety and other risk issues within the Group under the overall supervision of Ray Davies, Finance Director, who carries Board responsibility for risk management.

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 (2016: 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

Our Environmental Policy is to effectively manage our waste, control our polluting emissions and 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 2017.

Environmental Management and Performance

Introduction

Lok'nStore Group has been measuring its environmental impacts since 2005, monitoring environmental key performance indicators (eKPIs) including greenhouse gas emissions (GHG), water use and waste, and reviewing them against its stated Environmental Policy, which includes the following aims: to manage waste effectively, control polluting emissions and encourage suppliers to minimise their impact on the environment.

The UK government requires all quoted companies to report on their GHG emissions as part of their annual directors' report under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. As in previous years, Lok'nStore engaged Trucost to review its reporting of environmental impacts for the financial year ended 31 July 2017. The following information comes from Trucost's report.

Highlights for the year ended 31 July 2017:

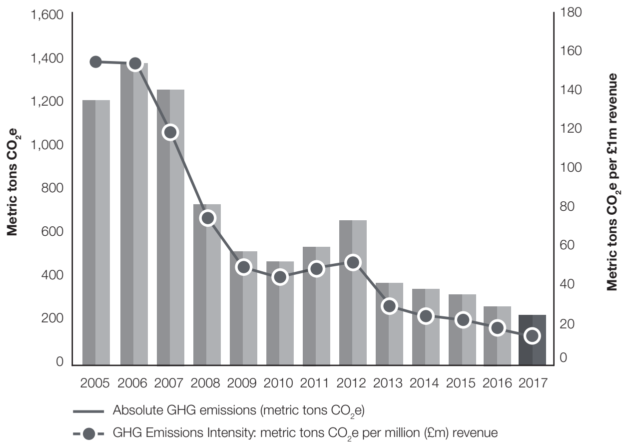
- The Company's environmental reporting is consistent with "Environmental Key Performance Indicators: Reporting Guidelines for UK Business 2006"
- Lok'nStore's GHG reporting for 2016–17 aligns with government guidelines
- Trucost found that Lok'nStore assessed and disclosed all material environmental impacts – GHG emissions, water consumption and waste generation for its own facilities
- Operational GHG emissions decreased by 26%. Since 2005, GHG emissions have shrunk by 82%
- GHG emissions from the consumption of purchased electricity decreased to zero due to the Company's use of electricity derived from renewable sources

Operational greenhouse gas emissions

During FY2016–17, Lok'nStore's combined operational GHG emissions – direct and indirect – decreased by 26%, falling to 213.4 tCO_2e from 287.8 tCO_2e the previous financial year. Normalising these emissions by annual revenue, FY2016–17 also had a 26% lower emissions intensity of 13.7 tCO_2e per £m compared to FY2015–16's 18.4 tCO_2e per £m.

Since the Company began reporting in 2005, GHG emissions have decreased by 82% from 1,189 tCO_2e. When normalised by annual revenue, Lok'nStore emissions intensity has decreased by 91% since 2005. Figure 1 below displays the absolute emissions and intensity values between 2005 and 2017.

Figure 1: Combined direct and indirect operational greenhouse gas emissions, FY2005–17

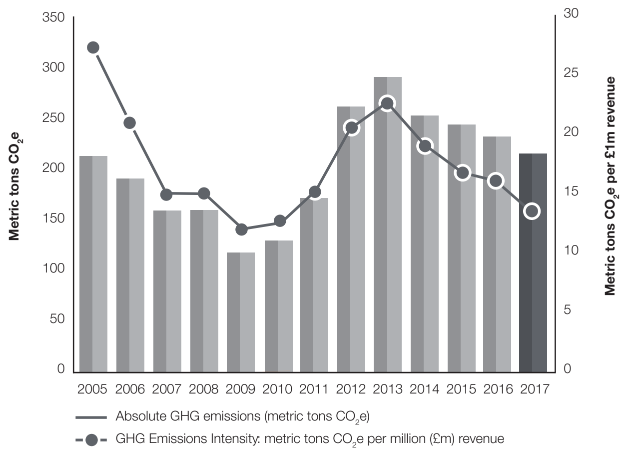


Source: Trucost analysis (2017) based on Lok'nStore data

Direct GHG Emissions

One component of GHG emissions from organisational operations are direct emissions derived from natural gas consumption, owned transportation and similar activities. During FY2016–17, Lok'nStore's direct emissions decreased by 13% to 213.4 tCO_2e, from 245.6 tCO_2e the previous financial year. Comparing the intensity of GHG emissions normalised by revenue, FY2016–17 emissions declined by 16% to 13.3 tCO_2e per £m, from 15.7 tCO_2e per £m during FY2015–16. Figure 2 below displays these metrics.

Figure 2: Direct operational greenhouse gas emissions, FY2005–17



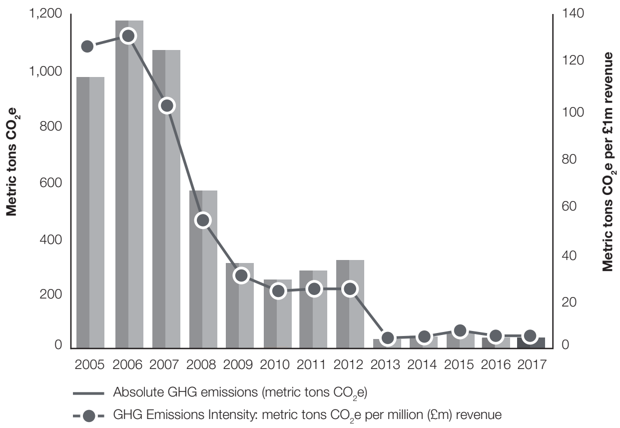
Source: Trucost analysis (2017) based on Lok'nStore data

Environmental Management and Performance continued

Indirect GHG emissions

A second component of GHG emissions related to organisational operations are indirect emissions primarily from the consumption of purchased electricity. Since 100% of Lok'nStore's electricity is derived from renewable feedstocks through its purchases from vendors and on-site PV electricity generation at company facilities, this electricity generated zero GHG emissions (0 tCO_2e). As a result, Lok'nStore's indirect emissions intensity was also 0 tCO_2e per £m of revenue, down from 2.7 tCO_2e per £m of revenue the previous year. Figure 3 below conveys these values.

Figure 3: Indirect operational greenhouse gas emissions, FY2005-17



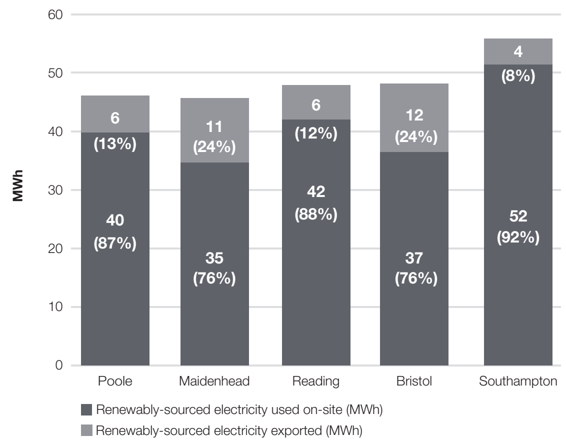
Source: Trucost analysis (2017) based on Lok'nStore data

Renewable energy generation

Lok'nStore has prioritised installing solar photovoltaic panels at as many facilities as possible. The past year demonstrates the Company's commitment to this goal, as each success metric increased—total PV electricity generated, PV electricity exported to the grid and the number of Lok'nStore sites with active PV infrastructure. Lok'nStore facilities produced 63% more PV electricity during FY2016–17, rising to 243.9 MWh, up from 149.4 MWh the previous year. This electricity avoided 100.5 tCO_2e of GHG emissions, based on the national standard mix of non-renewable – renewable energy. The amount of exported PV electricity increased by 64% to 39.0 MWh, from 23.7 MWh during FY2015-16. On average, each facility produced 30% of the electricity that it needed for the year. Three of the four sites already generating PV electricity saw increases from FY2015–16: Bristol (up 166%), Maidenhead (up 20%) and Reading (up 2%). During FY2016–17, the Southampton facility began generating PV electricity and led the Lok'nStore sites, generating 56.1 MWh or 23% of the total.

Figure 4 and Table 1 below show the overall electricity generation from on-site PV systems at each facility, including the proportion of electricity consumed within the facility and the proportion exported to the national grid. Table 2 provides the amount of PV electricity exported from each facility. The Company's elimination of any GHG footprint from electricity consumption at its facilities and export of clean energy to the national grid demonstrate its success.

Figure 4: Electricity from PV systems—consumption on-site and exported, FY2016–17



Source: Trucost analysis (2017) based on Lok'nStore data

Table 1: Lok'nstore photovoltaic electricity generated, by facility, FY2016-17

Lok'nStore Facility	FY2015–16 PV Generated (MWh)	**FY2016–17 PV Generated (MWh)**	% change
Poole	46.0	**46.1**	0%
Maidenhead	38.0	**45.6**	+20%
Reading	47.3	**48.0**	+2%
Bristol	18.1	**48.2**	+166%
Southampton	N/A	**56.1**	N/A
Total	149.4	**243.9**	+63%
Avoided GHG emissions (tCO_2e), applying national standard mix	61.6	**100.5**	+63%

Source: Trucost analysis (2017) based on Lok'nStore data

Table 2: Lok'nstore photovoltaic electricity exported, by facility, FY2016-17

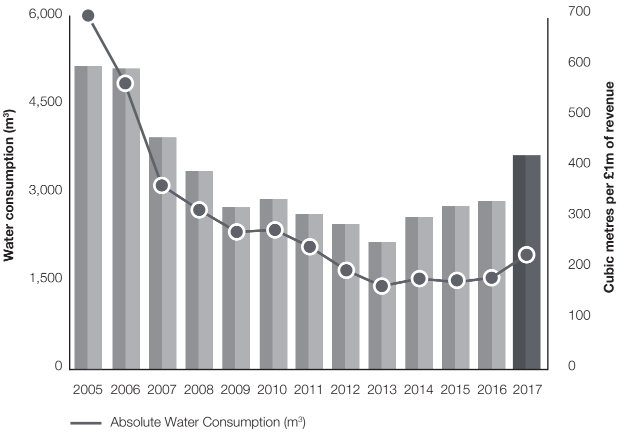
Lok'nStore Facility	FY2015–16 PV Generated (MWh)	**FY2016–17 PV Generated (MWh)**	% change
Poole	5.8	**6.2**	+7%
Maidenhead	7.2	**10.8**	+50%
Reading	4.3	**5.9**	+39%
Bristol	6.7	**11.6**	+74%
Southampton	N/A	**4.5**	N/A
Total	23.7	**39.0**	+64%
Avoided GHG emissions (tCO_2e), applying national standard mix	9.8	**16.1**	+64%

Source: Trucost analysis (2017) based on Lok'nStore data

Water consumption

The only negative change during FY2016–17 was the increase in water use among Lok'nStore sites—up 27% to 3,659 cubic metres (m^3), from 2,885 m^3 during FY2015–16. Water use intensity, normalized by revenue, rose 23% to 227.8 m^3 per £m, from 184.8 m^3 per £m the previous year. However, since 2005, both absolute water consumption and water use intensity have decreased—by 29% and 66%, respectively. Figure 5 features the values for water use.

Figure 5: Water use, FY2005–17



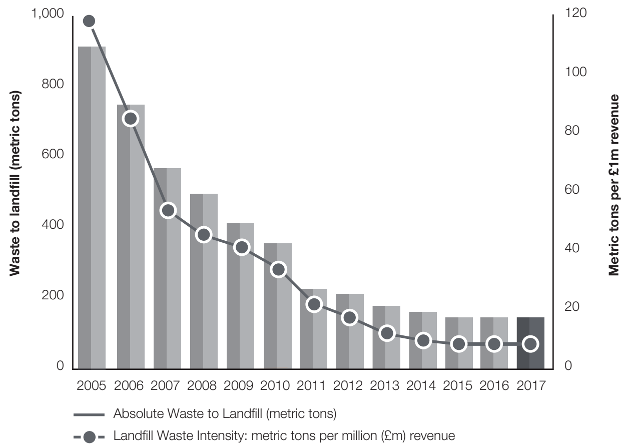
Source: Trucost analysis (2017) based on Lok'nStore data

Water use for FY2016–17 originally appeared much higher based on utility tracking and reporting. However, the increase in water consumption was due partially to a water leak identified through usage tracking during the year. This leak was rectified and the consumption figures have returned to normal levels since March 2017.

