Lok'n Store Group PLC - LOK Replacement: Preliminary Results
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29 October 2018

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Lok'nStore Group Plc

Preliminary results correction

In the Preliminary results released today at 07.00 under RNS Number 3853F the dividend record date stated in Note 8 should have referred to 30 November 2018, not 30 December 2018. In all other respects this morning's announcement remains unaffected and is reproduced below in corrected form in full:

LOK'NSTORE GROUP PLC
("Lok'nStore" or "the Group")

Preliminary results
for the year ended 31 July 2018

Lok'nStore Group Plc, a leading company in the UK self-storage market announces results for the year ended 31 July 2018.

Highlights of Lok'nStore Group plc results 2018

"Impressive growth and expanding new store opening programme"

Robust trading

- ✓ Group Revenue £17.75 million up 6.6 % (2017: £16.65 million)
- ✓ Group Adjusted EBITDA[1] £7.30 million up 12.3% (2017: £6.49 million)
- ✓ Operating Profit £5.71 million up 33.9% (2017: £4.26 million) after exceptionals[2]
- ✓ Profit before taxation £5.33 million up 34.3% (2017: £3.97 million)

Significant growth in asset value

- ✓ Adjusted Total Assets[3] up 18.2% to £181.4 million (2017: £153.5 million)
- ✓ Adjusted Net Asset Value[4] per share up 15.3% to £4.80 (2017: £4.16)

Cash flow drives 10.0% dividend increase – progressive dividend policy

- ✓ Annual dividend 11 pence per share up 10.0% (2017: 10 pence per share)

- ✓ Cash available for Distribution (CAD)[5] £5.60 million up 8.3% (2017: £5.17 million)
- ✓ CAD[5] per share up 7.5% to 19.4 pence (2017: 18.1 pence)

Strong balance sheet, efficient use of capital, conservative debt

- ✓ Net debt £32.3 million (2017: £17.4 million)
- ✓ Loan to value ratio[6] 19.7% (2017: 14.0%)
- ✓ Increased bank facility from £40 million to £50 million – runs until January 2023

13 stores in pipeline[7] to deliver further growth in revenue, profits and assets

- ✓ 3 new stores opened this year accounting for 29.2 pence of increase in NAV per share
- ✓ 3 new stores opening this coming financial year
- ✓ Plus 5 new sites secured
- ✓ Expanding pipeline of 13 new landmark stores
- ✓ Taking total to 42 stores once developed

For all of the definitions of the terms used in the highlights above refer to the notes section below.

Commenting on the Group's results, Andrew Jacobs CEO of Lok'nStore Group said,

"Lok'nStore Group has had an excellent year successfully implementing our strategic objectives. We have created a strong platform for an exciting period of growth for Lok'nStore with revenue, profits and asset values all moving ahead. Our adjusted net asset value per share has increased by a substantial 15.3% to £4.80 this year and we are raising the dividend by 10.0% to 11 pence per share."

"We have achieved a notable acceleration in our store pipeline to 13 sites which will increase operating space by 32.4% over the coming three years. This will add considerable momentum to sales and earnings growth. Lok'nStore's strong balance sheet and strategy of opening new landmark stores position the Group well for future growth."

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

In addition to IFRS accounting performance measures, we use some Alternative Performance Measures (APMs) to help us understand how the underlying business is performing. The following table identifies those measures and explains what we mean when we use them and importantly why we use them and what they tell you about our business and performance.

1. **Group Adjusted EBITDA** – **Earnings before interest, tax, depreciation and amortisation –** The 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, exceptional items, finance income, finance costs and taxation.

2. **Exceptional items –** refers to 'one-off' items of a non-operational nature which arose during the year and are unlikely to be recurring. (Refer Note 2(c) of the Financial Statements).

3. **Adjusted Total Assets –** The value of adjusted total assets of £181.4 million (2017: £153.5 million) is calculated by adding the independent valuation of the leasehold properties of £18.2 million (2017: £16.7 million) less their corresponding net book value (NBV) £2.7 million (2017: £2.9 million) to the total assets in the Statement of Financial Position of £165.9 million (2017: £139.7 million). This provides clarity on the significant value of the leasehold stores as trading businesses which under accounting rules on operating leases are only presented at their book values within the Statement of Financial Position.

4. **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. The calculation of the Net Asset Value per share is set out in the Financial Review.

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 ongoing net operating cash that can be used to pay dividends to shareholders. The calculation of the Cash available for Distribution is set out in the Financial Review.

6. **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 £32.3 million as set out in note 24(b) (2017: £17.4 million) as a percentage of the total properties independently valued by JLL and including development land assets totalling £162.8 million (2017: £124.8 million) as set out in the Financial Review.

7. **Pipeline sites** – means sites for new stores that we have either exchanged contracts on or have agreed heads of terms on and are now with our lawyers for completion. We now have 13 pipeline sites which include 9 secured and 4 sites which are currently with lawyers.

8. **Adjusted Store EBITDA** is Adjusted EBITDA (see 1 above) before the deduction of central and head office costs. This important information provides an insight into the underlying performance of the trading stores and shows the cash generating core of the business. Use of this metric enables us to provide additional information on store EBITDA contributions and the margins analysed between freehold and leasehold stores and according to the age of the stores. This analysis is set out in a table in the Chief Executive Officer's Review.

9. **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. The calculation of the Gearing percentage, also referred to as the net debt to equity ratio is set out in Note 16 of the Financial Statements.

10. **Group Adjusted EBITDAR** - EBITDAR is Earnings before interest, tax, depreciation amortisation and rent. The measure is designed to give clarity on the effect of the rent payable by leasehold stores and how its elimination enables an analytical comparison between freehold stores operating performance (which do not pay rent) and leasehold stores operating performance. This analysis is set out in a table in the Chief Executive Officer's Review.

11. **Cost Ratio -** calculates the ratio of the total operating costs of the business as set out in the Financial Review, expressed as a percentage of total group revenue (note 1a), giving a perspective on the cost efficiency of the business when compared to the cost ratio of the previous year.

Chairman's Statement

Last year we committed to a period of rapid and sustainable growth based on the strong platform we have built. It is my pleasure to introduce this year's results which show that we are fulfilling that commitment.

During the year we opened 3 new landmark stores which are all trading above expectations and have contributed to both the growth in turnover and the significant rise (15.3%) in our Adjusted Net Asset Value per share to £4.80 (2017: £4.16). Of this 64.4 pence increase, 29.2 pence was accounted for by the new store openings demonstrating the value creative capacity of our landmark store opening strategy. Our new store pipeline is 9 sites and we have 4 more progressing with our lawyers. Of these, 6 are scheduled to open in 2019 and 3 in 2020. This acceleration in new store openings is reflected in the increase in capital expenditure to £21.9 million this year up from £6.3 million last year (Refer note 10(b)). When these stores open they will add further to our profits and asset value.

The detail behind these results is discussed further in our Chief Executive's review and the Financial Review. For me the performance of Lok'nStore this year can be summarised under three headings:

- Strong operating performance resulting in an increase in turnover and profits
- Growing asset value driven by existing store performance and growth in new stores
- Many more stores under development and more acquisitions on the horizon

The increasing value of our assets is emphasised by further transactions in the market positively reflecting the demand for established self-storage assets, especially of the quality of our newly built stores. In their July 2018 Market Commentary Report JLL estimate, "there have been around €350m of self-storage transactions over the last 12 months in Europe" and note that they are "seeing a broad base of specialist self-storage investors, private equity and institutions looking to invest in the sector – with real appetite for scale of over £100m."

Managed Stores
Our growth strategy includes increasing the number of stores we manage for third party owners. This enables the Company to earn revenue without having to commit our capital, to amortise fixed central costs over a wider operating base and drive further traffic to our website which benefits our entire operation. Our current pipeline includes an additional 4 managed stores which will take the total number of managed stores to 12.

For the first time in these accounts (note 2(c)) we are recognising carried interest fee receivable of £361,000 relating to a managed store demonstrating the value of this strategy.

Committed People
None of these results are possible without the commitment of our members of staff who deserve our thanks and importantly our continued investment in them. This year we have provided over 5,000 hours of training via our Academy and you can read more about this in our corporate social responsibility report. We have also reviewed our pay levels to ensure that all of our employees are paid fairly and we continue to promote equity ownership to our staff via our Share Investment Plan and the granting of options.

We will continue to invest in our people because it makes business sense, directly contributing to our strategic and operational objectives which are to:

- Steadily increase cash available for distribution (CAD) per share enabling a predictable growth of the dividend from a strong asset base with conservative levels of debt
- Fill existing stores and improve pricing
- Acquire more sites to build new landmark stores
- Increase the number of stores we manage for third parties

Board Governance
In March 2018 the London Stock Exchange published AIM Notice 50 requiring companies to comply with a recognised corporate governance code. Your Board has decided to apply the Quoted Companies Alliance's (QCA) Corporate Governance code which takes a proportionate principle based approach to the application and reporting of good governance. We believe this code is appropriate to the size and nature of the Company. Please refer to the Corporate Governance sections of this report and our website for more information.

The composition of the Board is also my responsibility and once again this year I spent time reviewing the Board's configuration with our team. An account of this work is given under board performance and evaluation; it has reconfirmed to me that the current composition of your board continues to be in the best interest of Shareholders as a whole.

Progressive Dividend Policy
For the seventh consecutive year and in line with our stated aim to provide a predictable growth in dividend, we are proposing to increase the annual dividend pay-out by one penny. The Group will therefore pay a final dividend of 7.67 pence per share on 11 January 2019 following the payment of an interim dividend of 3.33 pence per share in June 2018 making a total annual dividend of 11 pence per share, up 10% from 10 pence last year.

I hope you enjoy reading this year's report and that you will feel as confident and optimistic as I do about the future of Lok'nStore Group plc.

Simon G Thomas
Chairman
26 October 2018

The Strategic Report

- The UK Self-Storage Market
- Our Business Model
- Our Strategic Objectives
- Chief Executive Officer's Review
- Property Review
- Financial Review
- Principal Risks and Uncertainties

The UK Self-Storage Market

The Self-Storage Association UK Annual Industry Survey 2018 reports that the UK Self-Storage industry is made up of about 1,505 sites offering 44.6 million square feet of space. It calculates an 8.8% increase in space used by customers in 2017.

Square Feet of Self Storage per head of Population UK Australia US 0.674 1.8 9.3	Annual Turnover of UK Self-Storage Industry £750m	Average Store Size 29,600 sq. ft.
2.4m sq. ft. of additional space used by customers in 2017	3% rise in occupancy across the industry in 2017	Only 42% of people have a reasonable or good awareness of self-storage

Market overview

As reported in the Self-Storage Association UK (SSA UK) Annual Industry Survey 2018 the UK self-storage market continues to grow but remains under-developed relative to Australia and the US. In the UK, there are an estimated 1,505 self-storage facilities providing approximately 44.6 million square feet of storage space. With a population of 65.2 million people in the UK this equates to only 0.7 square feet per person compared to 9.3 square feet per person in the USA and 1.8 square feet in Australia.

The structure of the UK industry is changing. When the industry first emerged companies were predominately single owner occupied sites often located in industrial areas but larger operators (defined as operators managing 10 or more sites), such as Lok'nStore, have recently been developing purpose built stores in retail facing locations offering customers a higher standard of product and service.

The main barriers to entry to the market remain the difficulty in finding and securing suitable sites as well as gaining the appropriate planning consents. As a result, according to the SSA UK, larger operators now own or manage around 30% of facilities which translates to 40% of market share in terms of revenue and space. Currently Lok'nStore is the 4th largest operator in the UK with 29 stores providing 1.4 million square feet of space.

Drivers of demand for self-storage

Demand for self-storage by both business and household customers is driven by a specific need based on changing circumstances as well as economic activity and business confidence.

For household customers their need is often linked to a life event where they will need space temporarily, for example to support a house sale, but increasingly householders are using storage on a semi-permanent basis to free up space at home or store belongings they don't have room for.

Business customers use self-storage for a variety of purposes including storage of goods, excess or seasonal stock, document archiving or storage of equipment and tools. Businesses tend to store for longer than household customers and take larger units, although they also take advantage of self-storage for temporary periods to support seasonal sales or office moves or refurbishments.