Waste generation and recycling

During FY2016–17, total waste generation increased by 4% to 398.9 metric tons, from 382.8 metric tons during FY2015–16. In addition, normalized waste intensity increased slightly to 24.8 metric tons per £m, from 24.5 metric tons per £m. Landfilled waste increased by 4% to 170.8 metric tons during FY2016–17, from 164.3 metric tons the previous year, and represented a minor 1% increase when normalized for revenue. Incinerated waste increased by 5% to 0.023 metric tons, from 0.022 metric tons, and represented a minimal 2% increase when normalized for revenue. Figure 6 on the following page displays the landfilled waste for the period FY2016–17.

Figure 6: Landfilled waste, FY2005-17



Source: Trucost analysis (2017) based on Lok'nStore data

As a positive impact, Lok'nStore increased the amount of material that it recycled to 228.2 metric tons during FY2016–17, an increase of 4% over the 218.4 metric tons that it recycled during FY2015–16. Normalising these values by annual revenue, Lok'nStore's recycling increased by 2% to 14.2 metric tons per £m of revenue, from 14.0 metric tons per £m of revenue. Recycled materials included cardboard, office paper, used computer media and equipment, shrink wrap, and employee uniforms.

Conclusion

Table 3 overleaf summarises the environmental impact from operations, FY2016–2017.

Lok'nStore Group Plc continues to monitor and report its environmental impact in line with all government guidelines. Over the coming years, the Company intends to:

- Continue including photovoltaic production units at its new stores and sourcing its other electricity requirements from renewable sources.
- Investigate the rise in water use to understand and rectify the cause.
- Continue to monitor and where possible reduce its waste generation and/or increase the amount sent for recycling.

Environmental Management and Performance continued

Table 3: Summary of environmental impacts from operations, FY2016–17

Impact Metric	Definition	Data Source and Calculation Methods	Absolute Quantity FY 2015–16	Absolute Quantity FY 2016-17	Normalized* Quantity Per £m Revenue FY 2015–16	Normalized* Quantity Per £m Revenue FY 2016-17	% change in normalized quantity
Greenhouse gas emissions—Direct operational (tCO_2e)							
Natural gas	Emissions from utility boilers	Yearly consumption in kWh collected from fuel bills, converted according to DEFRA Guidelines	33.3	**32.4**	2.1	**2.0**	-5%
Van fuel	Diesel and petrol used in vans on company business	Fuel invoices, recorded mileage or satellite tracking converted according to DEFRA Guidelines	155.5	**14.8**	10.0	**0.9**	-91%
Automobile fuel	Diesel and petrol used in vans on company business	Fuel invoices, recorded mileage or satellite tracking converted according to DEFRA Guidelines	56.8	**166.2**	3.6	**10.3**	+184%
Total direct GHGs	Includes carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O)	Calculated according to DEFRA Guidelines	245.6	**213.4**	15.7	**13.3**	-16%
Greenhouse gas emissions—Indirect operational (tCO_2e)							
Purchased electricity	Directly purchased electricity, which generates GHGs based on the fuel source	Yearly consumption of purchased electricity in kWh, converted according to DEFRA Guidelines	42.2	**zero**	2.7	**zero**	-100%
Greenhouse gas emissions—Total operational (tCO_2e)							
Operational GHG emissions	Combined direct (scope 1) and indirect (scope 2) GHG emissions from operations	Added values for direct operational emissions and indirect operational emissions above	287.8	**213.4**	18.4	**13.7**	-26%

Impact Metric	Definition	Data Source and Calculation Methods	Absolute Quantity FY 2015–16	Absolute Quantity FY 2016-17	Normalized* Quantity Per £m Revenue FY 2015–16	Normalized* Quantity Per £m Revenue FY 2016-17	% change in normalized quantity
Water consumption (m³)							
Water use	Consumption of piped water	Yearly consumption of purchased water	2,885	**3,659**	184.8	**227.8**	+23%
Waste generation (metric tons)							
Landfilled waste	Office waste sent to landfills, including paper, cardboard and plastic	Volume of landfilled waste, based on the number of bins and skips removed; converted to metric tons according to DEFRA Guidelines	164.3	**170.8**	10.5	**10.6**	+1%
Incinerated waste	Sanitary waste that was incinerated	Volume of incinerated sanitary waste, based on the number of bins removed	0.022	**0.023**	0.00142	**0.00144**	+2%
Recycled waste	Office waste recycled, including cardboard, computer media and fluorescent lights	Volume of recycled waste, based on the number of bins and skips removed, which was converted to metric tons according to DEFRA Guidelines	218.4	**228.2**	14.0	**14.2**	-2%
Total waste	Includes waste that was landfilled, incinerated or recycled	Measured by tracking waste volumes throughout the year	382.8	**398.9**	24.5	**24.8**	+1%

* Normalised based on annual revenue for the respective year. Trucost has rounded all values.

Source: Trucost analysis (2017) based on Lok'nStore data

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 Royal Bank of Scotland plc on a no-notice treasury deposit account which tracks base rate and yields a rate equivalent to RBS bank base rate 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. 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 suggests 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 the 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. Across all of the stores we operate, self-storage customers are a broad mix of both domestic and business.

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 £33,900 (2016: £33,210) of bad debts recognised during the year representing around 0.20% of Group revenue (2016: 0.21%). There was £6,159 of additional costs associated with recovery (2016: £8,116). 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.

Tax risk

We regularly monitor proposed and actual changes in legislation in the tax regime particularly in corporation tax, capital gains tax, VAT and Stamp Duty Land Tax (SDLT). We work with our professional advisers 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 27 October 2017 and signed on its behalf by

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Corporate Governance

Introduction

The governance of the Group continues to be of great importance to the Board which seeks to operate the highest governance standards appropriate to the size and nature of the Company. The Group and Board fully support the principles of openness, integrity and accountability which underpin the UK Corporate Governance Code.

This year the Group joined the Quoted Companies Alliance and has reviewed its corporate governance and annual reporting against their guidelines for Smaller Quoted Companies. In this section we hope to demonstrate how we have met these guidelines and where we have been unable to do so, explain the reasons why.

Our governance structure

The Board

Remuneration Committee	Audit Committee
Meets Once a Year Chaired by Edward Luker See page 30 for more information	Meets Once a Year Chaired by Charles Peal See page 30 for more information

Executive Board Committee

Meets Monthly

Considers: Strategy, Management accounts, Store operations, Customer Issues and Human Resources

Capex Committee	Property Committee	Property Risk Committee
Meets Monthly Considers: Proposed capital expenditure, actual spend against budgets	Meets Weekly Considers: Sites under Development New Acquisitions	Meets Quarterly Considers: Risks associated with properties including HS&E

Operational Management

Day-to-day Business Delivery

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.

Corporate Governance
continued

The Board 3 Executive Directors • 4 Non-Executive Directors		
Meets:	**Considers:**	**Receives:**
6 times a year with teleconferences when required	■ Financial strategy ■ Company performance ■ Major investments ■ Capital resources ■ Risk Management ■ Reporting to Shareholders	■ Detailed management accounts against budgets ■ A current trading appraisal ■ Minutes of all subcommittees ■ The Risk Register ■ The Conflicts Register

The Directors

The Board consists of three Executive Directors and four Non-Executive Directors. The expertise of the Directors covers Company Law, Corporate Finance, Economics, Finance and Accounting, Corporate Reporting, Risk Management, Tax and Compliance, Marketing, Operations, Property Law and Strategy. The UK Corporate Governance Code recommends that a smaller company should have at least 2 Non-Executive Directors that are deemed independent. Due to the tenure of our Board Members, we do not currently comply with this requirement. Further explanation on this can be found on page 29.

Activities

The Non-Executive Directors provide considerable support to the Chief Executive Officer and while much of this is via informal meetings, telephone calls and email correspondence, the Non-Executive Directors also lend their expertise and experience to other members of the management team.

Board performance and evaluation

Board Attendance	Board	Audit Committee	Remuneration Committee	Annual General Meeting	% Attendance
Total Number of Meetings in 2016/2017	4 (2 Telecon)	1	1	1	
Executive Directors					
Andrew Jacobs	4 (2)	n/a	n/a	1	100%
Ray Davies	4 (2)	n/a	n/a	1	100%
Neil Newman-Shepherd	4 (2)	n/a	n/a	1	100%
Non-Executive Directors					
Simon Thomas	4 (2)	n/a	n/a	1	100%
Edward Luker	4 (2)	1	1	1	100%
Charles Peal	4 (2)	1	n/a	1	100%
Richard Holmes	3 (2)	n/a	1	1	87.5%

Conflicts of interest

The Directors have a responsibility to act in the best interests of the Group and its Shareholders and in keeping with this responsibility it is imperative that Directors are aware of and properly manage potential conflicts of interest.

The table below shows the directorships that the current Group Directors hold in other Companies both inside and outside the Group:

Andrew Jacobs
Andrew Jacobs (UK) Limited
Lok'nStore Limited*
Saracen DataStore Limited*

Simon Thomas
Lok'nStore Limited*
Simon Thomas (UK) Limited

Ray Davies
Ash Road SS Limited
Davies Elise Consulting Ltd
Lok'nStore Limited*
Lok'nStore Trustee Limited*
ParknCruise Limited*
Saracen DataStore Limited*
Semco Engineering Limited*
Semco Machine Tools Limited*
Southern Engineering and Machinery Co. Limited*

Edward Luker
Edward Luker Consultancy Limited
St George's School Ascot Trust Ltd

Richard Holmes
Incorporated Society of British Advertisers Limited
Lok'nStore Limited*
Lok'nStore Trustee Limited*
Specsavers Optical Group Limited†

Neil Newman-Shepherd
Lok'nStore Limited*

Charles Peal
Warnborough Asset Management Ltd

* Lok'nStore Group Companies † Guernsey registered company

Conflicts of interest arise where an individual's personal interests or those interests related to legitimate outside roles may conflict with the interests of the Group. This could, for example, inhibit open discussions or lead to a perception that the individual is acting outside of the Group's interests.

It is recognised that conflicts of interest will inevitably occur from time to time and that Directors legitimately undertake roles outside of the Group. The Board therefore believes it is important to be transparent in terms of such interests and to ensure they are properly recorded and, where necessary, Directors will withdraw from decision making if there is a danger of perceived conflict.

A register of interests is maintained by the Assistant Company Secretary and is circulated to the Directors in advance of each Board meeting. Conflicts of Interest are considered and authorised by the Board as they arise.

We report in note 29 (Related party transactions) regarding related party transactions. Additionally, within note 29, in the interests of transparency we include items which while not strictly falling within the definition of a related party transaction are still considered matters of interest.

Important note on independent Directors

The UK Corporate Governance Code requires that a smaller company should have at least 2 Non-Executive Directors that are deemed independent. The Code's definition of independence provides that no director who has served for more than 9 years can be deemed independent. The quoted Companies Alliance guidelines also state this requirement in its code.

As of last year all of Lok'nStore's Non-Executive Directors have served for longer than 9 years. In July 2017 Simon Thomas stepped down as Executive Chairman to Non-Executive Chairman and is now considered within this category. Our Non-Executive Directors meet five of the six other criteria for independence. Were it not for the fact that Edward Luker retains his modest award of options awarded in return for waiving his remuneration in 2008/9 and Simon Thomas holds 25,217 options, the Non-Executives would meet all criteria for independence other than length of service.

The Board has considered the Company's non-compliance in this area in great detail this year and is satisfied that the current composition of the Board, which consists of three Executive Directors and four Non-Executives, provides for a constructive and challenging dialogue. The broad range of skills, expertise and attitude amongst the Executive and Non-Executive Directors include all the matters that the Company deals with – strategy, property, finance, human resources, marketing, and organisation. Further, the long experience of Board members is considered an asset and all express challenges robustly. The current composition of the Board is considered to be in the best interest of Shareholders and the Company as a whole.

The Board also considers appointing another Director may well prove unwieldy, which is something the Code specifically guards against. Creating positions for cosmetic purposes also flies in the face of the Company's rigorous attention to cost control. Board members are major Shareholders in the Company, substantially mitigating the tension which might exist between the interests of Directors and Shareholders.

Under the Companies Act 2006, Non-Executive Directors who have served over 9 years must offer themselves for re-election at every Annual General Meeting and accordingly Simon Thomas, Edward Luker, Charles Peal and Richard Holmes now offer themselves for re-election at every 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.

Although performance related bonuses are calculated in accordance with strict and measurable performance criteria, there are currently no specific performance conditions relating to the grant of share options. The Remuneration Committee has this currently under review in order to determine the most appropriate performance criteria to apply for the grant of share options as part of future long-term performance awards in order to meet the objectives of the business and accord with accepted corporate governance. The details of each Director's remuneration are set out in note 6 to the financial statements.

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

Shareholder relations

We aim to provide balanced, clear and transparent communications which allow our Shareholders to understand our performance, strategy and prospects. Further aiding transparency is the fact that the Group has a straightforward capital structure; one class of shares, one bank and no other financial instruments.

The Directors also meet and discuss the performance of the Group with Shareholders throughout the year with specific schedules to visit institutional investors, analysts and the media being held after the announcement of the half year and full year results. At the AGM the Board give a presentation of events and progress during the year. Attendee Shareholders are encouraged to mix and engage with the Directors after the formal business of the AGM has concluded.

Regular RNS announcements are made throughout the year keeping all Shareholders informed about acquisitions, trading conditions, director dealings, etc. Queries raised by a shareholder, either verbally or in writing, are promptly answered by whoever is best placed on the Board to do so.

Corporate Governance
continued

Accounting dates and reporting calendar 2017

January	■ H1 Period-end
February	■ Pre-close Trading Statement (H1)
March	
April	■ Interim Results announced ■ Institutional Investor visits
May	
June	■ Institutional Investor & Media Site visits
July	■ Financial Year-end
August	■ Pre-close Trading Statement
September	
October	■ Preliminary Statement ■ Institutional Investor visits
November	
December	■ AGM

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 Strategic Report contains a detailed consideration of the Group's position and prospects.

Board Committees
Under the UK Corporate Governance Code, Boards are tasked with ensuring that there is a framework in place to manage the appointment of Directors, to set Directors' remuneration, to check the reliability of assurances on governance, risk management, and the integrity of financial statements and the annual report. The Code suggests companies have three committees to take on these responsibilities: a Nomination Committee, a Remuneration Committee and an Audit Committee.

The following section introduces the Group's committees, members and the terms of reference.

Nomination Committee
A Nomination Committee would oversee the appointment of a new Director. Due to the relatively small size of the Company, the Board does not believe that a Nomination Committee is necessary. 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.

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.

Remuneration Committee
The Remuneration Committee consists of Edward Luker (Chairman of the Committee) and Richard Holmes. The Committee meets once a year and considers, within existing terms of reference, the remuneration policy and makes recommendations to the Board for each Executive Director. Further, the Committee considers proposals from the Chief Executive Officer on the remuneration of the operational management team especially in relation to bonus share option awards under the long-term performance related pay schemes.

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 long-term performance related pay including 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 to the financial statements.

Audit Committee
The Company has an Audit Committee, to whom the external auditor, RSM UK Audit LLP, reports. The Committee consists of Charles Peal (Chairman of the Committee) and Edward Luker. Charles Peal is the Committee's Nominated Financial Expert (for details of Charles's experience please see his biography on page 32).

The Committee 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 will continue to review the Company's corporate governance and annual reporting against best Practice QCA guidelines and to implement appropriate systems in order to support the Directors in executing their responsibilities to all of the Company's Stakeholders.

On behalf of the Board.

Simon G. Thomas
Chairman
27 October 2017

Board of Directors and Advisers

Executive Directors

Andrew Jacobs (58)
Chief Executive Officer

Andrew established Lok'nStore over 20 years ago after 8 years working in the Japanese equity market. Andrew is responsible for strategy, corporate finance and property. He has an MPhil in Economics from Cambridge University and a BSc in Economics from LSE.

Key areas of Expertise:
Strategy, corporate finance, economics and property

Ray Davies (60)
Finance Director

Ray is a chartered accountant. Prior to joining Lok'nStore in 2004, Ray held several senior finance positions in listed companies in the construction, health and fitness sectors.

Key areas of Expertise:
Finance and accounting, corporate reporting, risk management, legal, tax and compliance

Neil Newman-Shepherd (40)
Director

Neil joined the Lok'nStore Group in October 2006 becoming Sales Director in November 2015. Prior to joining Lok'nStore, Neil gained retail experience at Wickes and Woolworths plc. Neil is responsible for sales, marketing and our staff.

Key areas of Expertise:
Sales, Marketing and Human Resource Management

Directors and Advisers

Directors

The Board of Directors is supported by an Assistant Company Secretary who assists the Chairman with the setting of meeting agendas and provides the information to the Board members prior to the meetings. A procedure to enable Directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all Directors.

S.G. Thomas	Non-Executive Chairman
A. Jacobs	Chief Executive Officer
R.A. Davies	Finance Director
N. Newman-Shepherd	Director
E.T.D. Luker	Senior Non-Executive Director
R.J. Holmes	Non-Executive Director
C.P. Peal	Non-Executive Director

In addition the Board is advised by:

Secretary and Registered Office
Dentons Secretaries Limited
One Fleet Place
London
EC4M 7WS

Nominated Adviser and Broker
finnCap Ltd
60 New Broad Street
London
EC2M 1JJ

Auditor
RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

Solicitors
Dentons UKMEA LLP
(formerly Maclay Murray Spens LLP)
One London Wall
London
EC2Y 5AB

Goodman Derrick LLP
10 St Bride Street
London
EC4A 4AD

Glovers LLP
6 York Street
London
W1U 6QD

Registrars
Capita Registrars
Capita Group plc
The Registry, 34 Beckenham Road
Beckenham
Kent
BR3 4TU

Bankers
Royal Bank of Scotland
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

www.loknstore.com
Stock Code: LOK

Non-Executive Directors

Simon Thomas (57)
Non-Executive Chairman

Simon joined Lok'nStore in 1997 following successful careers in publishing and finance. Simon is responsible for the composition and performance of the Board.

Key area of Expertise:
Corporate Finance

Edward Luker (68)
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. Edward is a Fellow of the Royal Institution of Chartered Surveyors.

Key area of Expertise:
Commercial Property

Committees:
Audit Committee and Chair of the Remuneration Committee

Richard Holmes (57)
Non-Executive Director

Joined Lok'nStore in 2000. Richard is currently Group Marketing Director of Specsavers. Previously, Richard held a number of senior positions within the Boots organisation and was also Head of Strategy Development for Unilever's worldwide dental business.

Key Area of Expertise:
Marketing including digital marketing

Committees:
Remuneration Committee

Charles Peal (62)
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 He is currently a Director of Warnborough Asset Management.

Key Area of Expertise:
Capital Markets and Fund Management

Committees:
Chair of the Audit Committee (and Nominated Financial Expert)

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 2017.

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 and defined on page 75. They are discussed in more detail in the Financial Review and 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 £11.4m, (2016: £5.3m) undrawn committed facilities at 31 July 2017 of £11.2m (2016: £11.2m) and future cash generated from operations (2017 £5.5m 2016: £3.8m). Following the agreement of a two-year extension to its facilities with Royal Bank of Scotland on equivalent terms, the Group will now operate its £40m revolving credit facility with RBS plc for a further 6 years. The facility has been in place since 15 January 2016 and will now run until 14 January 2023. 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.

Dividend

In respect of the current year, the Directors propose that a final dividend of 7 pence per share (2016: 6.33 pence) will be paid on 10 January 2018 to Shareholders on the register on 1 December 2017. The total estimated dividend to be paid is £2m based on the number of shares in issue on 13 October 2017 as adjusted for shares held in the Employee Benefits Trust. 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 to the financial statements.

Directors

The following Directors held office during the year and subsequently:

S.G. Thomas	E.T.D. Luker
A. Jacobs	R.J. Holmes
R.A. Davies	C.P. Peal
C.M. Jacobs (retired 4 July 2017)	N. Newman-Shepherd

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 to the financial statements.

Biographical details of the Directors are set out on pages 31 and 32.

Reappointment of Directors

In accordance with the Company's Articles of Association, Andrew Jacobs and Simon Thomas retire by rotation and each being eligible offer themselves for re-election at the next Annual General Meeting (AGM). Richard Holmes, Edward Luker and Charles Peal who have over 13, 10 and 10 years tenure respectively as Non-Executives are required under the Companies Act 2006 to offer themselves for re-election at every AGM and accordingly offer themselves for re-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.

Directors' Report
continued

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 13 October 2017:

	Current rank	% at 13 Oct 2017	Number of shares	Total shares in issue (excluding treasury shares)	% at 3 Oct 2016	Number of shares	Total shares in issue (excluding treasury shares)
Andrew Jacobs	1	**17.75**	5,205,600		19.51	5,206,600	
Miton Asset Management	2	**10.46**	3,067,171		12.92	3,447,476	
Simon Thomas	3	**6.14**	1,800,000		6.74	1,800,000	
Hargreave Hale Investment Managers	4	**5.59**	1,640,000		–	–	
Cavendish Asset Management	5	**5.14**	1,507,750		6.48	1,729,700	
Slater Investments	6	**4.19**	1,228,750		4.60	1,228,750	
				29,323,923[2]			**26,688,453[1]**

1 Represents total shares in issue (excluding treasury shares)

2 At the start of the financial year Lok'nStore Limited held a total of 2,466,869 of Lok'nStore Group Plc ordinary shares of 1p each for treasury. In November 2016, Lok'nStore sold 1,975,000 ordinary shares of these treasury shares and on 26 April 2017 it sold the remaining 491,869 ordinary treasury shares.

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 2017 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 7 December 2017 from Shareholders to approve a share buy-back 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 7 December 2017 at 5.30 pm at the offices of Goodman Derrick LLP, 10 St Bride Street, London, EC4A 4AD.

Auditor
A resolution to reappoint 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
27 October 2017

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 financial statements of Lok'nStore Group Plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 July 2017 which comprises the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity, the consolidated and Company statement of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2017 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 Company 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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified is the valuation of the properties as set out below:

Property valuation

Risk

Fair values are calculated using actual and forecast inputs such as: occupancy, capitalisation rates, maximum lettable area, operating expenses and net rent per square foot by property as at 31 July 2017. In addition, the external valuer applies professional judgement concerning market conditions and factors impacting individual properties.

We consider property valuation to be a significant and key risk of material misstatement as the valuation process is subjective and inherently judgemental in nature. The market for prime self-storage, in particular, has been subject to market uncertainty in recent years due to the relatively low volume of transactions; however, there was significantly more activity in the year under review. This has provided an additional reference point for the valuations performed.

Refer to note 10 to the financial statements for the disclosures relating to the property valuations.