Lok'nStore's opportunity in the market

The Self-Storage Association UK (SSA UK) Annual Industry Survey 2018 notes that public awareness of and demand for self-storage is increasing. We know that on average customers chose a store within 5 miles of their home or business. With a pipeline of 9 secured stores and a further 4 stores progressing through the acquisitions process, Lok'nStore is well placed to attract these customers and add further momentum to the growth of our sales and profits.

Combining the Company's competitive strengths (recognised brand, excellent customer service, rigorous cost control) and the attractive market dynamics of the storage sector (growing sector, under supply, proven resilience during an economic downturn) with our strong balance sheet and flexible operating and ownership model (see our portfolio strategy on page 10), we believe Lok'nStore can take advantage of the opportunities presented and grow at a rapid rate without significantly increasing risk.

Our 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.

What we do	How we create value	Sharing value with our stakeholders
• Buy (or lease) prominent sites • Build (or refurbish) landmark, highly visible orange storage centres • Offer clean, dry, secure storage to business and household customers	• Take a flexible approach to site selection • Increase our asset base • Careful cost control • Managed pricing strategy • Earn fees from managing stores on behalf of others	Shareholders • High quality earnings • Growing NAV • Progressive dividend policy Customers • Easy to locate stores • Friendly and high level customer service • Wide range of storage solutions • Transparent and open contracts Our people • Development Opportunities through the Lok'nStore Academy • Uncapped store bonus scheme • Share ownership plans • Strong health and safety approach

Our Strategic Objectives

Our objectives	Achievements in 2018	Strategy in action
Steadily increase cash available for distribution (CAD) per share	Cash available for distribution (CAD) per share up 7.5% to 19.4 pence (2017:18.1 pence)	10% increase in annual dividend to 11 pence per share
Fill existing stores and improve pricing	We developed the customer journey giving customers the ability to find and respond to previous quotes with one click. We focussed on developing our teams' sales and customer service through the Lok'nStore Academy. These actions resulted in conversion of new enquiries improving by 1% over the year	Self-storage unit occupancy up 7.7% Self-storage pricing up 0.5%.
Acquire more sites to build new landmark stores	Gillingham and Wellingborough stores opening in the year. Both are in prominent retail locations with little established competition.	Acquired 5 sites
Increase the number of stores we manage for third parties	The Hemel Hempstead store opened during the year We are developing managed stores in Exeter, Dover, Gloucester and Ipswich and have 1 managed store site with lawyers.	4 managed stores in pipeline

Chief Executive Officer's Review

Lok'nStore Group has had an excellent year successfully implementing all of our strategic objectives. Revenue, profits and asset values have all moved ahead steadily. 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 three years.

Robust trading

Group revenue for the year was £17.75 million, up 6.6% year on year (2017: £16.65 million) driven by occupancy increases in both old and new stores. This revenue growth led to a 12.3% increase in Group Adjusted EBITDA. Tight control over operating costs leading to a 2% increase in self-storage margins has also contributed in pushing the Group's profits to record levels.

- ✓ Self-storage revenue £14.78 million up 5.6% (2017: £13.99 million)
- ✓ Adjusted Store EBITDA £8.42 million up 9.3 % (2017: £7.70 million)
- ✓ Unit occupancy up 7.7%
- ✓ Unit pricing up 0.5 %

With costs firmly under control revenue growth translates into healthy profit growth. Total adjusted store EBITDA in self-storage, a key performance indicator of profitability and cash flow of the business, increased 9.3% to £8.42 million (2017: £7.70 million). The overall adjusted EBITDA margin across all stores was nearly 2 percentage points higher at 57.0% (2017: 55.1%) with the adjusted Store EBITDA margins of the freehold stores at 64.1% (2017: 63.4%) and the leasehold stores at 44.1% (2017: 41.5%).

Over the course of the year unit occupancy rose by a healthy 7.7% and unit pricing increased 0.5%. Out of 29 stores open 15 were trading at above 70% occupancy. At the end of July 2018 33.9% of Lok'nStore's self-storage revenue was from business customers (2017: 33.5%) and 66.1% was from household customers, (2017: 66.5%). By number of customers 17.8% of our customers were business customers (2017: 18.1%) and 82.2% household customers (2017: 81.9%).

By the year-end we had 8 managed stores following the opening of the Hemel Hempstead store in November 2017.

The average unexpired term of the Group's operating leaseholds is approximately 11 years and 1 month as at 31 July 2018 (10 years and 8 months: 31 July 2017). The leaseholds produced 27.6% of the total store EBITDA in the year (2017: 28.5%).

In the table below we show how the performance of the stores varies between freehold and leasehold stores. Currently 67.2% of Lok'nStore owned trading space is freehold and 32.8% is leasehold. Inevitably the leaseholds trade on lower margins due the rent payable, but nevertheless the 44.1% margins achieved is substantial, and leads to a higher return on capital than the freehold stores which require much larger capital expenditure to buy the land and buildings. The freehold stores produce 72.4% of the store EBITDA and account for 88.8% of valuations (including secured pipeline stores).

When the secured pipeline is fully developed the freeholds will account for 55.8% of trading space, leaseholds will be 19.5% and managed stores 24.7%. This mix of tenures with their different risk and return characteristics provides strength in the balance sheet and opportunities to create value throughout the cycle, and is always driven solely by consideration of the operating business.

Portfolio Analysis and Performance Breakdown

						When fully Developed	
Portfolio Analysis and Performance Breakdown	**Number of stores**	**% of Valuation**	**% of Adjusted Store EBITDA**	**Adjusted Store EBITDA margin (%)**	**% lettable space**	**Number of Stores**	**Total % lettable space**
As at 31 July 2018					**Lok Owned**		
Freehold and long leasehold	14	78.6	72.4	64.1	67.2	19	55.8
Operating Leaseholds	7	11.2	27.6	44.1	32.8	7	19.5
Managed Stores	8	–	–	100	–	12	24.7
Total Stores Trading	**29**	–	–	–	–	**38**	–
Pipeline Stores							
Owned	5	10.2	–	–	–	–	–
Managed Stores	4	–	–	–	–	–	–
Total Self-Storage	**38**	**100**	**100**	**57.0**	**100**	**38**	**100**
Document Storage	2	–	–	–	–	2	–

In the table below we show how the performance breaks down between the age brackets of the stores. Clearly older stores have had time to fill up and produced a 67% EBITDAR profit (earnings before interest, tax, depreciation, amortisation and rent) margins. Over time as new stores goes through their life cycle they will progress towards the same margins as the fully established stores and add substantially to revenues and profits.

Operating Performance at a glance (Lok'nStore owned stores only)

Weeks Old	**Pipeline**	**Under 100**	**100 to 250**	**over 250**	**Total**
Year Ended 31 July 2018					
Sales £000		180	1,607	12,992	14,779
Stores Adjusted EBITDA £'000		(75.91)	1,025	7,471	8,420
EBITDA Margin (%)		**(42%)**	**64%**	**58%**	**57%**
Stores Adjusted EBITDAR £'000		(75.91)	1,025	8,662	9,611
EBITDAR Margin (%)		**(42%)**	**64%**	**67%**	**65%**
As at 31 July 2018 ('000 sq. ft.)					
Maximum Net Area	**300**	**105**	**111**	**915**	**1,432**
Freehold & Long Leasehold ('000 sq. ft.)	300	105	111	544	1,060
Short Leasehold ('000 sq. ft.)	–	–	–	372	372
Number Stores					
Freehold and Long Leasehold	5	2	2	10	19
Short Leasehold	–	–	–	7	7
Total Stores	**5**	**2**	**2**	**17**	**26**

Table covers Lok'nStore owned stores only
In respect of the Farnborough Store (>250 weeks) the total store revenue includes a £100,000 contribution receivable from Group Head Office.

Ancillary Sales
Ancillary sales which consist of boxes and packaging materials, insurance and other sales increased 4.0% (2017: 2.6%) over the year accounting for 11.0% of self-storage revenues (2017: 11.2%).

Serviced document storage revenue and profits up
- ✓ Revenue £2.38 million up 2.4% (2017: £2.33 million)
- ✓ Adjusted EBITDA £0.662 million up 23.7% (2017: £0.54 million) (after adjustment for Lok'nStore Management charges)

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.

Marketing

Store visibility remains pivotal to our marketing efforts. Our new landmark stores are located in highly prominent locations and we continually invest in new signage and lighting at our existing stores.

During the year our marketing efforts have continued to focus on the presentation of our buildings to attract passing traffic and internet marketing. With their prominent positions, distinctive design and bright orange elevations, our stores raise the profile of the Lok'nStore brand and generate a substantial 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, and engage the local community.

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 relatively large marketing budgets.

Pipeline of new stores

Against this background of ever improving operating performance we have invested £21.7 million in store development this year and we have now seen a rapid increase in our new store pipeline to 9 secured stores by the reporting date, which will take the total to 38 stores. These will all be purpose built landmark stores in highly prominent locations and will add substantially to the Group's capacity for revenue, profit and asset growth. We have 4 further store acquisitions progressing through the legal process.

When we break the speed of fill-up of our stores into their age groups, we see that over time the stores have filled up faster with the most recently opened stores filling fastest of all. We believe that this shows that the UK self-storage market is still in its infancy with low penetration and increased consumer awareness leading to faster fill. It also shows the strength of Lok'nStore's newly developed landmark store model.

Managed stores

Lok'nStore manages an increasing number of stores for third party owners. Under this model Lok'nStore provides a turnkey package for investors wishing to own the underlying self-storage assets. The investor supplies all the capital for the project which Lok'nStore manages. Lok'nStore will buy, build and operate the stores under the Lok'nStore brand and within our current management structure.

The operating expenses of the store are paid for by the third party out of the store revenue with Lok'nStore receiving various fees and performance bonuses. Lok'nStore has no costs directly associated with this function and no equity capital at risk. Therefore this activity generates an increasing return at minimal risk increasing the overall risk adjusted return of the Group as a whole.

Notable in this year's accounts (note 2(c)) is a carried interest receivable of £361,000 in relation to a management contract, over and above the £534,000 store management fees noted elsewhere. This is the first time the Group has recognised such a gain. As the number of managed stores increases rapidly over the coming years the revenue from them will rise commensurately.

Future

Lok'nStore Group has had an excellent year successfully implementing our strategic objectives. We have created a strong platform for an exciting period of growth for Lok'nStore with revenue, profits and asset values all moving ahead.

Against this background of a strong performance from our existing stores, we have also achieved a notable increase in our pipeline to 13 new stores. This will increase operating space by 32.4% over the coming three years, adding considerable momentum to sales and earnings growth.

Lok'nStore's strong operating performance and robust balance sheet underpin our strategy of new landmark store openings positioning the Group well for future growth.

Andrew Jacobs
Chief Executive Officer
26 October 2018

Property review

Store and portfolio strategy

In the self-storage industry each operating store is a profitable unit in its own right. Therefore our strategy is to continue to increase the number of stores we operate without stretching our balance sheet. The core focus of this strategy is the acquisition of highly prominent freehold locations in busy towns in Southern England where we will build well branded landmark stores.

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 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 store's development. We also consider selling established stores on sale and manage back contracts in order to recycle the capital and protect the balance sheet. Indeed some of our stores have been freehold, leasehold and managed stores during their operating life cycle! Our most important consideration is always the trading potential of the store rather than the property tenure.

Lok'nStore now operates 29 stores and 2 serviced document stores in Southern England. Of the 29 stores Lok'nStore owns the freehold or long leasehold interest in 14 stores, 7 stores are held under commercial leases with all of our leasehold stores 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 11 years and 1 month as at 31 July 2018.

A further 5 freehold stores are under development which will be owned by Lok'nStore.

Additionally we have 8 managed stores for third party owners and a further 4 managed stores under development. One of the features of Lok'nStore's strategy is to increase the number of stores we manage for third parties selling our expertise in storage solutions management, operating systems and marketing, leveraging our brand and skill rather than retaining a proprietary interest in the land. From a very low base Lok'nStore has grown this managed store revenue to around £0.5 million currently (up 27.3%) but with the pipeline of secured sites and further additional sites anticipated for the foreseeable future we expect this revenue stream to continue to grow strongly.

Management fees	**Group Year ended 31 July 2018 £**	Group Year ended 31 July 2017 £
Management fees	534,888	420,117
Total management fees	534,888	420,117

When this secured development pipeline of 9 sites has been completed Lok'nStore will operate from 38 stores and 2 serviced document stores, including 12 managed stores. In addition 4 further new store opportunities are progressing with lawyers.

The 9 secured pipeline sites represent a combination of owned and managed stores. These will add 465,000 sq. ft. of new capacity adding 39% to freehold trading space and 54% to the managed store portfolio delivering a 32% increase in overall trading space.

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 tenure is always driven by the requirements of the trading business.

Growth from new stores and more new stores to come

- ✓ Early trading at our new Hemel Hempstead, Gillingham and Wellingborough stores has been excellent
- ✓ Dover store to open December 2018
- ✓ Exeter store to open spring 2019
- ✓ Cardiff store to open spring 2019
- ✓ Ipswich store to open summer 2019

Acquisition of sites for new landmark stores – sites acquired during FY2018

✓ Bedford	- scheduled to open in 2020	55,000 sq.ft.
✓ Bournemouth	- scheduled to open in 2020	80,000 sq.ft.

✓ Cheshunt	- scheduled to open in 2020	60,000 sq.ft.
✓ Leicester	- scheduled to open end of 2019	60,000 sq.ft.
✓ Cardiff	- see above	

We have 4 more pipeline sites currently with lawyers.

Growing Store property assets and Net Asset Value

- ✓ Adjusted total assets now circa £181.4 million[3] (2017: £153.5 million) up 18.2% on last year
- ✓ Adjusted net asset value of £4.80 per share up 15.3% on last year (2017: £4.16 per share)

Lok'nStore has a strong and growing asset base. Our freehold and operating leasehold stores have been independently valued by Jones Lang LaSalle (JLL) at £146.2 million (Net Book Value (NBV) £55.4 million) as at 31 July 2018 (2017: £119.6 million: NBV £45.3 million). 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 £165.2 million (2017: £127.8 million). This translates into an adjusted net asset value of £4.80 per share up 15.3% on last year (2017: £4.16 per share).

The increase in the property values of properties which were also valued last year was 6.33% (2017: 6.14%).

Financial Review

Record financial results on all measures

- ✓ Group Revenue £17.75 million up 6.6 % (2017: £16.65 million)
- ✓ Group Adjusted EBITDA £7.30 million up 12.3% (2017: £6.49 million)
- ✓ Operating profit (before exceptional items[2]) £5.17 million up 16.9% (2017: £4.38 million)
- ✓ Operating profit (after exceptional items[2]) £5.71 million up 33.9% (2017: £4.26 million)

The Group has again delivered strong financial results.

Earnings per share
Basic earnings per share (EPS) were 13.05 pence up 18.4% (2017: 11.02 pence per share). Diluted EPS were 12.83 pence up 20.6% (2017: 10.64 pence per share). If 2018 figures are adjusted to eliminate the 2018 exceptional items of £0.59 million, the 2018 EPS is adjusted to 11.0 pence per share (2017: 11.43 pence per share) and the 2018 diluted EPS to 10.81 pence per share (2017: 11.03 pence per share).

Earnings per share (EPS)	**Year ended 31 July 2018 £'000**	Year ended 31 July 2017 £'000
Profit for the year	**3,757**	3,061
Exceptional (income) / costs	**(591)**	113
Adjusted earnings	**3,166**	3,174

	No. of shares	No. of shares
Weighted average number of shares		
For basic earnings per share	**28,792,029**	27,780,676
Dilutive effect of share options	**490,064**	999,657
For diluted earnings per share	**29,282,093**	27,780,333
Basic EPS (pence)	**13.05 p**	11.02 p
Diluted EPS (pence)	**12.83 p**	10.64 p

Purchase of treasury shares: The Group did not buy or sell 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[11] reduced to 57% (2017: 59%)

We have a strong record of reducing our Group operating costs each year. We cautioned in our 2017 year end results that although we maintain a disciplined approach to costs, continuing to reduce them is increasingly challenging while delivering an acceleration of our store opening programme.

Group operating costs amounted to £10.1 million for the period, a 2.7% increase year on year (2017: £9.84 million) which derived from higher aggregate costs as we opened new landmark stores. We are also spending more on internet marketing. Nevertheless our tight discipline on costs has enabled us to reduce our cost ratio by 2.0% points to 57%.

In respect of property costs which mainly constitute rent and rates we had in the previous year felt the effects of higher rates bills as we opened our new landmark stores and had incurred rates on a development site. We have now negotiated rate reductions on these stores resulting in an overall cost reduction this year in property costs. Rents have remained broadly static but overall are lower in this period as the closure of a store has eliminated rent costs (2017: £70,944). Utility costs are lower as a result of a renegotiation of our energy tariffs. Overall property costs are down 3.2%.

Staff costs increased by 6.6% as we staffed the new stores and paid performance bonuses to all our store staff for exceptional sales growth. We also incurred additional national insurance costs arising on the exercise of employee share options.

The principal increase in overhead costs have been driven by a higher level of legal and professional costs due to work on rent reviews, business rate reductions and abortive costs arising on prospective store acquisitions that did not proceed.

Overall the cost increases are driven by the expansion of the business and we are seeing little other cost pressures. Significantly, if we exclude the costs of the new stores overall costs increased by a modest 1.4% compared to last year.

Group	Increase/ (Decrease) in costs %	**2018 £'000**	2017 £'000
Property costs	(3.2)	**4,043**	4,179
Staff costs	6.6	**4,681**	4,389
Overheads	10.6	**1,214**	1,098
Distribution costs	(2.9)	**166**	171
Total	2.7%	**10,104**	9,837

Strong balance sheet, efficient use of capital, conservative level of debt

- ✓ Increase in £40 million Bank facility to £50 million on same terms
- ✓ £21.7 million invested in new store pipeline
- ✓ Net debt £32.3 million (2017: £17.4 million)
- ✓ Loan to value ratio (LTV) 19.7% (2017: 14.0%)
- ✓ Cost of debt averaged 1.85% in the year on £32.3 million drawn (2017: 1.66%)

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. Its increased bank facilities at low rates of interest position the business for new store development.

Increase in £40 million Banking Facility to £50 million

Following the agreement of a two year extension on its existing banking facility with Royal Bank of Scotland last year, the Group has now agreed an increase in its £40 million facility to £50 million which 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 increase in the facility size.

Management of interest rate risk

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 relatively low level of indebtedness, low Loan to Value ratio and high interest cover, combined with the wider uncertainties within the economy, 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 2018 the Group had cash balances of £5.0 million (2017: £11.4 million). Cash inflow from operating activities before investing and financing activities was £7.0 million (2017: £5.5 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a revolving credit facility which runs to 2023. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £12.7 million (2017: £11.2 million).

Gearing

At year end there was £37.3 million of gross borrowings (2017: £28.8 million) representing gearing of 31.3 % (2017: 19.6%) on net debt of £32.3 million (2017: £17.4 million) Refer note 16 – Capital management. 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 Jones Lang LaSalle (JLL) valuation, gearing drops to 27.2% (2017: 16.9%). If the deferred tax liability carried at year-end of £19.7 million (2017: £16.4 million) is excluded gearing drops further to 23.4% (2016: 14.6%).

Strong cash flow supports 10.0% dividend increase

- ✓ Annual dividend 11 pence per share up 10.0% (2017: 10 pence per share)
- ✓ Cash available for Distribution (CAD) from operations £5.60 million up 8.3% (2017: £5.17 million)
- ✓ Cash available for Distribution (CAD) of 19.4 pence per share (2017: 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)

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Group Adjusted EBITDA (per Statement of Comprehensive Income)	**7,295**	6,493
Less: Net finance costs[1]	**(537)**	(297)
Capitalised maintenance expenses	**(80)**	(90)

New Works Team	**(149)**	(138)
Current tax (note 7)	**(924)**	(792)
Total deductions	**(1,690)**	(1,317)
Cash Available for Distribution	**5,605**	5,176
Increase in CAD over last year	**8.3%**	
	Number	Number
Closing shares in issue (less shares held in EBT)	**28,875,403**	28,679,711
CAD per share	**19.4p**	18.1p

[1] Net finance costs represent finance costs paid per the cash flow statement of £0.42 million less bank interest received of £0.08 million adjusted for capitalised interest of £0.2 million to give the true cash flow effect.

Total CAD has increased by 8.3% as a result of higher EBITDA profit and despite a higher net finance charge due to the repayment of the development loan in November 2017. Interest received in the year relating to this loan was £62,500 (2017: £250,000).

Capital expenditure and capital commitments

The Group has grown through a combination of new site acquisition, existing store improvements and relocations. Capital expenditure during the year totalled £21.74 million (2017: £6.63 million). This was primarily the completion of construction works at our development sites in Gillingham and Wellingborough which are now open and trading as well as completing the acquisition of our Bournemouth, Bedford, Cardiff, Cheshunt, Gloucester and Ipswich sites. £0.2 million (2017: nil) of interest was capitalised against development assets.

The Group has capital expenditure contracted but not provided for in the financial statements of £3.4 million (2017: £2.6 million).

Statement of Financial Position

Net assets at the year-end were £103.3 million up 15.9% (2017: £89.1 million). Freehold and long leasehold properties were independently valued at 31 July 2018 at £128.0 million up 24.4% (2017: £102.9 million). Refer to the table of property values below.

Review of distributable reserves and rectification of prior dividends (the Relevant Dividends)

The Board has become aware of certain technical issues relating to the levels of distributable reserves within the Lok'nStore Group and the payment of interim and final dividends by Lok'nStore Group plc to our shareholders during the period from 2013 to 2016 ('the Relevant Dividends').

Lok'nStore's Group structure is that almost all of the self-storage operations and assets and cash sit within the principal operating subsidiary Lok'nStore Limited. Lok'nStore Group plc is of itself a non-trading holding company. Throughout this period at all relevant times, the Group had adequate distributable reserves in subsidiary companies to enable payment of the Relevant Dividends, and each year payment of the final dividends was approved by the Company's shareholders at its annual general meeting.

However, a review of historical intra-group transactions revealed that internal dividends were not paid up from Lok'nStore Limited through the Group structure to Lok'nStore Group plc in the period from 2013 to 2016 and thereby did not create distributable reserves in Lok'nStore Group plc in the manner that had been intended. As a consequence, the Relevant Dividends paid by Lok'nStore Group plc were not paid out of distributable reserves and were therefore not paid in accordance with the Companies Act 2006.

We are undertaking a series of procedural steps in order to rectify this issue and put the Company and its subsidiaries, in the position that was originally intended with respect to the creation of distributable reserves in Lok'nStore Group plc.

We will put a resolution to shareholders at the forthcoming Annual General meeting to be held on 11 December 2018 which, if passed, would put all potentially affected parties, in so far as possible, in the position they would be had the Relevant Dividends been paid in accordance with the requirements of the Companies Act 2006. Full details will be included in the circular and notice of general meeting to be sent to shareholders.

Taxation

The Group will pay tax on its earnings and has made a tax provision of £0.92 million (2017: £0.79 million), an effective tax rate of 17.4% (2017: 20%). The deferred tax provision 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 and amounts to £19.7 million (2017: £16.4 million) See note 18.

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 financial year-end.

Our thirteen 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 10(b) – 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 £18.2 million (2017: £16.7 million) 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. It is not the intention of the Directors to make any 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 store 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 2018 Valuation £**	No of stores/sites	31 July 2017 Valuation £
Freehold & Long Leasehold valued by JLL[1]	**14**	**128,000,000**	12	102,900,000
Short Leasehold valued by JLL[2]	**7**	**18,200,000**	7	16,725,000
Freehold land and buildings at Director valuation [3]	**1**	**3,603,013**	1	4,195,479
Subtotal	**22**	**149,803,013**	20	123,820,479
Sites in development at cost[4]	**7**	**16,568,961**	2	5,124,567
Total	**29**	**166,371,974**	22	128,945,046

1 Includes related fixtures and fittings (refer to 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 11 years and 1 month at the date of the 2018 valuation (2017 valuation: 10 years and 8 months).

3 For more details refer note 10b - Directors valuation

4 Includes £114,507 of capitalised interest

Total freeholds and long leasehold account for 89.1% of property valuations (2017: 87.0%).