Approach

Our approach to auditing the valuations involved the following:

- We tested the integrity of the information provided to the external valuer by management by agreeing key inputs such as actual occupancy and profitability to underlying records and source evidence;
- We evaluated the competence, capabilities and objectivity of external valuation experts;
- We assessed the scope of the work which the external valuer was requested to perform by management, quality control procedures in place internally and the valuation methodology applied;
- We discussed the valuations with the external valuer and challenged them on the key assumptions applied and focused on properties we identified as having significant or unusual valuation movements (compared to underlying performance or previous periods); and
- We challenged management to justify the assumptions used in the model (particularly in respect of trading forecasts) and comparison of those forecasts to actual results.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole at £523,500. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £20,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and assessing the risks of material misstatement. As in previous years, the audit team performed full scope audits using Group materiality. The scope of our audit covered 100% of both consolidated profit before tax and consolidated net assets.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

David Clark (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
EC4A 4AB
27 October 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2017

	Notes	Group Year ended 31 July 2017 £'000	Group Year ended 31 July 2016 £'000
Revenue	1a	16,654	16,056
Total property, staff, distribution and general costs	2a	(10,161)	(9,761)
Adjusted EBITDA[1]		6,493	6,295
Amortisation of intangible assets	10a	(165)	(165)
Depreciation and loss on sale	10b	(1,856)	(1,537)
Equity settled share based payments	24a	(97)	(182)
Property disposal costs	2c	(15)	(123)
Store relocation costs	2c	(29)	–
Net settlement proceeds	2c	–	1,940
Director retirement costs	2c	(69)	–
		(2,231)	(67)
Operating profit[1]		4,262	6,228
Finance income	3	309	313
Finance cost	4	(606)	(1,048)
Profit before taxation	5	3,965	5,493
Income tax expense	7	(904)	(1,211)
Profit for the year		3,061	4,282
Profit attributable to:			
Owners of the parent	25	3,061	4,282
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Increase in property valuation		7,772	17,651
Deferred tax relating to change in property valuation		(932)	(2,387)
		6,840	15,264
Items that may be subsequently reclassified to profit and loss			
Increase in fair value of cash flow hedges		37	83
Deferred tax relating to cash flow hedges		–	(21)
		37	62
Other comprehensive income		6,877	15,326
Total comprehensive income for the year		9,938	19,608
Attributable to owners of the parent		9,938	19,608
Earnings per share			
Basic	9	11.02p	16.60p
Diluted	9	10.64p	16.24p

[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 2017

	Attributable to owners of the Parent					
	Share capital £'000	Share premium £'000	Other reserves £'000	Revaluation reserve £'000	Retained earnings £'000	**Total equity £'000**
1 August 2015	285	2,614	8,685	32,239	9,146	**52,969**
Profit for the year	–	–	–	–	4,282	**4,282**
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	15,264	–	**15,264**
Decrease in fair value of cash flow hedges net of deferred tax	–	–	62	–	–	**62**
Total comprehensive income for the year	–	–	62	15,264	4,282	**19,608**
Transactions with owners:						
Dividend paid	–	–	–	–	(2,147)	**(2,147)**
Share based payments	–	–	182	–	–	**182**
Transfers in relation to share based payments	–	–	(401)	–	401	**–**
Deferred tax credit relating to share options	–	–	(96)	–	–	**(96)**
Exercise of share options	6	953	–	–	–	**959**
Total transactions with owners	6	953	(315)	–	(1,746)	**(1,102)**
Transfer realised gains on asset disposal	–	–	–	(1,639)	1,639	**–**
Transfer additional depreciation on revaluation net of deferred tax	–	–	–	(262)	262	**–**
31 July 2016	291	3,567	8,432	45,602	13,583	**71,475**
Profit for the year	–	–	–	–	3,061	**3,061**
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	6,840	–	**6,840**
Decrease in fair value of cash flow hedges net of deferred tax	–	–	37	–	–	**37**
Total comprehensive income for the year	–	–	37	6,840	3,061	**9,938**
Transactions with owners:						
Dividend paid	–	–	–	–	(2,637)	**(2,637)**
Share based payments	–	–	97	–	–	**97**
Transfers in relation to share based payments	–	–	(139)	–	139	**–**
Deferred tax credit relating to share options	–	–	42	–	–	**42**
Sale of shares from treasury (net of costs)	–	6,150	–	–	3,741	**9,891**
Exercise of share options	2	311	–	–	–	**313**
Total transactions with owners	2	6,461	–	–	1,243	**7,706**
Transfer additional depreciation on revaluation net of deferred tax	–	–	–	(277)	277	**–**
31 July 2017	**293**	**10,028**	**8,469**	**52,165**	**18,164**	**89,119**

Company Statement of Changes in Equity

For the year ended 31 July 2017

	Share capital £'000	Share premium £'000	Retained reserves (deficit) £'000	Other reserves £'000	**Total equity £'000**
1 August 2015	285	2,614	(8)	2,180	**5,071**
Loss for the year	–	–	(276)	–	**(276)**
Equity settled share based payments	–	–	–	182	**182**
Transfer in relation to share based payments	–	–	401	(401)	**–**
Exercise of share options	6	953	–	–	**959**
31 July 2016	291	3,567	117	1,961	**5,936**
Profit for the year	–	–	5,547	–	**5,547**
Equity settled share based payments	–	–	–	97	**97**
Transfer in relation to share based payments	–	–	139	(139)	**–**
Sale of shares from treasury (net of costs)	–	6,150	–	–	**6,150**
Exercise of share options	2	311	–	–	**313**
Dividends paid	–	–	(2,637)	–	**(2,637)**
31 July 2017	**293**	**10,028**	**3,166**	**1,919**	**15,406**

Statements of Financial Position

31 July 2017

Company Registration No. 04007169

	Notes	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Assets					
Non-current assets					
Intangible assets	10a	3,428	3,593	–	–
Property, plant and equipment	10b	116,901	104,363	–	–
Investments	11	–	–	2,385	2,288
Development loan capital	12	3,463	3,159	–	–
		123,792	111,115	2,385	2,288
Current assets					
Inventories	13	203	165	–	–
Trade and other receivables	14	4,266	4,952	13,021	3,648
Cash and cash equivalents	16	11,386	5,335	–	–
Total current assets		15,855	10,452	13,021	3,648
Total assets		139,647	121,567	15,406	5,936
Liabilities					
Current liabilities					
Trade and other payables	15	(5,032)	(5,794)	–	–
Current tax liabilities		(463)	(173)	–	–
Derivative financial instruments	17b	–	(37)	–	–
		(5,495)	(6,004)	–	–
Non-current liabilities					
Borrowings	17a	(28,670)	(28,727)	–	–
Deferred tax	18	(16,363)	(15,361)	–	–
		(45,033)	(44,088)	–	–
Total liabilities		(50,528)	(50,092)	–	–
Net assets		89,119	71,475	15,406	5,936
Equity attributable to owners of the parent					
Called up share capital	19	293	291	293	291
Share premium		10,028	3,567	10,028	3,567
Other reserves	24a	8,469	8,432	1,919	1,961
Retained earnings	25	18,164	13,583	3,166	117
Revaluation reserve		52,165	45,602	–	–
Total equity attributable to owners of the parent		89,119	71,475	15,406	5,936

As permitted by section 408 Companies Act 2006, the parent Company's statement of comprehensive income has not been included in these financial statements. The profit for the year ended 31 July 2017 was £5.55m (2016: loss £276,288).

Approved by the Board of Directors and authorised for issue on 27 October 2017 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 2017

	Notes	Group 2017 £'000	Group 2016 £'000
Operating activities			
Cash generated from operations	27a	5,523	3,774
Income tax paid		(502)	(961)
Net cash generated from operations		5,021	2,813
Investing activities			
Development loan capital		(304)	(380)
Purchase of property, plant and equipment		(6,628)	(6,988)
Net proceeds from disposal of property, plant and equipment		–	8,399
Bank interest received		25	14
Net cash generated from investing activities		(6,907)	1,045
Financing activities			
Proceeds from new borrowings		–	28,816
Repayment of borrowings		–	(27,701)
Loans repaid from projects under management contracts		944	–
Finance costs paid		(574)	(885)
Equity dividends paid		(2,637)	(2,147)
Proceeds from issue of ordinary shares (net)		313	959
Proceeds from sale of shares from treasury (net of expenses)		9,891	–
Net cash used in financing activities		7,937	(958)
Net increase in cash and cash equivalents in the year		6,051	2,900
Cash and cash equivalents at beginning of the year		5,335	2,435
Cash and cash equivalents at end of the year		11,386	5,335

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 1 Fleet Place, London, EC4M 7WS, 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 2016.

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.

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 2018
IFRS15	Revenue from contracts with customers	1 Jan 2018
IFRS 2	Amendments, classification and measurement of share based payment transactions	1 Jan 2018
IFRS 16	Leases	1 Jan 2019
IFRIC 23	Uncertainty over income tax treatments	1 Jan 2019

Subject to the adoption in due course of IFRS 16, the Directors do not anticipate that the adoption of these Standards will have a significant impact on the financial statements of the Group. With regard to IFRS 16, the Directors are currently assessing the impact on the financial statements.

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.

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.

Accounting Policies
continued

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 £11.4m (2016: £5.3m), undrawn committed bank facilities at 31 July 2017 of £11.2m (2016: £11.2m), and future cash generated from operations (2017: £5.5m; 2016: £3.8m).

Following the agreement of a two-year extension to its facilities with Royal Bank of Scotland on equivalent terms, the Group will now operate its £40m revolving credit facility with RBS plc for a further 6 years. The facility has been in place since 15 January 2016 and will now run until 14 January 2023. 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 packaging 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.

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.

Accounting Policies
continued

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 have 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.

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.

Accounting Policies
continued

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 £87.5m (2016: £81m) 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 £5.1m (2016: £0.5m). 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 2017 intangible assets, excluding goodwill, amounted to £2.32m (2016: £2.48m). 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.

Notes to the Financial Statements

For the year ended 31 July 2016

1a Revenue

Analysis of the Group's revenue is shown below:

Self-storage	Group 2017 £'000	Group 2016 £'000
Self-storage revenue	12,343	11,931
Other storage related revenue	1,550	1,510
Ancillary store rental revenue	14	3
Total self-storage revenue	13,907	13,444
Management fees	420	439
Sub-total	14,327	13,883
Serviced archive and records management revenue	2,327	2,173
Total revenue per statement of comprehensive income	**16,654**	16,056

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 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 2017 is as follows:

2017	Self-storage 2017 £'000	Serviced archive and records management 2017 £'000	Total 2017 £'000
Revenue from external customers	14,327	2,327	16,654
Adjusted EBITDA	5,933	560	6,493
Management charges	25	(25)	–
Segment Adjusted EBITDA	5,958	535	6,493
Depreciation	(1,760)	(96)	(1,856)
Amortisation of intangible assets	–	(165)	(165)
Equity settled share based payments	(97)	–	(97)
Store relocation costs	(29)	–	(29)
Property disposal costs	–	(15)	(15)
Director retirement costs	(69)	–	(69)
Segment operating profit per the income statement	4,003	259	4,262
Central costs not allocated to segments:			
Finance income			309
Finance costs			(606)
Profit before taxation			3,965
Income tax expense			(904)
Consolidated profit for the financial year			3,061

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1b Segmental information (continued)

The segment information for the year ended 31 July 2016 is as follows:

2016	Self-storage 2016 £'000	Serviced archive and records management 2016 £'000	Total 2016 £'000
Revenue from external customers	13,883	2,173	16,056
Adjusted EBITDA	5,708	587	6,295
Management charges	72	(72)	–
Segment Adjusted EBITDA	5,780	515	6,295
Depreciation	(1,436)	(101)	(1,537)
Amortisation of intangible assets	–	(165)	(165)
Equity settled share based payments	(182)	–	(182)
Net settlement proceeds – Reading site	1,940	–	1,940
Disposal costs – Swindon store(s)	(123)	–	(123)
Segment operating profit per the income statement	5,979	249	6,228
Central costs not allocated to segments:			
Finance income			313
Finance costs			(1,048)
Profit before taxation			5,493
Income tax expense			(1,211)
Consolidated profit for the financial year			4,282

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 490 customers has a greater customer concentration with its ten largest corporate customers accounting for 34.4% (2016: 34.6%) of revenue, its top 50 customers accounting for 61.1% (2016: 61.7%) and its top 100 customers accounting for 76.2% (2016: 77.0%) of revenue. The self-storage segment with over 9,670 (2016: 9,200) 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.

2017	Self-storage 2017 £'000	Serviced archive and records management 2017 £'000	**Total 2017 £'000**
Segment assets	133,457	6,190	**139,647**
Segment liabilities	(21,189)	(669)	**(21,858)**
Borrowings			**(28,670)**
Total liabilities			**(50,528)**
Capital expenditure (note 10b)	6,459	169	**6,628**

2016	Self-storage 2016 £'000	Serviced archive and records management 2016 £'000	Total 2016 £'000
Segment assets	115,253	6,314	121,567
Segment liabilities	(20,727)	(601)	(21,328)
Borrowings			(28,727)
Derivative financial instruments not allocated to segments			(37)
Total liabilities			(50,092)
Capital expenditure (note 10b)	6,629	359	6,988

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.

2a Property, staff, distribution and general costs

	Group 2017 £'000	Group 2016 £'000
Property and premises costs	**4,179**	3,913
Staff costs	**4,389**	4,232
General overheads	**1,098**	1,128
Distribution costs	**171**	170
Retail products cost of sales (see note 2b)	**324**	318
	10,161	9,761

2b Cost of sales of retail products

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

	Group 2017 £'000	Group 2016 £'000
Retail	**128**	118
Insurance	**37**	51
Other	**2**	2
	167	171
Serviced archive consumables and direct costs	**157**	147
	324	318

2c Other income and costs

	Group 2017 £'000	Group 2016 £'000
Property disposal costs[1]	**–**	123
Net settlement proceeds[2]	**–**	(1,940)
Property disposal costs[3]	**15**	–
Director retirement costs[4]	**69**	–
Store relocation costs[5]	**29**	–
	113	(1,817)

1 Property disposal costs relate to the sale and manage-back of the Swindon store.
2 Net settlement proceeds relate to an additional £2m received for the sale of the old Reading store net of costs.
3 Property disposal costs relate to the closure and surrender of the lease on the Unit 4 Leatherhead site and the consolidation of its warehouse capacity into Unit 6 Leatherhead.
4 Director retirement costs relate to the retirement of C.M. Jacobs on 4 July 2017.
5 Store relocation costs relate to the closure and surrender of the lease on the Staines store and the relocation of customers to alternative stores within the store portfolio.