Significant increase in Adjusted Net Asset Value per Share

- ✓ **Adjusted Net Asset Value per share up 15.3% to £4.80 (2017: £4.16)**

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 2018 the adjusted net asset value per share (before deferred tax) increased 15.3% to £4.80 from £4.16 last year. This increase is a result of higher existing property values as well as the maiden valuations of our new stores 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 during the year.

Analysis of net asset value (NAV)	**Group 31 July 2018 £'000**	Group 31 July 2017 £'000
Net assets	**103,251**	89,119
Adjustment to include operating/short leasehold stores at valuation		
Add: JLL operating leasehold valuation	**18,200**	16,725
Deduct: leasehold properties and their fixtures and fittings at NBV	**(2,691)**	(2,878)
	118,760	102,966
Deferred tax arising on revaluation of leasehold properties[1]	**(2,636)**	(2,354)
Adjusted net assets	**116,124**	100,612
Shares in issue	**Number ('000s)**	Number ('000s)
Opening shares in issue	**29,303**	29,109
Shares issued for the exercise of options	**196**	194
Closing shares in issue	**29,499**	29,303
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**28,876**	28,680
Adjusted net asset value per share after deferred tax provision	**£4.02**	£3.51

Adjusted net asset value per share before deferred tax provision

Adjusted net assets	**116,124**	100,612
Deferred tax liabilities and assets recognised by the Group	**19,735**	16,363
Deferred tax arising on revaluation of leasehold properties[1]	**2,636**	2,354
Adjusted net assets before deferred tax	**138,495**	119,329
Closing shares for NAV purposes	**28,876**	28,680
Adjusted net asset value per share before deferred tax provision	**£4.80**	£4.16

[1] A deferred tax adjustment in respect of the uplift in the value of the leasehold properties has been included, calculated by applying a tax rate of 17% (2017: 17%). 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

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 Gillingham and Wellingborough and our strong pipeline of more landmark stores demonstrate the Group's ability to use those strengths to exploit the opportunities available.

IFRS update:

IFRS 16 *Leases*

Although not relevant for the year under review (or the next) when applied IFRS 16 will represent a significant change to the way that the Group will prepare its financial statements. The effective date of adoption is for accounting periods commencing after 1 January 2019 and will therefore apply to Lok'nStore's financial statements for the year ended 31 July 2020.

Nevertheless it is important now to give the users of our financial statements sufficient overview of the effects of IFRS 16 on the profit and loss, balance sheet, financial performance and cash flows of the Group as a significant lessee in respect of our leased stores.

IFRS 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts.

The Statement of Profit or Loss: will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, the rent operating expense currently reported in these financial statements at £1.44 million (2017: £1.49 million) will be replaced with interest and depreciation as a consequence of the 'capitalisation effect' of the leases, so the Group's key metric of Adjusted EBITDA will increase significantly by the removal of the rent expense from the operating profit and loss. Other performance measures including Operating Profit will also increase although reported interest and depreciation will be higher.

The Consolidated Statement of Cash Flows: While overall underlying cash flow is unaffected by the changes the presentation within the Consolidated Statement of Cash Flows will change. Reported operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The Statement of Financial Position: The Group's operating leases on its leased stores will be recognised as a 'right of use asset' and as a corresponding liability at the year–end. Each lease payment is allocated between the liability and finance cost. The finance costs are charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining liability for the period. The right-of-use asset is depreciated over the lease term on a straight line basis. Assets and liabilities arising from a lease will initially be measured on a present value basis which will include the fixed rental payments less any lease incentives receivable. If the interest rate implicit in the lease cannot be readily determined the lease payments will be discounted by the Group's incremental borrowing rate (cost of debt) to obtain an asset of similar value over a similar term with similar security. Right of use assets will be measured at cost comprising the initial measurement of the lease liability plus any initial direct costs (if any). The Groups current operating lease commitments are reported in note 25.

The effect on financial ratios such as gearing or leverage will be to cause them to rise as the lease liability now forms part of net debt.

Principal Risks and Uncertainties:

Principal Risks and Uncertainties in operating our Business

Risk management has been a fundamental part of the successful development of Lok'nStore. The process is designed to improve the probability of achieving our strategic objectives, keeping our employees safe, protecting the interests of our shareholders and key stakeholders, and enhancing the quality of our decision-making through understanding the risks inherent in both the day-to-day operations and the strategic direction of the Group as well as their likely impact.

Management of our risks helps us protect our reputation which is very important to the ability of the Group to attract customers, particularly with the growth of social media. 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. We operate strict Health and Safety policies and procedures and more information on these can be found in our annual report.

Our Risk Management Governance

The Board has overall responsibility for the management of the Group's risks. As the Group's strategic direction is reviewed and agreed the Board identifies the associated risks and works to reduce or mitigate them using an established risk management framework in conjunction with the executive management team. This is a continuing and evolving process as we review and monitor the underlying risk elements relevant to the business.

Risk Management Framework

The risk register covers all areas of the business including property, finance, employees, insurance, customers, strategy, governance and disaster recovery. The risks are categorised by risk area and rated based on a combination of 'likelihood' and 'consequences and impact' on the business. The combination of these two becomes the 'risk factor' and any factor with a rating over 15 is reported to the Board.

Risk Management Team

Ray Davies, Group Finance Director, is the Board member responsible for ensuring that the risk management and related control systems are effective and that the communication channels between the Board and the Executive Management team are open and working correctly. The Executive Management Team is responsible for the day to day management of the risk factors. Responsibility for identifying, managing and controlling the risk is assigned to an individual as shown on the risk register depending on the business area. Reporting against the risks forms part of the monthly executive management meeting and the risk factor may be amended if applicable. There are also sub-committees for particular risk areas which meet regularly. The Risk Management and Reporting Structure is shown below.

Our Risk Management and Reporting Structure

<table>
<tr><td colspan="2">The Board</td></tr>
<tr><td colspan="2">Reviews Risk Register in full twice a year
Considers specific risk areas as raised by the Executive Board</td></tr>
<tr><td colspan="2">Executive Board Committee</td></tr>
<tr><td colspan="2">Reviews risks at monthly executive management meetings and if material requests for the Board to consider risk at next scheduled Board Meeting (or earlier if necessary)</td></tr>
<tr><td>Capex Committee</td><td>Property Risk Committee</td></tr>
<tr><td>Meets Monthly
Manages proposed capital expenditure, actual spend, rolling capex requirements</td><td>Meets Quarterly
Considers:
Risks associated with properties including Health & Safety
Environmental Impact</td></tr>
</table>

Principal Risks
The principal risks our business faces and our key mitigations are outlined in the table below.

Risk	Description	Key mitigation
Interest Rate and Liquidity Risk	The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk (for details please see note 16, page 40).	▪ Regular review by the Board (full details are set out in the Financial Review, page 12).
Tax Risk	Changes to tax legislation may impact the level of corporation tax, capital gains tax, VAT and stamp duty land tax which would in turn affect the profits of the company.	▪ Regular monitoring of changes in legislation. ▪ Use of appointed professional advisers and trade bodies.
Property Acquisition	Acquiring new sites is a key strategic objective of the business but we face significant competition from other uses such as hotels, car showrooms and offices as well as from other self-storage operators.	▪ We hold weekly property meetings to manage the search process and property purchases. ▪ Use of property acquisition consultants. ▪ Regular communication with agents. ▪ Attendance at industry relevant property events.
Planning Permission	The process of gaining planning permissions remains challenging.	▪ Where we can we acquire sites subject to planning. ▪ We work with an established external planning consultant. ▪ Our property team has over 20 years' experience.
Construction	Poor construction may affect the value of the property and/ or the efficient operation of the centre.	▪ We use a design and build contract with a variety of established contractors. ▪ We use external project managers. ▪ All projects are overseen by our property team which has over 20 years' experience.
Maintenance/Damage	Damage to properties through poor maintenance or flood or fire could render a centre inoperable.	▪ Regular site checks by staff. ▪ Rolling maintenance plan for all stores. ▪ Comprehensive disaster recovery plan. ▪ Appropriate Insurance cover.
Increased Competition	An increasing number of competitors in the industry may negatively impact Lok'nStore's existing operations. (e.g. pricing / available sites)	▪ Established criteria for site selection including: o Prominent locations o High visibility o Distinctive designs and bright orange elevations and strong signage to attract customers ▪ Continued investment in internet marketing. ▪ Ensure high levels of customer service through training & monitoring.
Employee Retention	Loss of employees may affect our ability to operate our stores and provide the high levels of customer service expected.	▪ Agreed aim to offer a good work/life balance and career development. ▪ Regular reviews of remuneration levels against market. ▪ Achievable bonus systems. ▪ Generous Employee Share Schemes. ▪ High quality training via Lok'nStore Academy. ▪ New Intranet for improved communications. ▪ Established Employee rewards program.
IT System Breach	A breach of our IT systems might adversely affect the operations of the business and our reputation.	▪ Strong and regularly reviewed IT security systems. ▪ Well communicated policies and procedures for handling and managing a systems breach.

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2018

	Notes	**Group Year ended 31 July 2018 £'000**	Group Year ended 31 July 2017 £'000
Revenue	1(a)	**17,754**	16,654
Total property, staff, distribution and general costs	2(a)	**(10,459)**	(10,161)
Adjusted EBITDA[1]		**7,295**	6,493
Amortisation of intangible assets	10(a)	**(165)**	(165)
Depreciation	10(b)	**(1,980)**	(1,856)
Equity settled share based payments	21	**(33)**	(97)
Carried interest - fees receivable	2(c)	**361**	–
Receivables from warranty claims	2(c)	**230**	–
Property disposal costs	2(c)	**–**	(15)
Store relocation costs	2(c)	**–**	(29)
Director retirement costs	2(c)	**–**	(69)
		(1,587)	(2,231)
Operating profit[1]		**5,708**	4,262
Finance income	3	**80**	309
Finance cost	4	**(463)**	(606)
Profit before taxation	5	**5,325**	3,965
Income tax expense	7	**(1,568)**	(904)
Profit for the year		**3,757**	3,061
Profit attributable to:			
Owners of the parent	22	**3,757**	3,061
Other Comprehensive Income			
Items that will not be reclassified to profit and loss;			
Increase in property valuation		**15,723**	7,772
Deferred tax relating to change in property valuation		**(2,698)**	(932)
		13,025	6,840
Items that may be subsequently reclassified to profit and loss;			
Increase in fair value of cash flow hedges		**–**	37
		–	37
Other comprehensive income		**13,025**	6,877
Total comprehensive income for the year		**16,782**	9,938
Attributable to owners of the parent		**16,782**	9,938
Earnings per share			
Basic	9	**13.05p**	11.02p
Diluted	9	**12.83p**	10.64p

[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 2018

	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 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 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 dep'n on revaluation net of deferred tax	–	–	–	(277)	277	**–**
31 July 2017	**293**	**10,028**	**8,469**	**52,165**	**18,164**	**89,119**
Profit for the year	–	–	–	–	3,757	**3,757**
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	13,025	–	**13,025**
Total comprehensive income for the year	–	–	–	13,025	3,757	**16,782**
Transactions with owners:						
Dividend paid	–	–	–	–	(2,977)	**(2,977)**
Share based payments	–	–	33	–	–	**33**
Transfers in relation to share based payments	–	–	(109)	–	109	**–**
Deferred tax relating to share options	–	–	(30)	–	–	**(30)**
Exercise of share options	2	322	–	–	–	**324**
Total transactions with owners	2	322	(106)	–	(2,868)	**(2,650)**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(291)	291	**–**
31 July 2018	**295**	**10,350**	**8,363**	**64,899**	**19,344**	**103,251**

Company Statement of Changes in Equity

For the year ended 31 July 2018

	Share capital £'000	Share premium £'000	Retained reserves (deficit) £'000	Other reserves £'000	Total £'000
1 August 2016	**291**	**3,567**	**117**	**1,961**	**5,936**
1 August 2016 - restated	**291**	**3,567**	**(3,624)**	**1,961**	**2,195**
Profit for the year	–	–	5,547	–	**5,547**
Share based payments	–	–	–	97	**97**
Transfer in relation to share based payments	–	–	139	(139)	**–**
Disposal of treasury shares - restated	–	–	3,741	–	**3,741**
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**
Profit for the year	–	–	3,572	–	**3,572**
Equity settled share based payments	–	–	–	33	**33**
Transfer in relation to share based payments	–	–	109	(109)	**–**
Exercise of share options	2	322	–	–	**324**
Dividends paid	–	–	(2,977)	–	**(2,977)**
31 July 2018	**295**	**10,350**	**3,870**	**1,843**	**16,358**

Consolidated and Company Statements of Financial Position

31 July 2018 — Company Registration No. 04007169

	Notes	**Group 2018 £'000**	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
Assets					
Non-current assets					
Intangible assets	10(a)	**3,263**	3,428	**–**	–
Property, plant and equipment	10(b)	**152,580**	116,901	**–**	–
Investments	11	**–**	–	**2,418**	2,385
Development loan capital	12	**–**	3,463	**–**	–
Financial assets	2(c)[1]	**361**	**–**	**–**	–
		156,204	123,792	**2,418**	2,385
Current assets					
Inventories	13	**257**	203	**–**	–
Trade and other receivables	14	**4,476**	4,266	**13,940**	13,021
Cash and cash equivalents	16	**4,990**	11,386	**–**	–
Total current assets		**9,723**	15,855	**13,940**	13,021
Total assets		**165,927**	139,647	**16,358**	15,406
Liabilities					
Current liabilities					
Trade and other payables	15	**(5,159)**	(5,032)	**–**	–
Current tax liabilities		**(612)**	(463)	**–**	–
		(5,771)	(5,495)	**–**	–
Non-current liabilities					
Borrowings	17	**(37,170)**	(28,670)	**–**	–
Deferred tax	18	**(19,735)**	(16,363)	**–**	–
		(56,905)	(45,033)	**–**	–
Total liabilities		**(62,676)**	(50,528)		–
Net assets		**103,251**	89,119	**16,358**	15,406
Equity attributable to owners of the parent					
Called up share capital	19	**295**	293	**295**	293
Share premium		**10,350**	10,028	**10,350**	10,028
Other reserves	21(a)	**8,363**	8,469	**1,843**	1,919
Retained earnings	22	**19,344**	18,164	**3,870**	3,166
Revaluation reserve		**64,899**	52,165	**–**	–
Total equity attributable to owners of the parent		**103,251**	89,119	**16,358**	15,406

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 and comprehensive income for the year ended 31 July 2018 was £3.6 million (2017: £5.5 million).

Approved by the Board of Directors and authorised for issue on 26 October 2018 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 2018

	Notes	Group 2018 £'000	Group 2017 £'000
Operating activities			
Cash generated from operations	24(a)	**6,982**	5,523
Income tax paid		**(775)**	(502)
Net cash generated from operations		**6,207**	5,021
Investing activities			
Development loan capital repaid / invested		**3,463**	(304)
Purchase of property, plant and equipment		**(21,935)**	(6,628)
Proceeds from warranty claims		**342**	–
Interest received		**80**	25
Net cash outflow from investing activities		**(18,050)**	(6,907)
Financing activities			
Proceeds from new borrowings		**8,519**	–
Loans repaid from projects under management contracts		**–**	944
Finance costs paid		**(419)**	(574)
Equity dividends paid		**(2,977)**	(2,637)
Proceeds from issue of ordinary shares (net)		**324**	313
Proceeds from sale of shares from treasury (net of expenses)		**–**	9,891
Net cash inflow from financing activities		**5,447**	7,937
Net (decrease) / increase in cash and cash equivalents in the year		**(6,396)**	6,051
Cash and cash equivalents at beginning of the year		**11,386**	5,335
Cash and cash equivalents at end of the year		**4,990**	11,386

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

Accounting Policies

General Information
Lok'nStore Group plc is an AIM listed company incorporated and domiciled in England and Wales. The address of the registered office is One 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. The principal activities of the Group are described in the Strategic Report.

Basis of accounting
The preliminary financial information does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 but is derived from statutory accounts for the years ended 31 July 2018 and 31 July 2017, both of which are audited. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year ended 31 July 2018. While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), this announcement does not in itself contain sufficient information to comply with IFRSs.

The statutory accounts for the year ended 31 July 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting and can be obtained from the investor section of the Company's website at http://www.loknstore.co.uk.

Statutory accounts for the year ended 31 July 2017 have been filed with the Registrar of Companies. The auditor's report for the year ended 31 July 2018 was unqualified, did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.
Standards adopted in the year
Amendments to IAS 7 Disclosure Initiative (issued in January 2016 requires entities to provide information that enables users of financial statements to evaluate changes in liabilities arising from the entity's financing activities. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures where appropriate.

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

Standards, interpretations and amendments ***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

Standards, interpretations and amendments ***Not Yet Endorsed***		**Effective date: Periods commencing on or after**
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, although the Group will not be adopting the Standard until its year ended 31 July 2020 the Directors consider that this will have a significant impact on the financial statements of the Group at that time and have provided an initial overview of the impact on the 2020 financial statements which is set out on in this report.

There were no other Standards or Interpretations issued 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 (and 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.

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 £5.0 million (2017: £11.4 million), undrawn committed bank facilities at 31 July 2018 of £12.7 million (2017: £11.2 million), and cash generated from operations in the year ended 31 July 2018 of £7.0 million (2017: £5.5 million).

Following the agreement last year of a two-year extension to its facilities with Royal Bank of Scotland on equivalent terms, the Group can continue to operate its £50 million revolving credit facility with RBS plc for a further 5 years. The facility has been in place since 15 January 2016 and will 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.

Critical accounting estimates and judgements

The preparation of 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 commissions an external valuation of its self-storage stores. This valuation uses 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 £108.5 million (2017: £87.5 million) as shown in the table in note 10(b).

b) Assets in the course of construction and land held for 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 £16.6 million (2017: £5.1 million). Please see note 10b for more details.

c) Estimate of useful lives of intangible assets acquired in business combination

The relative size of the Group's intangible assets excluding goodwill make the estimates of useful lives important to the Group's financial position and performance. At 31 July 2018 intangible assets, excluding goodwill, amounted to £2.15 million (2017: £2.32 million). The valuation method used and key assumptions are described in note 10a.

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The estimated useful life of customer relationships principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. Typically the customer base for a serviced archive business is relatively inert.

Corporate customers do not tend to switch service providers and indeed they incur charges should they do so. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

d) Classification of self-storage facilities as owner occupied properties rather than investment properties.
The Directors consider that Lok'nStore Group Plc is the parent company of a "Trading business" and is not wholly or mainly engaged in making investments. The holding of land is not a core activity.

The Group is an integrated storage solutions business offering a range of services to its customers. We provide services to our customers under contracts for the provision of storage services which do not give them any property or tenancy rights and a large number of the stores we operate are from properties where we do not own the land or the buildings. The assets we do own are valued on the basis of the trading cash flows that the operating businesses generate.

The range of services provided to customers has increased progressively with significant revenue earned from records management and serviced archive activities. Additionally, the Group has developed its managed stores business where it uses its operational and logistic expertise to manage stores for third party owners. In recent years the Group has developed new managed stores in Aldershot, Broadstairs, Chichester, Crawley and Hemel Hempstead all of which are owned by third-party investors and managed by Lok'nStore. There is a further pipeline of 4 managed stores which will open next year.

Previously owned sites at Woking, Ashford and Swindon have been the subject of sale and manage-back transactions by which Lok'nStore has retained the management of the business when a third party owner acquired the business, land and buildings. All of this trading activity as well as the self-storage income earned from our leasehold stores activity demonstrate that the holding of land is not a core activity because the trading operation is not dependent on the ownership of land.

Furthermore the Group has always and continues to comply with all of the usual accounting and tax protocols consistent with a trading business. Lok'nStore operates 29 stores and 2 serviced document stores in Southern England. Of the 29 stores, Lok'nStore owns the freehold or long leasehold interest in 14 stores, 7 of the stores are held under commercial leases, with the remaining 8 managed stores operating under management contracts for third party owners. One of the features of Lok'nStore's strategy is to increase the number of stores we manage for third parties selling our expertise in storage solutions management, operating systems and marketing, through management fees rather than retaining a proprietary interest in land and buildings.

The classification of self-storage facilities as owner occupied properties rather than investment properties has resulted in the recognition of fair value gains in 2018 (net deferred of tax) of £13.0 million (2017: £6.84 million) in Other Comprehensive Income rather than the Income Statement.

1(a) Revenue

Analysis of the Group's revenue is shown below:

	Group 2018 £'000	Group 2017 £'000
Self-storage		
Self-storage revenue	**13,094**	12,343
Other storage related revenue	**1,585**	1,550
Total self-storage revenue	**14,679**	13,893
Ancillary revenue	**159**	14
Management fees	**534**	420
Sub-total	**15,372**	14,327
Serviced archive & records management revenue	**2,382**	2,327
Total revenue per statement of comprehensive income	**17,754**	16,654

1(b) Segmental information

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

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

The segment information for the year ended 31 July 2018 is as follows:

2018	Self-storage 2018 £'000	Serviced archive & records management 2018 £'000	**Total 2018 £'000**
Revenue from external customers	15,372	2,382	**17,754**
Adjusted EBITDA	6,608	687	**7,295**
Management charges	25	(25)	**–**
Segment Adjusted EBITDA	6,633	662	**7,295**
Depreciation	(1,880)	(100)	**(1,980)**
Amortisation of intangible assets	–	(165)	**(165)**
Equity settled share based payments	(33)	–	**(33)**
Carried interest - fees receivable	361	–	**361**
Receipts from warranty claims	–	230	**230**
Segment operating profit per the income statement	5,081	627	**5,708**
Central costs not allocated to segments:			
Finance income			**80**
Finance costs			**(463)**
Profit before taxation			**5,325**
Income tax expense			**(1,568)**

Consolidated profit for the financial year	**3,757**

The segment information for the year ended 31 July 2017 is as follows:

2017	Self-storage 2017 £'000	Serviced archive & 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

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 500 customers has a greater customer concentration with its ten largest corporate customers accounting for 33.6% (2017: 34.4%) of revenue, its top 50 customers accounting for 60.0% (2017: 61.1%) and its top 100 customers accounting for 74.5 % (2017: 76.2%) of revenue. The self-storage segment with over 10,600 (2017: 9,670) 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.

2018	Self-storage 2018 £'000	Serviced archive & records management 2018 £'000	**Total 2018 £'000**
Segment assets	158,843	5,978	**164,821**
Segment liabilities	(23,780)	(620)	**(24,400)**
Borrowings			**(37,170)**
Total liabilities			**(61,570)**
Capital expenditure (note 10b).	21,906	29	**21,935**

2017	Self-storage 2017 £'000	Serviced archive & 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

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.

2(a) Property, staff, distribution and general costs

	Group 2018 £'000	Group 2017 £'000
Property and premises costs	**4,043**	4,179
Staff costs	**4,681**	4,389
General overheads	**1,214**	1,098
Distribution costs	**166**	171
Retail products cost of sales (see note 2b)	**355**	324
	10,459	10,161

2(b) 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 2018 £'000	Group 2017 £'000
Retail	**116**	128
Insurance	**45**	37
Other	**20**	2
	181	167
Serviced archive consumables and direct costs	**174**	157
	355	324

2(c) Other Income and costs

	Group 2018 £'000	Group 2017 £'000
Carried interest - fees receivable[1]	**(361)**	–
Receipts from warranty claims [2]	**(230)**	–
Property disposal costs[3]	**–**	15
Store relocation costs[4]	**–**	29
Director retirement costs[5]	**–**	69
	(591)	113

2018:

1 Carried interest Fees receivable:

Upon the sale of one of the 'Managed stores' Lok'nStore will be 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 have in previous years believed that it would not yet be appropriate to recognise this as an asset, on the basis that it could not be reliably measured. However 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. Accordingly, the directors have given due consideration as to the current fair value of the Carried interest - fee receivable and have recognised £361,460 as a non- current financial asset in the financial statements.

2 Receipts from warranty claims relates to receipts due and payable under a mediated settlement agreement.

2017:

3 Property disposal costs relate to the closure and surrender of the lease on Unit 4 Leatherhead site and the consolidation of its warehouse capacity into Unit 6 Leatherhead.