3 Finance income

	Group 2017 £'000	Group 2016 £'000
Bank interest	**25**	14
Other interest	**284**	299
	309	313

Interest receivable arises on cash and cash equivalents (see note 16) and on development loan capital deployed.

4 Finance costs

	Group 2017 £'000	Group 2016 £'000
Bank interest	**520**	797
Non-utilisation fees and amortisation of bank loan arrangement fees	**86**	251
	606	1,048

5 Profit before taxation

	Group 2017 £'000	Group 2016 £'000
Profit before taxation is stated after charging:		
Depreciation and amounts written off as property, plant and equipment:		
Owned assets	**1,856**	1,537
Amortisation of intangible assets	**165**	165
Operating lease rentals – land and buildings	**1,488**	1,529

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

Audit services		
– UK statutory audit of the Company and consolidated accounts	**50**	48
Other services		
– the auditing of accounts of associates of the Company pursuant to legislation	**14**	14
Other services supplied pursuant to such legislation		
– interim review	**10**	7
Tax services		
– compliance services	**28**	26
– advisory services	**18**	2
	120	97
Comprising:		
Audit services	**64**	62
Non-audit services	**56**	35
	120	97

6 Employees

	Group 2017 No.	Group 2016 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	**131**	121
Administration	**31**	29
	162	150

	Group 2017 £'000	Group 2016 £'000
Costs for the above persons:		
Wages and salaries	**3,724**	3,425
Social security costs	**453**	532
Pension costs	**96**	92
	4,273	4,049
Share based remuneration (options)	**97**	182
	4,370	4,231

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £138,137 (2016: £133,669) 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 £11,949 (2016: £11,705) outstanding at the year-end.

There were no employees employed by the Company in the year (2016: nil).

6 Employees (continued)

Directors' remuneration

2017	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive:						
A. Jacobs	212,242	14,000	3,403	229,645	–	**229,645**
R.A. Davies	123,838	12,000	3,551	139,389	78,503	**217,892**
N. Newman-Shepherd	71,592	29,704	1,826	103,122	27,296	**130,418**
C.M. Jacobs[1]	115,284	–	2,593	117,877	35,250	**153,127**
Non-Executive:						
S.G. Thomas	53,060	–	3,228	56,288	143,437	**199,725**
R.J. Holmes	21,224	–	–	21,224	–	**21,224**
E.T.D. Luker	26,530	–	–	26,530	–	**26,530**
C.P. Peal	21,224	–	–	21,224	–	**21,224**
	644,994	**55,704**	**14,601**	**715,299**	**284,486**	**999,785**

[1] Includes Director's retirement costs of £60,100 relating to the retirement of C.M. Jacobs on 4 July 2017.

2016	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive:						
A. Jacobs	208,080	24,000	3,460	235,540	408,600	644,140
S.G. Thomas	52,020	–	3,315	55,335	132,146	187,481
R.A. Davies	116,750	12,000	3,492	132,242	409,245	541,487
C.M. Jacobs	59,021	14,000	2,711	75,732	43,601	119,333
N. Newman-Shepherd	42,556	21,154	1,299	65,009	–	65,009
Non-Executive:						
R.J. Holmes	20,808	–	–	20,808	–	20,808
E.T.D. Luker	26,010	–	–	26,010	–	26,010
C.P. Peal	20,808	–	–	20,808	22,900	43,708
	546,053	71,154	14,277	631,484	1,016,492	1,647,976

Key management personnel are defined as Directors of the Group. Details of their remuneration are shown above.

Pension contributions of £30,977 (2016: £30,775) were paid by the Group on behalf of R.A. 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 (2016: one).

Retirement of C.M. Jacobs:

On 5 July 2017 the Company announced the retirement of Colin Jacobs as an Executive Director of the Company. The amounts settled to Mr Jacobs on his retirement are included within his 2017 emoluments in the table above.

7 Taxation

	Group 2017 £'000	Group 2016 £'000
Current tax:		
UK corporation tax at 20% (2016: 20%)	**792**	606
Deferred tax:		
Origination and reversal of temporary differences	**204**	976
Adjustments in respect of prior periods	**173**	75
Impact of change in tax rate on closing balance	**(265)**	(446)
Total deferred tax	**112**	605
Income tax expense for the year	**904**	1,211

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

	2017 £'000	2016 £'000
Profit before tax	**3,965**	5,493
Tax on ordinary activities at the effective standard rate of corporation tax in the UK of 20% (2016: 20%)	**793**	1,099
Expenses not deductible for tax purposes	**2**	3
Depreciation of non-qualifying assets	**104**	85
Share based payment charges in excess of corresponding tax deduction	**19**	36
Impact of change in tax rate on closing deferred tax balance	**(264)**	(69)
Adjustments in respect of prior periods – deferred tax	**173**	75
Other	**72**	4
Share option scheme	**5**	(22)
Income tax expense for the year	**904**	1,211
Effective tax rate	**23%**	22%

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 £932,089 (2016: £2,387,114) and the movement in the fair value of cash flow hedges of £nil (2016: (£20,834)) has been recognised as a debit/credit directly in other comprehensive income (see note 18 on deferred tax).

8 Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2015 (5.67 pence per share)	**–**	1,456
Interim dividend for the six months to 31 January 2016 (2.67 pence per share)	**–**	691
Final dividend for the year ended 31 July 2016 (6.33 pence per share)	**1,777**	–
Interim dividend for the six months to 31 January 2017 (3 pence per share)	**860**	–
	2,637	2,147

In respect of the current year, the Directors propose that a final dividend of 7.0 pence per share will be paid to the Shareholders. The total estimated dividend to be paid is £2m based on the number of shares in issue at 13 October 2017 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 30 November 2017; the record date 1 December 2017; with an intended payment date of 10 January 2018.

9 Earnings per share

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

	Group 2017 £'000	Group 2016 £'000
Profit for the financial year attributable to owners of the parent	3,061	4,282

	2017 No. of shares	2016 No. of shares
Weighted average number of shares		
For basic earnings per share	27,780,676	25,791,821
Dilutive effect of share options[1]	999,657	577,822
For diluted earnings per share	28,780,333	26,369,643

[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.

There are 623,212 (2016: 623,212) shares held in the Employee Benefit Trust and nil (2016: 2,466,869) Treasury shares are excluded from the above (see note 26).

	Group 2017	Group 2016
Earnings per share		
Basic	11.02p	16.60p
Diluted	10.64p	16.24p

10a Intangible assets

Group	Goodwill £'000	Contractual customer relationships £'000	Total £'000
Cost at 1 August 2015	1,110	3,309	4,419
Amortisation at 1 August 2015	–	(661)	(661)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2016	–	(826)	(826)
Net book value at 31 July 2016	1,110	2,483	3,593
Cost at 1 August 2016	1,110	3,309	4,419
Amortisation at 1 August 2016	–	(826)	(826)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2017	–	(991)	(991)
Net book value at 31 July 2017	1,110	2,318	3,428

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 2017 is 13 years and 11 months (2016: 14 years and 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 2015	10,492	61,035	6,425	2,563	20,571	30	**101,116**
Additions	3,281	152	1	–	3,554	–	**6,988**
Disposals	(4,604)	(3,228)	–	–	(701)	(13)	**(8,546)**
Reclassification	(8,711)	9,377	–	–	(666)	–	**–**
Revaluations	–	13,617	2,837	–	–	–	**16,454**
31 July 2016	458	80,953	9,263	2,563	22,758	17	**116,012**
Depreciation							
1 August 2015	1,604	–	–	1,690	9,999	21	**13,314**
Depreciation	–	606	100	91	736	2	**1,535**
Disposals	(1,604)	–	–	–	(389)	(11)	**(2,004)**
Reclassification	–	490	–	–	(490)	–	**–**
Revaluations	–	(1,096)	(100)	–	–	–	**(1,196)**
31 July 2016	–	–	–	1,781	9,856	12	**11,649**
Net book value at 31 July 2016	458	80,953	9,263	782	12,902	5	**104,363**
Cost or valuation							
1 August 2016	458	80,953	9,263	2,563	22,758	17	**116,012**
Additions	4,666	685	–	36	1,241	–	**6,628**
Disposals	–	–	–	–	(15)	–	**(15)**
Reclassification	–	–	–	–	–	–	**–**
Revaluations	–	5,910	1,030	–	–	–	**6,940**
31 July 2017	5,124	87,548	10,293	2,599	23,984	17	**129,565**
Depreciation							
1 August 2016	–	–	–	1,781	9,856	12	**11,649**
Depreciation	–	705	125	99	926	1	**1,856**
Disposals	–	–	–	–	(11)	–	**(11)**
Reclassification	–	–	–	–	–	–	**–**
Revaluations	–	(705)	(125)	–	–	–	**(830)**
31 July 2017	–	–	–	1,880	10,771	13	**12,664**
Net book value at 31 July 2017	**5,124**	**87,548**	**10,293**	**719**	**13,213**	**4**	**116,901**

If all property, plant and equipment were stated at historic cost the carrying value would be £53.9m (2016: £49.5m).

Capital expenditure during the year totalled £6.6m (2016: £7.0m). This was primarily for the construction works at our development sites in Gillingham and Wellingborough as well as completing fitting-out works at our Bristol store. £1.22m was also spent on completing the initial phase of the refurbishment of the old Southampton store for the ParknCruise operations.

Property, plant and equipment (non-current assets) with a carrying value of £116.9m (2016: £104.4m) are pledged as security for bank loans.

10b Property, plant and equipment (continued)

Market valuation of freehold, long leasehold and operating leasehold land and buildings

On 31 July 2017, a professional valuation was prepared by Jones Lang LaSalle Limited (JLL) in respect of eleven freehold, one long leasehold and seven operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation – Global Standards 2017, published by The Royal Institution of Chartered Surveyors ("the RICS Red Book") and the valuation methodology is explained in more detail below. The valuation was 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 RICS Red Book JLL has confirmed that:

- This is the second year that JLL has been appointed to value the properties.
- The valuers who prepared the valuation have the necessary skills and experience, having been significantly involved in the sector.
- JLL does not provide other significant professional or agency services to the Company.
- In relation to the preceding financial year of JLL, the proportion of the total fees payable by the Company to the total fee income of the firm is less than 5% and is minimal.

The valuation report indicates a total valuation for all properties valued of £119.6m (2016: £112.7m) of which £102.9m (2016: £96.1m) relates to freehold and long leasehold properties, and £16.7m (2016: £16.6m) 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 £102.9m valuation of the freehold and long leasehold properties, £9.3m (2016: £9.0m) relates to the net book value of fixtures, fittings and equipment, and the remaining £93.6m (2016: £87.1m) relates to freehold and long leasehold properties.

The 2017 valuation includes and reflects movements in value which have resulted from the operational performance of the stores and movements in the investment environment.

Valuation methodology

Jones Lang LaSalle Limited (JLL) has adopted the profits method of valuation, and cross checked with the direct comparison method based on recent transactions in the sector, which is the main method of pricing adopted by purchasers of self-storage properties.

JLL has valued the assets on an individual basis and has disregarded any portfolio effect.

The profits method of valuation considers the cash flow generated by the trading potential of the self-storage facility. Due to the specialised design and use of the buildings, the value is typically based on their ability to generate a net income from operating as self storage facilities.

JLL has constructed a discounted cash flow model. This sets out JJL's explicit assumptions on the underlying cash flow that it believes could be generated by a Reasonably Efficient Operator at each of the properties, both at the valuation date and in the near future as the properties increase their occupancy and rates charged to customers. Judgements are made as to the trading potential and likely long-term sustainable occupancy.

Stable occupancy depends upon the nature of demand, size of property and nearby competition, and allows for a reasonable vacancy rate to enable the operator to sell units to new customers. In the valuation, the assumed stabilised occupancy level for the 19 trading stores (both freeholds and leaseholds) averages 81.2% (2016: 80.1%).