4 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.

5 Directors retirement costs relate to the retirement of CM Jacobs on 4 July 2017

3 Finance income

	Group 2018 £'000	Group 2017 £'000
Bank interest	**7**	25
Other interest	**73**	284
	80	309

Interest receivable arises on cash and cash equivalents (see note 16) and on development loan capital deployed (see note 12).

4 Finance costs

	Group 2018 £'000	Group 2017 £'000
Bank interest	**342**	520
Non-utilisation fees and amortisation of bank loan arrangement fees	**116**	86
Other interest	**5**	–
	463	606

5 Profit before taxation

	Group 2018 £'000	Group 2017 £'000
Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
Owned assets	**1,980**	1,856
Amortisation of intangible assets	**165**	165
Operating lease rentals – land and buildings	**1,436**	1,488

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	**52**	50
Other services		
–the auditing of accounts of subsidiaries of the Company pursuant to legislation	**15**	14
Other services supplied pursuant to such legislation		
– interim review	**11**	10
– other services	**7**	–
Tax services		
– compliance services	**29**	28
– advisory services	**10**	18
	124	120

Comprising:		
Audit services	**67**	64
Non-audit services	**57**	56
	124	120

6 Employees

	Group 2018 No.	Group 2017 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	**143**	131
Administration	**31**	31
	174	162

	Group 2018 £'000	Group 2017 £'000
Costs for the above persons:		
Wages and salaries	**3,808**	3,724
Social security costs	**456**	453
Pension costs	**100**	96
	4,364	4,273
Share based remuneration (options)	**33**	97
	4,397	4,370

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £149,492**,**

(2017: £138,137) 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 £13,894 (2017: £11,949) outstanding at the year-end.

There were no employees employed by the Company in the year (2017: nil).

Directors' remuneration

2018	**Emoluments £**	**Bonuses £**	**Pension £**	**Benefits £**	**Sub total £**	**Gains on share options £**	**Total £**
Executive:							
A Jacobs	216,487	26,000	–	4,272	246,759	–	246,759
RA Davies	131,280	19,222	31,190	4,090	185,782	20,415	206,197
N Newman-Shepherd	75,172	42,477	2,255	1,933	121,837	71,317	193,154
Non-Executive:							
SG Thomas	30,000	–	–	4,009	34,009	–	34,009
RJ Holmes	21,648	–	–	–	21,648	–	21,648
ETD Luker	27,061	–	–	–	27,061	–	27,061
CP Peal	21,648	–	–	–	21,648	–	21,648
	523,296	**87,699**	**33,445**	**14,304**	**658,744**	**91,732**	**750,476**

2017	Emoluments £	Bonuses £	Pension £	Benefits £	Sub total £	Gains on share options £	Total £
Executive:							
A Jacobs	212,242	14,000	–	3,403	229,645	–	229,645
RA Davies	123,838	12,000	30,977	3,551	170,366	78,503	248,869
N Newman-Shepherd	71,592	29,704	2,148	1,826	105,270	27,296	132,566
CM Jacobs[1]	115,284	–	–	2,593	117,877	35,250	153,127
Non-Executive:							
SG Thomas	53,060	–	–	3,228	56,288	143,437	199,725
RJ Holmes	21,224	–	–	–	21,224	–	21,224
ETD Luker	26,530	–	–	–	26,530	–	26,530
CP Peal	21,224	–	–	–	21,224	–	21,224
	644,994	55,704	33,125	14,601	748,424	284,486	1,032,910

Details of the Directors remuneration is shown above. Key management personnel are defined as the Directors of the Group and the additional participants in the Long Term Partnership Performance Plan (LTPRP).

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 two (2017: two).

7 Taxation

	Group 2018 £'000	Group 2017 £'000
Current tax:		
UK corporation tax at 17.4% (2017: 20%)	**924**	792
Deferred tax:		
Origination and reversal of temporary differences	**311**	204
Adjustments in respect of prior periods	**333**	173
Impact of change in tax rate on closing balance	**–**	(265)
Total deferred tax	**644**	112
Income tax expense for the year	**1,568**	904

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

	2018 £'000	2017 £'000
Profit before tax	**5,325**	3,965
Tax on ordinary activities at the effective standard rate of corporation tax in the UK of 19% (2017: 20 /19%)	**985**	793
Expenses not deductible for tax purposes	**–**	2
Depreciation of non-qualifying assets	**322**	104
Share based payment charges in excess of corresponding tax deduction	**6**	19
Impact of change in tax rate on closing deferred tax balance	**–**	(264)
Adjustments in respect of prior periods – deferred tax	**333**	173
Other	**(48)**	72
Small companies relief	**(30)**	–
Share option scheme	**–**	5
Income tax expense for the year	**1,568**	904
Effective tax rate	**29 %**	23 %

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 £2.7 million (2017: £932,089) has been recognised as a debit/credit directly in other comprehensive income (see note 18 on deferred tax).

8 Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
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
Final dividend for the year ended 31 July 2017 (7.00 pence per share)	**2,016**	–
Interim dividend for the six months to 31 January 2018 (3.33 pence per share)	**961**	–
	2,977	2,637

In respect of the current year the Directors propose that a final dividend of 7.67 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £2.22 million based on the number of shares in issue at 17 October 2018 as adjusted for shares held in the Employee Benefits Trust. 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 29 November 2018; the record date 30 November 2018; with an intended payment date of 11 January 2019. The final deadline for Dividend Reinvestment Election (DRIP) is 14 December 2018.

9 Earnings per share

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

	Group 2018 £'000	Group 2017 £'000
Profit for the financial year attributable to owners of the parent	**3,757**	3,061

	2018 No. of shares	2017 No. of shares
Weighted average number of shares		
For basic earnings per share	**28,792,029**	27,780,676
Dilutive effect of share options[1]	**490,064**	999,657
For diluted earnings per share	**29,282,093**	28,780,333

[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 note 20

623,212 (2017: 623,212) shares are held in the Employee Benefit Trust (see note 23).

	Group 2018	Group 2017
Earnings per share		
Basic	**13.05p**	11.02p
Diluted	**12.83p**	10.64p

10(a) Intangible assets

Group	Goodwill £'000	Contractual customer relationships £'000	Total £'000
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**
Cost at 1 August 2017	**1,110**	**3,309**	**4,419**
Amortisation at 1 August 2017	–	(991)	(991)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2018	–	(1,156)	(1,156)
Net book value at 31 July 2018	**1,110**	**2,153**	**3,263**

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 2018 is 12 years and 11 months (2017: 13 years 11 months).

The values for impairment testing purposes are based on past and current experience of trading, recognising the long term stability and retention of the customer base, estimated future cash flows and external information where relevant and derived from the following key assumptions:

- a discount rate of 11% (2017: 11%)
- estimated useful lives of customer relationships (20 years) (2017: 20 years)
- medium term sustainable growth rates of 3% (next 10 years) (2017: 3%)
- thereafter long term sustainable growth rates of 2.0% (2017: 2%)
- cost increases of 2.75% - 3.0% pa. (2017: 2.75% - 3.0% pa)

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 13.5% (2017: 7%) would result in the carrying value of goodwill being reduced to its recoverable amount.

On the basis of the assumptions and corresponding calculations made it is estimated that the recoverable amount exceeds the carrying amount of the CGU by over £3 million.

10(b) 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 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**
Cost or valuation							
1 August 2017	**5,124**	**87,548**	**10,293**	**2,599**	**23,984**	**17**	**129,565**
Additions	18,513	183	–	49	3,190	–	21,935
Reclassification	(7,067)	7,055	–	–	12	–	–
Revaluations	–	13,700	1,145	–	–	–	14,845
31 July 2018	**16,570**	**108,486**	**11,438**	**2,648**	**27,186**	**17**	**166,345**
Depreciation							
1 August 2017	**–**	**–**	**–**	**1,880**	**10,771**	**13**	**12,664**
Depreciation	–	753	126	99	1,001	1	1,980
Revaluations	–	(753)	(126)	–	–	–	(879)
31 July 2018	**–**	**–**	**–**	**1,979**	**11,772**	**14**	**13,765**
Net book value at 31 July 2018	**16,570**	**108,486**	**11,438**	**669**	**15,414**	**3**	**152,580**

The Group has an active store development programme and in accordance with IAS 23 has material qualifying assets that take a substantial period of time to develop from acquisition to ultimate store opening. Accordingly borrowing costs of £197,209 (2017: nil) have been capitalised in the current year that are directly attributable to the acquisition, construction and fit-out of these qualifying store assets. £114,507 of the total amount is carried in development property assets and £82,702 is carried in land and buildings following the opening of the Gillingham and Wellingborough stores.

If all property, plant and equipment were stated at historic cost the carrying value would be £74.1 million (2017: £53.9 million).

Capital expenditure during the year totalled £21.9 million (2017: £6.6 million). This was primarily the completion of construction works at our development sites in Gillingham and Wellingborough which are now open and trading as well as completing the acquisition of our Bournemouth, Bedford, Cardiff and Cheshunt sites.

Property, plant and equipment (non-current assets) with a carrying value of £152.6 million (2017: £116.9 million) are pledged as security for bank loans.

Market Valuation of Freehold, Long Leasehold and Operating Leasehold Land and Buildings

On 31 July 2018 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 valuations were prepared on the basis of Fair Value as a fully equipped operational entity having regard to trading potential. The valuation was provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the RICS Red Book JLL have confirmed that:

- This is the third 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 do 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 £146.2 million (2017: £119.6 million) of which £128.0 million (2017: £102.9 million) relates to freehold and long leasehold properties, and £18.2 million (2017: £16.7 million) relates to properties held under operating leases.

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

For the trading properties the valuation methodology explained in more detail below is based on fair value as fully equipped operational entities, having regard to trading potential. Of the £128.0 million valuation of the freehold and long leasehold properties £11.7 million (2017: £9.3 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £116.3 million (2017: £ 93.6 million) relates to freehold and long leasehold properties.

The 2018 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) have 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 have valued the assets on an individual basis and have 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 have constructed a discounted cash flow model. This sets out their explicit assumptions on the underlying cash flow that they believe 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 21 trading stores (both freeholds and leaseholds) averages 84.1% (2017: 81.2%).

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 make 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 10.58% (2017: 11.09%). The yield arising from the first year of the projected cash flow is 6.35% (2017: 7.19%), rising to 9.39% (2017: 10.49%) in year five.

- JLL have assumed purchasers costs of 6.8% (2017: 6.8%).
- The average stabilised occupancy is 84.1% (2017: 81.2%).
- The average exit yield assumed is 7.42% (2017: 7.67%).

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.

JLL reported that The Lok'nStore portfolio has generally performed very well in terms of increasing occupancy over the course of the year which has driven the assumed stabilised occupancy higher.

For leaseholds the same methodology has been used as for freehold property, except that no sale of the assets in the 10th year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's operating leaseholds is approximately 11 years and 1 month as at 31 July 2018 (10 years and 8 months: 31 July 2017). 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.

On 22 February 2018, the Group completed the Deed of Variation, Reversionary Lease and Rent Review Memorandum extending the lease term of the Fareham Store by ten years to 2036.

The fair value hierarchy within which the Fair Value measurements are categorised is level 3, in accordance with IFRS 13 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 was 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 have placed a valuation on the site at the 2018 year-end at £2.0 million. The building was converted to this use costing £1.195 million (£1.103 million net of depreciation) and started trading as "ParknCruise" in May 2017. Accordingly the Directors placed their valuation on the current developed site at the 2018 year-end at £3.103 million.

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 £0.5 million.

The total value of land and property carried at Director Valuation at 31 July 2018 is £3.603 million (2017: £4.195 million).

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**
Capital contributions arising from share-based payments	33
31 July 2018	**2,418**

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	Self-storage
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	Dormant

[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.

12 Development loan capital

In May 2015 Lok'nStore opened a new store in Aldershot, Hampshire on behalf of outside investors, to which it provided development loan capital. The store is managed under the Lok'nStore brand. The Group has managed the building and subsequent operation of the store and has generated a return on £2.5 million of the total development capital committed to the project, as well as management fees for the construction, operation and branding of the store. On 31 October 2017 the entire development loan was repaid to Lok'nStore together with all accrued interest. Lok'nStore continues to manage the operation of the store.

	Group 2018 £'000	Group 2017 £'000
Development loan capital	**–**	3,463

13 Inventories

	Group 2018 £'000	Group 2017 £'000
Consumables and goods for resale	**257**	203

The amount of inventories recognised in cost of sales as an expense during the year was £160,177 (2017: £164,225). (See Note 2(b)).

14 Trade and other receivables

	Group 2018 £'000	Group 2017 £'000
Trade receivables	**1,969**	1,693
Other receivables	**1,927**	1,822
Prepayments and accrued income	**580**	751
	4,476	4,266

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 2018 £'000	Company 2017 £'000
Net amount due from Lok'nStore Limited	**13,940**	13,021

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 note 1(b) segmental analysis.

Included in the Group's trade receivables balance are receivables with a carrying amount of £223,092 (2017: £268,252) 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 41 days past due (2017: 43 days past due).

Ageing of past due but not impaired receivables

	Group 2018 £'000	Group 2017 £'000
0–30 days	**100**	97
30–60 days	**85**	121
60+ days	**38**	50
Total	**223**	268

Movement in the allowance for bad debts

	Group 2018 £'000	Group 2017 £'000
Balance at the beginning of the year	**188**	186
Impairment losses recognised	**40**	34
Amounts written off as uncollectible	**(36)**	(32)
Balance at the end of the year	**192**	188

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.

Ageing of impaired trade receivables	**Group 2018 £'000**	Group 2017 £'000
0–30 days	**–**	–
30–60 days	**–**	–
60+ days	**192**	188
Total	**192**	188

15 Trade and other payables

	Group 2018 £'000	Group 2017 £'000
Trade payables	**1,102**	818
Taxation and social security costs	**313**	288
Other payables	**1,340**	1,692
Accruals and deferred income	**2,404**	2,234
	5,159	5,032

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 17, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. The Group's banking facilities require that management give regular consideration to interest rate hedging strategy. The Group has complied with this during the year.

The Group's Board reviews the capital structure on an on-going basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group seeks to have a relatively conservative gearing ratio (the proportion of net debt to equity) balancing the overall level with the opportunities for the growth of the business. 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 2018 £'000**	Group 2017 £'000
Gross borrowings	**(37,335)**	(28,816)
Cash and cash equivalents	**4,990**	11,386
Net debt	**(32,345)**	(17,430)
Total equity	**103,251**	89,119
Net debt to equity ratio	**31.3 %**	19.6 %

The increase in the Group's gearing ratio arises principally through the acquisition of our Bournemouth, Bedford, Cardiff Cheshunt and Leicester sites funded by bank borrowings, mitigated by the combined effect of an increase in the value of its properties, 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. Historically the Group has hedged through the deployment of interest rate swaps although the Group had no such instruments in place at 31 July 2017 or 31 July 2018. The Board continues to keep its hedging policy under periodic review.

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

The Group borrows through a 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 £161.6 million (2017: £136.2 million). Borrowings are arranged to ensure the Group fulfils its strategy of growth and development of its stores and to maintain short-term liquidity. As at the reporting date the Group has a committed revolving credit facility of £50 million (2017: £40 million). This facility expires on 15 January 2023. Undrawn committed facilities at the year-end amounted to £12.7 million (2017: £11.2 million).

C Interest rate risk management
The Group's policy on interest rate management is agreed at Board level and is reviewed on an on-going basis. All borrowings are denominated in Sterling and are detailed in note 17. 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.

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 2018 are as follows:

	Group 2018 £'000	Group 2017 £'000
Variable rate treasury deposits[1]	**4,337**	11,048
SIP trustee deposits	**40**	5
Cash in operating current accounts	**582**	285
Other cash and cash equivalents	**31**	48
Total cash and cash equivalents	**4,990**	11,386

[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 2018 was 0.1%. (2017: 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
Over the longer term, significant changes in interest rates may have an impact on consolidated earnings.

At 31 July 2018, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £373,345 (2017: £288,156) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £373,345 (2017: £288,156). 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 1.85% applying to the variable rate borrowings of £37.3 million in the year (2017: £28.8 million / 1.66%).

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

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

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

G Credit risk
The credit risk management policies of the Group with respect to trade receivables are discussed in note 14. The credit risk on liquid funds is limited because the counterparty is a bank with high credit ratings assigned by international credit-rating agencies, in line with the Group's policy which is to borrow from major institutional banks when arranging finance.

The Group's maximum exposure to credit risk at 31 July 2018 was £3.06 million (2017: £2.34 million) on receivables and £4.99 million (2017: £11.39 million) on cash and cash equivalents.

H Maturity analysis of financial liabilities
The undiscounted contractual cash flow maturities are as follows:

2018 - Group	**Trade and other payables £'000**	**Borrowings £'000**	**Interest on borrowings £'000**
Over five years	**–**	**–**	**–**
From two to five years	**–**	**37,335**	**1,307**
From one to two years	**–**	**–**	**532**
Due after more than one year	**–**	**37,335**	**1,839**
Due within one year	**2,728**	**–**	**532**
Total contractual undiscounted cash flows	**2,728**	**37,335**	**2,371**

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

I Fair values of financial instruments

	Group 2018 £'000	Group 2017 £'000
Categories of financial assets and financial liabilities		
Financial assets – loans and receivables		
Trade and other receivables [1]	**4,616**	3,967
Cash and cash equivalents	**4,990**	11,386
Development loan capital	**–**	3,463
Financial liabilities – other financial liabilities at amortised cost		
Trade and other payables	**(2,728)**	(2,934)
Bank loans	**(37,170)**	(28,670)

[1] Includes £361,460 relating to fees receivable in 2022 from the Aldershot managed store currently classified as a non-current asset (measured at fair value).

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

J Company's financial instruments

The Company's financial assets are amounts owed by subsidiary undertakings amounting to £13.9 million (2017: £13.0 million) which are classified as loans and receivables, and the investment in its subsidiary undertaking of £0.1 million (excluding capital contributions). These amounts are denominated in Sterling, are non-interest bearing, are unsecured and fall due for repayment within one year. No amounts are past due or impaired. The Company has no financial liabilities.

17 Borrowings

	Group 2018 £'000	Group 2017 £'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)	**37,335**	–
Deferred financing costs	**(165)**	(146)
Net bank borrowings	**37,170**	28,670
Non-current borrowings	**37,170**	28,670

The Group has an existing banking facility with Royal Bank of Scotland plc (RBS). The facility runs until January 2023 providing funding for more site acquisitions and working capital. The Group is not obliged to make any repayments prior to its expiration in January 2023.

In February 2018 the Group executed its £10 million accordion increasing its £40 million Banking Facility to £50 million. The increased facility will provide funding for site acquisitions and working capital to support the Group's ambitious growth plans for more landmark site acquisitions and working capital.

Bank covenants and margin are unaffected following the increased facility with 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 £37.3 million drawn averaged 1.85% in the year

The Group currently has £37.3 million drawn against its existing £50 million facility. The £50 million 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 £152.6 million (2017: £120.4) million together with cross-company guarantees from Group companies.

18 Deferred tax

Deferred tax liability	**Group 2018 £'000**	Group 2017 £'000
Liability at start of year	**16,363**	15,361
Credited to income for the year	**644**	112
Tax credited directly to other comprehensive income	**2,698**	932
Debit / (credit) to share based payment reserve	**30**	(42)
Liability at end of year	**19,735**	16,363

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 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**
Charge/ (credit) to income for the year	683	(28)	–	–	(11)	–	**644**
Charge to other comprehensive income	–	–	–	2,687	11	–	**2,698**
Charge to share based payment reserve	–	–	–	–	–	30	**30**
At 31 July 2018	**2,879**	**366**	**17**	**14,568**	**2,146**	**(241)**	**19,735**

19 Share capital

Authorised:	**2018 £'000**	2017 £'000
35,000,000 ordinary shares of 1 pence each (2017: 35,000,000)	**350**	350

Allotted, issued and fully paid ordinary shares	**£'000**	£'000
Balance 1 August	**293**	291
Options exercised 193,692 (2017: 193,601)	**2**	2
Balance 31 July	**295**	293

	Called up, allotted and fully paid Number	Called up, allotted and fully paid Number
Number of shares at 31 July	**29,498,615**	29,302,923

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:

2018 Summary	**As at 31 July 2017 No of options**	**Granted**	**Exercised**	**Lapsed/ surrendered**	**As at 31 July 2018 No of options**
Unapproved Share Options	964,108	4,343	(145,095)	(5,805)	**817,551**
Unapproved Share Options	–	140,000	–	–	**140,000**
Approved CSOP Share Options	135,378	21,493	(55,814)	(8,858)	**92,199**
Total	1,099,486	165,836	(200,909)	(14,663)	**1,049,750**

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

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

	Total at 31 July 2017	Options granted	Options Exercised/lapsed	Unapproved Scheme	Approved CSOP share options	**Total at 31 July 2018**
2018						
Executive Directors						
A Jacobs – Unapproved	206,087	–	–	206,087	–	**206,087**
RA Davies – Unapproved	256,977	–	(10,000)	246,977	–	**246,977**
RA Davies – CSOP	7,742	–	–	–	7,742	**7,742**
RA Davies total	264,719	–	(10,000)	246,977	7,742	**254,719**
N Newman-Shepherd - Unapproved	197,421	–	(25,000)	172,421	–	**172,421**
N Newman-Shepherd - CSOP	13,661	–	(3,000)	–	10,661	**10,661**
N Newman-Shepherd total	211,082	–	(28,000)	172,421	10,661	**183,082**
Non-Executive Directors						
SG Thomas – Unapproved	25,217	–	–	25,217	–	**25,217**
ETD Luker – Unapproved	15,000	–	(15,000)	–	–	–
All Directors total	**722,105**		**(53,000)**	**650,702**	**18,403**	**669,105**

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 (10 years after grant). The risk free rate of return is the UK gilt rate at date of grant commensurate with the expected term (i.e. six years).

The total charge for the year relating to employer share-based payment schemes was £33,339 (2017: £96,985), all of which relates to equity-settled share-based payment transactions.

21(a) 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 2016	**(37)**	**6,295**	**1,294**	**34**	**846**	**8,432**
Share based remuneration (options)	–	–	–	–	97	97
IFRS 2 - 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**
Share based remuneration (options)	–	–	–	–	33	33
IFRS 2 - transfer (to)/ from retained earnings	–	–	–	–	(109)	(109)
Cash flow hedge reserve net of tax	–	–	–	–	–	–
Tax charge relating to share options	–	–	–	–	(30)	(30)
31 July 2018	**–**	**6,295**	**1,294**	**34**	**740**	**8,363**

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 £109,218 (2017: £138,755).

21(b) Other reserves

Company	**Other reserve £'000**	**Share-based payment reserve £'000**	**Total £'000**
1 August 2016	**1,114**	**847**	**1,961**
Share based remuneration (options)	–	97	**97**
IFRS 2 - transfer to retained earnings	–	(139)	**(139)**
31 July 2017	**1,114**	**805**	**1,919**
Share based remuneration (options)	–	33	**33**
IFRS 2 - transfer to/from retained earnings	–	(109)	**(109)**
31 July 2018	**1,114**	**729**	**1,843**

22(a) Retained earnings

Group	**Retained earnings before deduction of own shares £'000**	**Own shares (note 26) £'000**	**Retained earnings Total £'000**
1 August 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 21a)	139	–	139
Transfer realised gain on asset disposal	–	3,741	3,741
Dividend paid	(2,637)	–	(2,637)
31 July 2017	**18,664**	**(500)**	**18,164**
Profit attributable to owners of			
Parent for the financial year	3,757	–	3,757
Transfer from revaluation reserve (Additional depreciation on revaluation)	291	–	291
Transfer from share based payment reserve (Note 21a)	109	–	109
Dividend paid	(2,977)	–	(2,977)
31 July 2018	**19,844**	**(500)**	**19,344**

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

The Own Shares Reserve represents the cost of shares in Lok'nStore Group plc purchased in the market and held in the Employee Benefit Trust to satisfy awards made under the Group's share incentive plan and shares purchased separately by Lok'nStore Limited for Treasury Account. These treasury shares were not cancelled and have been released back into the market to assist liquidity of the Company's stock and to provide availability of a reasonable line of stock to satisfy investor demand.