Expenditure is deducted (such as business rates, staff costs, repair and maintenance, utilities, marketing and bad debts) as well as an operator's charge which takes account of central costs. JLL also makes an allowance for long-term capex requirements where applicable.

- The cash flow for freeholds runs for an explicit period of 10 years, after which it is capitalised at an all risks yield which reflects the implicit future growth of the business, or a hypothetical sale.
- The cash flow for leaseholds continues for the unexpired term of the lease.
- The discount rate applied has had regard to recent transactions, weighted average costs of capital and target return in other asset types with adjustments made to reflect differences in the risk and liquidity profile.
- The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 11.09% (2016: 11.32%). The yield arising from the first year of the projected cash flow is 7.19% (2016: 7.43%), rising to 10.49% (2016: 10.86%) in year five.
- JLL has assumed purchaser's costs of 6.8% (2016: 6.8%).
- The average stabilised occupancy is 81.2% (2016: 80.1%).
- The average exit yield assumed is 7.67% (2016: 7.9%).

10b Property, plant and equipment (continued)

The comparison method considers recent transactions where self-storage properties have sold, and then adjusts them based on a multiple of current earnings, and a capital value per square foot. They are adjusted to reflect differences in location, physical characteristics, local supply and demand, tenure and trading levels.

For leaseholds, the same methodology has been used as for freehold property, except that no sale of the assets in the tenth 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 10 years and 8 months as at 31 July 2017 (11 years and 8 months: 31 July 2016). 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 was 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 JLL 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.

The fair value hierarchy within which the Fair Value measurements are categorised is level 3, in accordance with IFRS13 fair value measurements.

Directors' valuation of land and property

The Old Southampton Store: Following the opening of the new Southampton store with the corresponding transfer of all customers from the old Southampton store, the vacant building has been redeveloped for cruise parking. Market evidence suggested that there is a substantial market in Southampton for car parking for cruise liner passengers and that this property was appropriate to this use. The Directors placed their valuation on the undeveloped site at the 2016 year-end at £2.5m. The building has now been converted to this use costing £1.195m and started trading as "ParknCruise" in May 2017. Early bookings are encouraging. Accordingly, the Directors placed their valuation on the current developed site at the 2017 year-end at £3.695m.

The New Southampton Store: Following the development and opening of the new Southampton store there remains surplus land to the rear of the building which may be ultimately utilised for an expansion of the store or could be sold or used for alternative use. The Directors have considered the advice given and recommendations of value obtained by local agents and, in weighing this with their own view, are satisfied to continue to place a value at year-end on this land of £0.5m.

The total value of land and property carried at Director Valuation at 31 July 2017 is £4.195m (2016: £3m).

11 Investments

Company investments in subsidiary undertakings	£'000
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**
Capital contributions arising from share based payments	182
31 July 2016	**2,288**
Capital contributions arising from share based payments	97
31 July 2017	**2,385**

11 Investments (continued)

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
ParknCruise Limited[1] ◆	Ordinary		100	Car parking for cruise passengers

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.

* These companies have taken the exemption from audit under Section 479A of the Companies Act 2006.

♦ The address of these companies is 112, Hawley Lane, Farnborough, Hants GU14 8JE

\# The address of these companies is 1, Fleet Place, London EC4M 7WS.

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 managed store in Aldershot, Hampshire. The store is managed for third party investors under the Lok'nStore brand. Lok'nStore managed the construction and subsequent operation of the store and generates a 10% annual return on £2.5m of the total development capital committed to the project, and a management fee for the construction, operation and branding of the store. The capital provided is fully secured by a first fixed charge on the property.

	Group 2017 £'000	Group 2016 £'000
Development capital	3,463	3,159

Contingent asset

When the Aldershot store is sold by its owners, Lok'nStore is entitled to receive a fee of 5% of the proceeds of the sale (less reasonable selling costs).

Due to the uncertainty of the property market and the timing of the ultimate sale, the Directors believe that it would not be appropriate to recognise this as an asset at this time. There is a backstop date of 2022 at which time a realisation (or a payment based on an independent valuation) must be made to Lok'nStore and as this date gets nearer, the Directors will give due consideration as to when the value of the property can be reliably measured, and at which point it will be appropriate to recognise the asset in the financial statements.

13 Inventories

	Group 2017 £'000	Group 2016 £'000
Consumables and goods for resale	203	165

The amount of inventories recognised in cost of sales as an expense during the year was £164,225 (2016: £156,121).

14 Trade and other receivables

	Group 2017 £'000	Group 2016 £'000
Trade receivables	**1,693**	2,027
Other receivables	**1,822**	1,910
Prepayments and accrued income	**751**	1,015
	4,266	4,952

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

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

	Company 2017 £'000	Company 2016 £'000
Net amount due from Lok'nStore Limited	**13,021**	3,648

The amount due from Lok'nStore Limited is interest free. The balance is repayable on demand.

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 450 customers has a greater customer concentration – refer to note 1(b) segmental analysis.

Included in the Group's trade receivables balance are receivables with a carrying amount of £268,252 (2016: £269,153) 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 43 days past due (2016: 40 days past due).

Ageing of past due but not impaired receivables

	Group 2017 £'000	Group 2016 £'000
0–30 days	**97**	147
30–60 days	**121**	72
60+ days	**50**	50
Total	**268**	269

Movement in the allowance for bad debts

	Group 2017 £'000	Group 2016 £'000
Balance at the beginning of the year	**186**	174
Impairment losses recognised	**34**	34
Amounts written off as uncollectible	**(32)**	(22)
Balance at the end of the year	**188**	186

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.

14 Trade and other receivables (continued)

Ageing of impaired trade receivables

	Group 2017 £'000	Group 2016 £'000
0–30 days	–	–
30–60 days	–	–
60+ days	188	186
Total	188	186

15 Trade and other payables

	Group 2017 £'000	Group 2016 £'000
Trade payables	818	887
Taxation and social security costs	288	1,369
Other payables	1,692	1,197
Accruals and deferred income	2,234	2,341
	5,032	5,794

The Directors consider that the carrying amount of trade and other payables 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 Shareholders 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 ongoing 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 2017 £'000	Group 2016 £'000
Gross borrowings	(28,816)	(28,816)
Cash and cash equivalents	11,386	5,335
Net debt	(17,430)	(23,481)
Total equity	89,119	71,475
Net debt to equity ratio	19.6%	32.8%

The decrease in the Group's gearing ratio arises principally through the combined effect of an increase in the value of its properties, the sale of the Group's treasury shares and the 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 had two interest rate swaps with Lloyds Bank plc which ran until 20 October 2016. These have now expired 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 six-year term revolving credit facility with Royal Bank of Scotland plc secured on its store portfolio and other Group assets, excluding intangibles, with a net book value of £136.2m (2016: £118.0m). 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 £40m (2016: £40m). This facility expires on 15 January 2023. Undrawn committed facilities at the year-end amounted to £11.2m (2016: £11.2m).

C Interest rate risk management

The Group's policy on interest rate risk management is agreed at Board level and is reviewed on an ongoing 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 had two cash flow hedging interest rate swap arrangements and these expired during the year. These instruments and the movement in their fair values are detailed in 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 2017 are as follows:

	Group 2017 £'000	Group 2016 £'000
Variable rate treasury deposits[1]	11,048	4,915
SIP trustee deposits	5	34
Cash in operating current accounts	285	339
Other cash and cash equivalents	48	47
Total cash and cash equivalents	11,386	5,335

1 Money market rates for the Group's variable rate treasury deposit track Royal Bank of Scotland plc base rate. The rate attributable to the variable rate deposits at 31 July 2017 was 0.1%.

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 2017, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £288,156 (2016: £88,156) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £288,156 (2016: £88,156). 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 1.66% applying to the variable rate borrowings of £28.8m in the year (2016: £8.8m / 2.56%).

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.

16 Financial instruments (continued)

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 2017 was £2.34m (2016: £3.70m) on receivables and £11.39m (2016: £5.33m) 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 2017 was £3.46m (2016: £3.16m). 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:

2017 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
Over five years	–	28,816	219
From two to five years	–	–	1,438
From one to two years	–	–	479
Due after more than one year	–	28,816	2,136
Due within one year	2,934	–	479
Total contractual undiscounted cash flows	2,934	28,816	2,615

2016 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	–	28,816	1,814
From one to two years	–	–	738
Due after more than one year	–	28,816	2,552
Due within one year	2,359	–	831
Total contractual undiscounted cash flows	2,359	28,816	3,383

I Fair values of financial instruments

	Group 2017 £'000	Group 2016 £'000
Categories of financial assets and financial liabilities		
Financial assets – loans and receivables		
Trade and other receivables	3,967	3,700
Cash and cash equivalents	11,386	5,335
Development loan capital	3,463	3,159
Financial liabilities – other financial liabilities at amortised cost		
Trade and other payables	(2,934)	(2,359)
Bank loans	(28,670)	(28,727)

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.

16 Financial instruments (continued)

J Company's financial instruments

The Company's financial assets are amounts owed by subsidiary undertakings amounting to £9.9m (2016: £3.8m) which are classified as trade and other receivables, and the investment in its subsidiary undertaking of £0.1m (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 2017 £'000	Group 2016 £'000
Non-current		
Bank loans repayable in more than five years (gross)	**28,816**	–
Bank loans repayable in more than two years but not more than five years (gross)	**–**	28,816
Deferred financing costs	**(146)**	(89)
Net bank borrowings	**28,670**	28,727
Non-current borrowings	**28,670**	28,727

The Group has agreed a two-year extension on its existing banking facility with Royal Bank of Scotland plc (RBS). The £40m five-year revolving credit facility which was executed last year included an extension option which has now been implemented. The facility, which was due to expire in January 2021, will now run until January 2023, providing funding for more landmark site acquisitions and working capital.

The £40m five-year revolving credit facility set the interest rate margin at the London Inter-Bank Offer Rate (LIBOR) plus 1.40%–1.65% based on a loan to value covenant test. This rate is 1.40% currently and the all-in-debt cost on £28.8m drawn averaged 1.66% in the period. Bank covenants and margin are unaffected by this extension of term.

The facility also provides for the possibility of an additional accordion of up to £10m which, if taken up during the term of the facility, will increase facilities available to £50m.

The Group currently has £28.8m drawn against its existing £40m facility. The margin on the new facility is at the London Inter-Bank Offer Rate (LIBOR) plus 1.40%–1.65% margin based on a loan to value covenant test (1.40% at Lok'nStore's current LTV level).

The £40m revolving credit facility with RBS 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 £120.4m (2016: £118.0m) together with cross-company guarantees from Group companies.

17b Derivative financial instruments

During the year the Group continued to operate two separate £10m interest rate swaps 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 ran up to 20 October 2016, whereupon they lapsed.

The £20m fixed rate was treated as an effective cash flow hedge and its fair value on a mark-to-market basis has fluctuated historically. Under current facility arrangements with Royal Bank of Scotland plc, the Group is not committed to enter into hedging instruments going forwards but rather to keep such matters under periodic review.

As the fixed interest swaps expired on 20 October 2016, the Group's entire £28.8m of gross debt reverted to variable rate and results in an overall weighted average rate over the financial period of 2.06% (2016: 2.88%). At the balance sheet date the effective cost of debt is 1.65%.

	Currency	Principal £	Maturity date	Fair value 2017 £'000	Fair value 2016 £'000
3032816LS Interest rate swap	GBP	10,000,000	20/10/2016	**–**	(19)
3047549LS Interest rate swap	GBP	10,000,000	20/10/2016	**–**	(18)
		20,000,000		**–**	(37)

The movement in fair value of the interest rate swaps of £37,850 (2016: £82,675) has been recognised in other comprehensive income in the year.