22(b) Retained earnings

Company	**Retained earnings before deduction of own shares £'000**	**Own shares (note 26) £'000**	**Retained earnings Total £'000**
1 August 2016	**117**	–	**117**
1 August 2016- As restated	**117**	**(3,741)**	**(3,624)**
Profit attributable to owners of			
Company for the financial year	5,547	–	5,547
Transfer from share based payment reserve (Note 21a)	139	–	139
Disposal of treasury shares	–	3,741	3,741
Dividend paid	(2,637)	–	(2,637)
31 July 2017	**3,166**	**–**	**3,166**
Profit attributable to owners of			
Company for the financial year	3,572	–	3,572
Transfer from share based payment reserve (Note 21a)	109	–	109
Dividend paid	(2,977)	–	(2,977)
31 July 2018	**3,870**	**–**	**3,870**

Restatement of 2016 Retained Earnings

At the start of the 2017 financial year a total of 2,466,869 of Lok'nStore Group plc ordinary shares of 1p each were held 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 were sold in November 2016 and April 2017 to a range of institutional investors as described in the 2017 Annual Report.

The treasury shares amount of £3,741,000 that was previously reported as an investment by Lok'nStore Limited (the subsidiary) should have been recognised in Lok'nStore Group Plc's accounts since they were registered in the name of the parent company.

The impact of the prior period adjustment in plc is to change the amounts shown as the intercompany balance with Lok'nStore Limited and the amount shown as own shares at 1 August 2016, which is included within Retained Earnings on the Statement of Financial Position and disclosed separately in the notes to the accounts.

Accordingly, the comparative 2016 amounts have been restated in the parent company's accounts. 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 and therefore have not presented a restated balance sheet at 31 July 2016 as they do not believe it is material in the context of the financial statements as a whole.

Review of distributable reserves and rectification of prior dividends (the Relevant Dividends)

The Board has become aware of certain technical issues relating to the levels of distributable reserves within the Lok'nStore Group and the payment of interim and final dividends by Lok'nStore Group plc to our shareholders during the period from 2013 to 2016 ('the Relevant Dividends').

Lok'nStore's Group structure is that almost all of the self-storage operations and assets and cash sit within the principal operating subsidiary Lok'nStore Limited. Lok'nStore Group plc is of itself a non-trading holding company. Throughout this period at all relevant times, the Group had adequate distributable reserves in subsidiary companies to enable payment of the Relevant Dividends, and each year payment of the final dividends was approved by the Company's shareholders at its annual general meeting.

However, a review of historical intra-group transactions revealed that dividends were not paid up from Lok'nStore Limited to Lok'nStore Group plc in the period from 2013 to 2016 and thereby did not create distributable reserves in Lok'nStore Group plc in the manner that had been intended. As a consequence, the Relevant Dividends paid by Lok'nStore Group plc were not paid out of distributable reserves and were therefore not paid in accordance with the Companies Act 2006.

We are undertaking a series of procedural steps in order to rectify this issue and put the Company and its subsidiaries, in the position that was originally intended with respect to the creation of distributable reserves in Lok'nStore Group plc.

We will put a resolution to shareholders at the forthcoming Annual General meeting to be held on 11 December 2018 which, if passed, would put all potentially affected parties, in so far as possible, in the position they would be had the Relevant Dividends been paid in accordance with the requirements of the Companies Act 2006.

Full details will be included in the circular and notice of general meeting to be sent to shareholders.

23 Own shares

	EBT shares Number	EBT shares £	Treasury shares Number	Treasury shares £	Own shares total £
31 July 2017 and 31 July 2018	**623,212**	**499,910**	–	–	**499,910**

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 2018, the Trust held 623,212 (2017: 623,212) ordinary shares of 1 pence each with a market value of £2,508,428 (2017: £2,414,947). No shares were transferred out of the scheme during the year (2017: nil).

No options have been granted under the EBT. The EBT waived its dividends in full. No other dividends were waived during the year.

24 Cash flows

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

	Group 2018 £'000	Group 2017 £'000
Profit before tax	**5,325**	3,965
Depreciation	**1,980**	1,856
Amortisation of intangible assets	**165**	165
Equity settled share based payments	**33**	97
Warranty Claims	**(230)**	–
Carried interest - fees receivable	**(361)**	–
Property disposal costs	**–**	15
Store relocation costs	**–**	29
Director retirement costs	**–**	69
Finance income	**(80)**	(309)

Finance cost	**463**	606
Increase in inventories	**(54)**	(38)
Increase in receivables	**(571)**	(284)
Increase / decrease in payables	**312**	(648)
Cash generated from operations	**6,982**	5,523

(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 17 less cash and cash equivalents.

	Group 2018 £'000	Group 2017 £'000
(Decrease) / increase in cash in the year	**(6,396)**	6,051
Change in net debt resulting from cash flows	**(8,519)**	–
Movement in net debt in year	**(14,915)**	6,051
Net debt brought forward	**(17,430)**	(23,481)
Net debt carried forward	**(32,345)**	(17,430)

25 Commitments under operating leases

At 31 July 2018 the total future minimum lease payments as a lessee under non-cancellable operating leases were as follows:

	Group 2018 £'000	Group 2017 £'000
Land and buildings		
Amounts due:		
Within one year	**1,467**	1,469
Between two and five years	**5,868**	5,868
After five years	**7,036**	6,600
	14,371	13,937

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.

26 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, and the other key management personnel of the Group, is set out below. Further information on the remuneration of individual Directors is found in note 6.

	Group 2018 £'000	Group 2017 £'000
Short term employee benefits - Directors	**717**	1,000
Short term employee benefits - Other key management	**320**	312
Post-employment benefits - Directors	**33**	33
Post-employment benefits - Other key management	**6**	6
Share-based payments	**33**	97
Total	**1,109**	1,448

As part of a review of its management personnel the group recognised a number of management personnel that it felt were important to retain within the business in order for it to achieve its strategic plan. Accordingly these were recognised as key personnel and are participants in the new Long Term Performance Plan (see note 22(b)). They are included in the table above. For consistency the 2017 figures include their comparative figures.

27a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £3.38 million (2017: £2.60 million) relating to building contracts on its Cardiff development site as well as building retentions outstanding on the completed Bristol, Southampton, Gillingham and Wellingborough stores.

27b 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 £37.3 million (2017: £28.8 million).

28 Events after the reporting date

a) Planning permission obtained on the Leicester site

On 17 August 2018, planning permission was granted for the construction of a self-storage centre.

b) Planning permission obtained on the Cardiff site

On 22 August 2018, planning permission was granted for the change of use of the trading site to B8 self-storage use.

c) Planning permission obtained on the Gloucester site

On 5 September 2018, planning permission was granted for the construction of a self-storage centre.

d) Sale of surplus land at rear of Southampton store

Following the development and opening of the new Southampton store there remained surplus land to the rear of the building which could be sold or used for alternative use. On 25 October 2018, the surplus land was sold for £800,000. The Directors has placed a value at the year-end in the financial statements on this land of £0.5 million.

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

Owned Trading Stores

Basingstoke, Hampshire Crockford Lane Chineham Basingstoke Hampshire RG24 8NA Tel 01256 474700 basingstoke@loknstore.co.uk	**Horsham, West Sussex** Blatchford Road Redkiln Estate Horsham West Sussex RH13 5QR Tel 01403 272001 horsham@loknstore.co.uk	**Poole, Dorset** 50 Willis Way Fleetsbridge Poole Dorset BH15 3SY Tel 01202 666160 poole@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	**Luton, Bedfordshire** 27 Brunswick Street Luton Bedfordshire LU2 0HG Tel 01582 721177 luton@loknstore.co.uk	**Portsmouth, Hampshire** Rudmore Square Portsmouth PO2 8RT Tel 02392 876783 portsmouth@loknstore.co.uk	**Gillingham, Kent** Courtney Road Gillingham Kent ME8 0RT Tel 01634 366044 gillingham@loknstore.co.uk
Eastbourne, East Sussex Unit 4, Hawthorn Road Eastbourne East Sussex BN23 6QA Tel 01323 749222 eastbourne@loknstore.co.uk	**Maidenhead, Berkshire** Stafferton Way Maidenhead Berkshire SL6 1AY Tel 01628 878870 maidenhead@loknstore.co.uk	**Reading, Berkshire** 251 A33 Relief Road Reading RG2 0RR Tel 01189 588999 reading@loknstore.co.uk	**Tonbridge, Kent** Unit 6 Deacon Trading Estate Vale Road, Tonbridge Kent TN9 1SW Tel 01732 771007 tonbridge@loknstore.co.uk
Fareham, Hampshire 26 + 27 Standard Way Fareham Industrial Park Fareham Hampshire PO16 8XJ Tel 01329 283300 fareham@loknstore.co.uk	**Milton Keynes, Buckinghamshire** Etheridge Avenue Brinklow Milton Keynes Buckinghamshire MK10 0BB Tel 01908 281900 miltonkeynes@loknstore.co.uk	**Southampton, Hampshire** Third Avenue Southampton Hampshire SO15 0JX Tel 02380 783388 southampton@loknstore.co.uk	**Harlow, Essex** Edinburgh Way Temple Fields Harlow Essex CM20 2GF Tel 01279 882366 harlow@loknstore.co.uk
Farnborough, Hampshire 112 Hawley Lane Farnborough Hampshire GU14 8JE Tel 01252 511112 farnborough@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	**Sunbury, Middlesex** Unit C, The Sunbury Centre Hanworth Road Sunbury on Thames Middlesex TW16 5DA Tel 01932 808466 sunbury@loknstore.co.uk
Southampton, Hampshire Third Avenue Southampton Hampshire SO15 0JX Tel 02380 783388 southampton@loknstore.co.uk	**ParknCruise** Manor House Avenue Millbrook, Southampton Hampshire SO15 0LF Tel 02380 789966 southampton@parkncruise.co.uk	**Wellingborough, Northamptonshire** 19/21 Whitworth Way Wellingborough NN8 2EF Tel: 01634 366044 gillingham@loknstore.co.uk	

Development locations – LNS Owned Stores

Cardiff 234, Penarth Road Cardiff CF11 8LR	**Bedford** 69 Cardington Road, Bedford. NK42 0BQ	**Bournemouth** Land at Wessex Field, Deansleigh Road, Bournemouth BH7 7DU	**Leicester** Part of land forming part of Freemens Common Road, Leicester LE2 7SL
Cheshunt Land lying on the South Side of Halfhide Lane, Turnford, Hertfordshire			

Managed stores - Trading

Aldershot, Hampshire 251, Ash Road Aldershot GU12 4DD Tel 0845 4856415 aldershot@loknstore.co.uk	**Chichester, West Sussex** 17, Terminus Road Chichester West Sussex PO19 8TX Tel 01243 771840 chichester@loknstore.co.uk	**Woking** Marlborough Road Woking GU21 5JG Tel 01483 378323 woking@loknstore.co.uk	**Broadstairs** Unit 2, Pyramid Business Park, Poorhole Lane, Broadstairs, Kent CT10 2PT Tel 01843 863253 broadstairs@loknstore.co.uk
Ashford, Kent Wotton Road Ashford Kent TN23 6LL Tel 01233 645500 ashford@loknstore.co.uk	**Crawley, West Sussex** Sussex Manor Business Park Gatwick Road Crawley RH10 9NH Tel 01293 738530 crawley@loknstore.co.uk	**Swindon Kembrey Park, Wiltshire** Kembrey Street Elgin Industrial Estate Swindon Wiltshire SN2 8UY Tel 01793 421234 swindoneast@loknstore.co.uk	**Hemel Hempstead** Fortius Point, 47, Maylands Avenue, Hemel Hempstead, Hertfordshire HP2 7DE Tel 01442 240768 hemelhempstead@loknstore.co.uk

Managed stores - Under Development

Dover, Kent Honeywood Parkway, Whitfield, Dover, CT16 3FJ	**Exeter** Land on the West Side of Matford Park Road, Marsh Barton, Exeter Devon	**Ipswich,** Part of Site 7, Futura Park, Ipswich IP3 9QH	**Gloucester** Land at Triangle Park, Metz Way, Gloucester

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