18 Deferred tax

Deferred tax liability	Group 2017 £'000	Group 2016 £'000
Liability at start of year	15,361	12,252
Credited to income for the year	112	605
Tax credited directly to other comprehensive income	932	2,408
Debit / (credit) to share based payment reserve	(42)	96
Liability at end of year	16,363	15,361

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

	Accelerated capital allowances £'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 2015	**1,708**	**530**	**(8)**	**8,586**	**1,787**	**(351)**	**12,252**
Charge/(credit) to income for the year	147	(83)	11	–	524	6	605
Charge to other comprehensive income	–	–	21	2,375	12	–	2,408
Charge to share based payment reserve	–	–	–	–	–	96	96
At 31 July 2016	**1,855**	**447**	**24**	**10,961**	**2,323**	**(249)**	**15,361**
Charge/(credit) to income for the year	341	(53)	(7)	–	(189)	20	112
Charge to other comprehensive income	–	–	–	920	12	–	932
Charge to share based payment reserve	–	–	–	–	–	(42)	(42)
At 31 July 2017	**2,196**	**394**	**17**	**11,881**	**2,146**	**(271)**	**16,363**

19 Share capital

Authorised:	2017 £'000	2016 £'000
35,000,000 ordinary shares of 1 pence each (2016: 35,000,000)	350	350

Allotted, issued and fully paid ordinary shares	£'000	£'000
Balance at 1 August	291	285
Options exercised 193,601 shares (2016: 662,573 shares)	2	6
Balance at 31 July	293	291

	Called up, allotted and fully paid Number	Called up, allotted and fully paid Number
Number of shares at 31 July	29,302,923	29,109,322

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 Company has the following share options:

2017 Summary	As At 31 July 2016 No. of options	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2017 No. of options
Unapproved Share Options	1,094,482	44,031	(150,408)	(23,997)	**964,108**
Approved CSOP Share Options	166,011	20,486	(43,193)	(7,926)	**135,378**
Total	1,260,493	64,517	(193,601)	(31,923)	**1,099,486**

2016 Summary	As At 31 July 2015 No. of options	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2016 No. of options
Unapproved Share Options	1,722,361	59,858	(643,894)	(43,841)	1,094,482
Approved CSOP Share Options	172,462	23,137	(18,679)	(10,909)	166,011
Total	1,894,823	82,995	(662,573)	(54,750)	1,260,493

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

	Total at 31 July 2016	Options granted	Options exercised/ lapsed	Unapproved Scheme	Approved CSOP share options	Total at 31 July 2017
2017						
Executive Directors						
A. Jacobs – Unapproved	206,087	–	–	–	–	**206,087**
S.G. Thomas – Unapproved	75,217	–	(50,000)	(50,000)	–	**25,217**
R.A. Davies – Unapproved	281,977	–	(25,000)	(25,000)		**256,977**
R.A. Davies – CSOP	14,493	7,742	(14,493)	–	(14,493)	**7,742**
R..A Davies total	296,470	7,742	(39,493)	(25,000)	(14,493)	**264,719**
N. Newman-Shepherd – Unapproved	187,742	19,679	(10,000)	(10,000)	–	**197,421**
N. Newman-Shepherd – CSOP	16,195	966	(3,500)	–	(3,500)	**13,661**
N Newman-Shepherd total	203,937	20,645	(13,500)	(10,000)	(3,500)	**211,082**
C. Jacobs – Unapproved	123,997	–	(23,997)	(23,997)	–	**100,000**
C. Jacobs – CSOP	18,926	–	(18,926)	–	(18,926)	
C .Jacobs total *	142,923	–	(42,923)	(23,997)	(18,926)	**100,000**
Non-Executive Directors						
E.T.D. Luker – Unapproved	15,000	–	–	–	–	**15,000**
All Directors total	**939,634**	**28,387**	**(145,916)**	**(108,997)**	**(36,919)**	**822,105**

* C. Jacobs retired on 4 July 2017.

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.

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. Exercise of an option is subject to continued employment or in the case of unapproved options at the discretion of the Board. The life of each option granted is six and a half to seven years. There are no cash settlement alternatives.

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 (ten 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 £96,985 (2016: £182,124), all of which relates to equity settled share based payment transactions.

21 Enterprise Management Initiative Scheme

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

The Group has for some years no longer met the EMI Scheme qualifying criteria. Accordingly, there were no options issued under this scheme during the year, and no options remained at the year-end. 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 2017 Number	**Weighted average exercise price 2017 Pence**	Options 2016 Number	Weighted average exercise price 2016 Pence
Outstanding at 1 August	**1,094,482**	**159.85**	1,722,359	148.65
Granted during the year	**44,031**	**387.50**	59,858	325.00
Forfeited during the year	**(23,997)**	**223.37**	(43,841)	166.51
Exercised during the year	**(150,408)**	**166.92**	(643,894)	143.98
Outstanding at 31 July	**964,108**	**167.57**	1,094,482	159.85
Exercisable at 31 July	**758,366**	**146.63**	798,957	139.49

The options outstanding at 31 July 2017 had a weighted average remaining contractual life of 6.3 years (2016: 5.4 years). The exercise prices for shares exercisable at 31 July 2017 ranged from 56.0 pence per share to 269.5 pence per share.

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 2016	Granted	Exercised/ lapsed	**As at 31 July 2017**	Exercise price (pence)	Date from which exercisable	Expiry date
A. Jacobs	206,087	–	–	**206,087**	1.085 – 2.855	31/7/15 – 6/8/18	31/7/22 – 6/8/25
S. Thomas	75,217	–	(50,000)	**25,217**	2.070 – 2.855	31/7/17 – 6/8/18	31/1/24 – 6/8/25
R. Davies	281,977	–	(25,000)	**256,977**	0.850 – 2.135	31/7/10 – 31/7/17	31/7/17 – 31/7/27
N. Newman-Shepherd	187,742	19,679	(10,000)	**197,421**	1.070 – 3.875	31/7/11 – 31/7/20	31/7/18 – 31/7/27
C. Jacobs	123,977	–	(23,977)	**100,000**	1.070 – 2.695	24/4/10 – 31/7/16	31/12/17 – 31/1/20
E.T.D. Luker	15,000	–	–	**15,000**	0.565	31/7/12	31/7/19
Total	890,000	19,679	(108,977)	**800,702**			

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 2017 Number	Weighted average exercise price 2017 Pence	Options 2016 Number	Weighted average exercise price 2016 Pence
Outstanding at 1 August	166,011	206.05	172,462	178.82
Granted during the year	20,488	387.50	23,137	325.00
Forfeited/surrendered during the year	(7,926)	260.51	(10,909)	207.00
Exercised during the year	(43,193)	143.66	(18,679)	98.75
Outstanding at 31 July	135,380	250.22	166,011	206.05
Exercisable at 31 July	81,880	191.90	44,727	116.49

The options outstanding at 31 July 2017 had a weighted average remaining contractual life of 8.7 years (2016: 7.8 years). The exercise prices for shares exercisable at 31 July 2017 ranged from 107.00 pence per share to 207.00 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 2017	6.5	387.5	387.5	27.63	2.41	0.66	77.94

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

	As at 31 July 2016	Granted	Exercised /lapsed	As at 31 July 2017	Exercise price (pence)	Date from which exercisable	Expiry Date
R. Davies	14,493	7,742	(14,493)	7,742	3.875	31/7/20	31/7/27
C. Jacobs	18,926	–	(18,926)	–			
N. Newman-Shepherd	16,195	966	(3,500)	13,661	1.070 – 3.875	31/7/14 – 31/7/20	31/7/21 – 31/7/27
	30,688	8,708	(17,993)	21,403			

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 2015	(99)	6,295	1,294	34	1,161	**8,685**
Share based remuneration (options)	–	–	–	–	182	**182**
IFRS2 – transfer to retained earnings	–	–	–	–	(401)	**(401)**
Cash flow hedge reserve net of tax	62	–	–	–	–	**62**
Tax charge relating to share options	–	–	–	–	(96)	**(96)**
31 July 2016	(37)	6,295	1,294	34	846	**8,432**
Share based remuneration (options)	–	–	–	–	97	**97**
IFRS2 – transfer (to)/from retained earnings	–	–	–	–	(139)	**(139)**
Cash flow hedge reserve net of tax	37	–	–	–	–	**37**
Tax charge relating to share options	–	–	–	–	42	**42**
31 July 2017	**–**	**6,295**	**1,294**	**34**	**846**	**8,469**

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 £138,755 (2016: £400,957).

24b Other reserves

Company	Other reserve £'000	Share based payment reserve £'000	Total £'000
1 August 2015	1,114	1,066	**2,180**
Share based remuneration (options)	–	182	**182**
IFRS2 – transfer to retained earnings	–	(401)	**(401)**
31 July 2016	1,114	847	**1,961**
Share based remuneration (options)	–	97	**97**
IFRS2 – transfer to/from retained earnings	–	(139)	**(139)**
31 July 2017	**1,114**	**805**	**1,1919**

25 Retained earnings

Group	Retained earnings before deduction of own shares £'000	Own shares (note 26) £'000	Retained earnings Total £'000
1 August 2015	13,387	(4,241)	**9,146**
Profit attributable to owners of Parent for the financial year	4,282	–	**4,282**
Transfer from revaluation reserve (additional depreciation on revaluation)	262	–	**262**
Transfer from share based payment reserve (note 24a)	401	–	**401**
Transfer realised gain on asset disposal	1,639	–	**1,639**
Dividend paid	(2,147)	–	**(2,147)**
31 July 2016	17,824	(4,241)	**13,583**
Profit attributable to owners of Parent for the financial year	3,061	–	**3,061**
Transfer from revaluation reserve (additional depreciation on revaluation)	277	–	**277**
Transfer from share based payment reserve (note 24a)	139	–	**139**
Sale of shares from treasury	–	3,741	**3,741**
Dividend paid	(2,637)	–	**(2,637)**
31 July 2017	**18,664**	**(500)**	**18,164**

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 the Treasury Account. These treasury shares have not been cancelled and have been released back to the market to assist liquidity of the Company's stock and to provide availability of a reasonable line of stock to satisfy investor demand.

26 Own shares

	EBT shares Number	EBT shares £	Treasury shares Number	Treasury shares £	Own shares Total £
31 July 2016 and 31 July 2017	**623,212**	**499,910**	**–**	**–**	**499,910**

Sale of treasury shares: At the start of the financial year, Lok'nStore Limited held 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 (excluding broker's commission and stamp duty costs). These shares represented 8.4% 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.

In November 2016, Lok'nStore sold 1,975,000 ordinary shares of these treasury shares. The shares were sold to a range of institutional investors at a price of 400 pence per share.

On 26 April 2017, it sold the remaining 491,869 ordinary treasury shares to a range of institutional and individual investors at a price of 425 pence per ordinary share.

The Directors have considered whether a prior year adjustment should be made to reflect this reclassification in the Parent Company's comparative balance sheet but are mindful of the fact that this is all intercompany and the situation has been resolved in the current year through the sale of these shares. As a result, the Directors do not believe that this adjustment would cause the reader of the financial statements to form a different view of the statement of financial position of the Parent Company at 31 July 2016 and therefore do not believe it is material in the context of the financial statements as a whole.

26 Own shares (continued)

Employee Benefit Trust (EBT): 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 2017, the Trust held 623,212 (2016: 623,212) ordinary shares of 1 pence each with a market value of £2,414,947 (2016: £2,025,439). No shares were transferred out of the scheme during the year (2016: nil).

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

27 Cash flows

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

	Group 2017 £'000	Group 2016 £'000
Profit before tax	3,965	5,493
Depreciation	1,856	1,535
Amortisation of intangible assets	165	165
Equity settled share based payments	97	182
Net settlement proceeds – Reading site	–	(1,940)
Property disposal costs	15	123
Store relocation costs	29	–
Director retirement costs	69	–
Interest receivable	(309)	(313)
Interest payable	606	1,048
Increase in inventories	(38)	(24)
(Increase)/decrease in receivables	(284)	(2,471)
(Decrease)/increase in payables	(648)	(24)
Cash generated from operations	5,523	3,774

(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.

	Group 2017 £'000	Group 2016 £'000
Increase in cash in the year	6,051	2,900
Change in net debt resulting from cash flows	–	(1,115)
Movement in net debt in year	6,051	1,785
Net debt brought forward	(23,481)	(25,266)
Net debt carried forward	(17,430)	(23,481)

28 Commitments under operating leases

At 31 July 2017, the total future minimum lease payments as a lessee under non-cancellable operating leases were as follows:

	Group 2017 £'000	Group 2016 £'000
Land and buildings		
Amounts due:		
Within one year	**1,469**	1,535
Between two and five years	**5,868**	5,847
After five years	**6,600**	7,468
	13,937	14,850

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 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.

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.

	Group 2017 £'000	Group 2016 £'000
Short-term employee benefits	**1,000**	1,648
Post-employment benefits	**31**	31
Share based payments	**97**	182
Total	**1,128**	1,861

The Group uses Trucost Plc, an environmental research company, to provide information and undertake performance assessment of the environmental effect of its business activities. The total fees payable to Trucost Plc in respect of its environmental assessment and reporting for the year was £6,000 (2016: £6,000). The balance outstanding to Trucost Plc at year-end was £nil (2016: £nil).

Group Director shareholdings – dividends received

In respect of the total dividends paid during the year of £2,637,353, the Group directors received the amounts set out in the table below:

Director's Dividend Income	Holding	Final 2016 6.33 pence £	Interim 2017 3.00 pence £
Executive:			
A. Jacobs	5,205,600	329,514	156,168
R.A. Davies	61,780	2,935	1,409
N. Newman-Shepherd	3,300	–	–
C.M. Jacobs	7,500	475	225
Non-Executive:			
S.G. Thomas	1,800,000	113,940	54,000
R.J. Holmes	273,674	17,207	8,155
E.T.D. Luker	13,800	874	414
C.P. Peal	513,561	54,755	15,301
	7,879,215	519,700	235,672

29 Related party transactions (continued)

Managed Stores – Group Director shareholdings

Although the Director holdings in managed stores falls outside of the definition of related party transactions, they are disclosed here for transparency and are set out in the table below:

Director	Chichester	Broadstairs	Exeter
	No. of shares	No. of shares	No. of shares
Andrew Jacobs	36,800	38,160	240,000
Charles Peal	–	–	500,000
Simon Thomas	–	–	160,000
Total shareholding	36,800	38,160	900,000
issued share capital	189,341	189,690	3,970,000
% of issued share capital	19.4%	20.1%	22.7%

30a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £2.60m (2016: £1.10m) relating to building contracts on its Gillingham and Wellingborough development sites as well as building retentions outstanding on the completed Bristol, Southampton and Reading stores.

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 £28.8m (2016: £28.8m).

31 Events after the reporting date

(a) Contracts exchanged on the purchase of the Bedford site

On 3 August 2017, contracts were exchanged on the purchase of a site in Bedford for £1.1m. Lok'nStore will develop this site as a purpose-built landmark store.

(b) Surrender of lease on Unit 4, Leatherhead Industrial Estate and the execution of a new lease on the adjacent Unit 6

On 10 August 2017, the Group completed the execution of a new lease on Unit 6, Leatherhead Industrial Estate, together with the surrender of the lease on Unit 4.

This is part of a continuing strategy within the document storage business of optimising the utilisation of trading space which has now been consolidated into two trading units.

i) Surrender of Unit 4

The Group has obtained releases from all obligations whether past, present or future and received all of the rent deposits held by the landlord. There were no outstanding dilapidations obligations.

ii) New lease on Unit 6

The lease is in substantially the same form as the existing lease but is for 15 years and inside the 1954 Landlord & Tenant Act. The landlord has the right to break at the end of the tenth year on redevelopment grounds on six months' notice. There is an upward-only rent review at the end of the fifth year of the term.

(c) Planning permission obtained on the Dover site

On 9 September 2017, planning permission was granted for the construction of a detached storage building with associated vehicular access, parking and landscaping works.

Glossary

Abbreviation

Adjusted EBITDA	Earnings before all depreciation and amortisation charges, losses or profits on disposal, share based payments, acquisition costs, non-recurring professional costs, finance income, finance costs and taxation
AGM	Annual General Meeting
APD	Auditing Practices
Bps	Basis points
C&W	Cushman & Wakefield
CAC	Contributory asset charges
CAD	Cash available for distribution
Capex	Capital expenditure
CGU	Cash generating units
C_2Oe	Carbon dioxide emissions
CSOP	Company Share Option Plan
EBT	Employee Benefit Trust
EMI	Enterprise Management Incentive Scheme
ESOP	Employee Share Option Plan
EU	European Union
GHG	Greenhouse gas
HMRC	Her Majesty's Revenue & Customs
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JLL	Jones Lang LaSalle
LIBOR	London Interbank Offered Rate
LFL	Like for like
LTV	Loan to value ratio
MWh	Megawatt hour
NAV	Net asset value
NBV	Net book value
Operating Profit	Earnings before interest and tax (EBIT)
PV	Photovoltaic
RICS	Royal Institution of Chartered Surveyors
sq. ft.	Square feet
Store adjusted EBITDA	Adjusted EBITDA (see above) but before central and head office costs
TVR	Total voting rights
VAT	Value added tax

Notes – What we mean when we say … (and why we use these key performance indicators (KPIs))

KPI	Description
1	**LFL – Like for like –** This measure is used to give transparency on improvements in the operating business unrelated to the opening of new stores or closure of old stores, therefore giving visibility of the true trading picture. In January 2017, Lok'nStore closed its store in Staines. Like for like (LFL) growth figures for the period strip out the effect of this closure.
2	**Group Adjusted EBITDA – Earnings before interest, tax, depreciation and amortisation –** This measure is designed to give clarity on the operating cash flow of the business stripping away non-cash charges, finance charges and tax. Adjusted EBITDA is defined as EBITDA before losses or profits on disposal, share based payments, acquisition costs, and exceptional items.
3	**Exceptional items –** refers to "one-off" items of a non-operational nature which arose during the year.
4	**Adjustment of prior period exceptional sale –** In 2016, the Group received an additional amount of sale proceeds (net of costs) of £1.94m on the sale of its old Reading store and incurred £0.12m of property disposal costs. The reported increase in the profit before tax and the profit after tax reported in the financial results for the year strips out the effect of this £1.82m exceptional credit item and correspondingly adjusts for the 2017 exceptional items described in note 9 below to obtain a like for like comparison.
5	**CAD – Cash available for distribution –** is calculated as Adjusted EBITDA minus total net finance cost, less capitalised maintenance expenses, New Works Team costs and current tax. This measure is designed to give clarity to the capacity of the business to generate net operating cash that can be used to pay dividends to Shareholders.
6	**NAV – Net asset value per share –** Adjusted net asset value per share is the net assets adjusted for the valuation of leasehold stores (properties held under operating leases) 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 shares are excluded from the number of shares.
7	**LTV – Loan to value ratio –** measures the debt of the business expressed as a percentage of total property assets, giving a perspective on the gearing of the business. The calculation is based on net debt of £17.4m (2016: £23.5m) as a percentage of the total properties independently valued by JLL and including development land assets totalling £124.8m (2016: £113.2m) as set out in the Business and Financial Review.
8	**Pipeline sites –** 11 sites including 7 sites which have been secured and 4 sites which are currently proceeding with lawyers.
9	**Adjusted Total Assets –** The value of adjusted total assets of £153.5m is calculated by adding the independent valuation of the leasehold properties (£16.7m) less their corresponding net book value (NBV) of £2.9m to the total assets in the balance sheet of £139.7m.
10	**Store adjusted EBITDA –** is Adjusted EBITDA (see 2 above) before the deduction of central and head office costs.
11	**Gearing –** refers to the level of a company's debt related to its equity capital, usually expressed in percentage form. It is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus Shareholders. Gearing can be measured by a number of ratios and we use the debt-to-equity ratio in this document.

See also the glossary on page 74.

Our Stores

Head Office
Lok'nStore plc
112 Hawley Lane
Farnborough
Hampshire
GU14 8JE
Tel 01252 521010
www.loknstore.co.uk
www.loknstore.com

Central Enquiries
0800 587 3322
info@loknstore.co.uk
www.loknstore.co.uk

Basingstoke, Hampshire
Crockford Lane
Chineham
Basingstoke
Hampshire
RG24 8NA
Tel 01256 474700
basingstoke@loknstore.co.uk

Bristol, Gloucestershire
Longwell Green Trade Park
Aldermoor Way
Bristol
BS30 7ET
Tel 0117 967 7055
Bristol@loknstore.co.uk

Crayford, Kent
Block B
Optima Park
Thames Road
Crayford
Kent
DA1 4QX
Tel 01322 525292
crayford@loknstore.co.uk

Eastbourne, East Sussex
Unit 4, Hawthorn Road
Eastbourne
East Sussex
BN23 6QA
Tel 01323 749222
eastbourne@loknstore.co.uk

Fareham, Hampshire
26 & 27 Standard Way
Fareham Industrial Park
Fareham
Hampshire
PO16 8XJ
Tel 01329 283300
fareham@loknstore.co.uk

Farnborough, Hampshire
112 Hawley Lane
Farnborough
Hampshire
GU14 8JE
Tel 01252 511112
farnborough@loknstore.co.uk

Harlow, Essex
Unit 1, Dukes Park
Edinburgh Way
Harlow
Essex
CM20 2GF
Tel 01279 454238
harlow@loknstore.co.uk

Horsham, West Sussex
Blatchford Road
Redkiln Estate
Horsham
West Sussex
RH13 5QR
Tel 01403 272001
horsham@loknstore.co.uk

Luton, Bedfordshire
27 Brunswick Street
Luton
Bedfordshire
LU2 0HG
Tel 01582 721177
luton@loknstore.co.uk

Maidenhead, Berkshire
Stafferton Way
Maidenhead
Berkshire
SL6 1AY
Tel 01628 878870
maidenhead@loknstore.co.uk

Milton Keynes, Buckinghamshire
Etheridge Avenue
Brinklow
Milton Keynes
Buckinghamshire
MK10 0BB
Tel 01908 281900
miltonkeynes@loknstore.co.uk

Northampton Central
16 Quorn Way
Grafton Street Industrial Estate
Northampton
NN1 2PN
Tel 01604 629928
nncentral@loknstore.co.uk

Northampton Riverside
Units 1–4
Carousel Way
Northampton
Northamptonshire
NN3 9HG
Tel 01604 785522
northampton@loknstore.co.uk

Poole, Dorset
50 Willis Way
Fleetsbridge
Poole
Dorset
BH15 3SY
Tel 01202 666160
poole@loknstore.co.uk

Portsmouth, Hampshire
Rudmore Square
Portsmouth
PO2 8RT
Tel 02392 876783
portsmouth@loknstore.co.uk

Reading, Berkshire
251 A33 Relief Road
Reading
RG2 0RR
Tel 01189 588999
reading@loknstore.co.uk

Southampton, Hampshire
Third Avenue
Southampton
Hampshire
SO15 0JX
Tel 02380 783388
southampton@loknstore.co.uk

Sunbury on Thames, Middlesex
Unit C, The Sunbury Centre
Hanworth Road
Sunbury
Middlesex
TW16 5DA
Tel 01932 761100
sunbury@loknstore.co.uk

Tonbridge, Kent
Unit 6, Deacon Trading Estate
Vale Road
Tonbridge
Kent
TN9 1SW
Tel 01732 771007
tonbridge@loknstore.co.uk

Development locations (Owned stores)

Wellingborough, Northamptonshire
19/21 Whitworth Way
Wellingborough
NN8 2EF

Gillingham, Kent
Courtney Road
Gillingham
Kent
ME8 0RT

Bedford, Bedfordshire
69 Cardington Road
Bedford
MK42 0BQ

Managed stores

Aldershot, Hampshire
251 Ash Road
Aldershot
GU12 4DD
Tel 0845 4856415
aldershot@loknstore.co.uk

Ashford, Kent
Wotton Road
Ashford
Kent
TN23 6LL
Tel 01233 645500
ashford@loknstore.co.uk

Broadstairs, Kent
2 Pyramid Business Park
Poorhole Lane
Broadstairs
CT10 2PT
Tel 01843 863253
broadstairs@loknstore.co.uk

Chichester, West Sussex
17 Terminus Road
Chichester
PO19 8TX
Tel 01243 771840
chichester@loknstore.co.uk

Crawley, West Sussex
Sussex Manor Business Park
Gatwick Road
Crawley
RH10 9NH
Tel 01293 738530
crawley@loknstore.co.uk

Swindon, Wiltshire
Kembrey Street
Elgin Industrial Estate
Swindon
Wiltshire
SN2 8UY
Tel 01793 421234
swindoneast@loknstore.co.uk

Woking, Surrey
Marlborough Road
Woking
GU21 5JG
Tel 01483 378323
woking@loknstore.co.uk

Under development (managed stores)

Hemel Hempstead, Herts
Fortius Point
47 Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 7DE

Exeter, Devon
The former Auction Centre
Matford Park Road
Exeter
EX2 8FD

Ipswich, Suffolk
Plot 7A, Crane Boulevard
Futura Park
Ipswich
IP3 9QH

Dover, Kent
Honeywood Parkway
White Cliffs Business Park
Whitfield
Dover
CT16 3FJ

Shareholder Notes

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