Lok'nStore Group Plc

Annual Report and Accounts

for the year ended 31 July 2016

Stock Code: LOK
www.loknstore.com

Welcome to Lok'nStore Group Plc

We are a leading company in the fast growing UK self-storage market. We opened our first self-storage centre in February 1995 and have grown consistently over the last 20 years, currently operating 26 self-storage centres and two serviced document stores in Southern England.

Strengths of our Business:

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

Read more about our Strategy on page 8
and our Business Model on page 10

"Impressive performance from landmark stores – with more to come."

Contents

Revenue

£16.06m

Group Adjusted EBITDA

£6.30m

Adjusted Net Asset Value per share

£3.86

Loan to Value Ratio

20.8%

Cash available for Distribution (CAD) per share

18.1p

2016 Highlights

Robust growth in asset value and record financial results ahead of expectations

- Adjusted Net Asset Value[1] per share up 27.6% to £3.86 (2015: £3.02)
- Group Revenue £16.06 million up 4.1% (2015: £15.42 million) – like for like (LFL)[2] up 7.6%
- Group Adjusted EBITDA[3] £6.30 million up 10.8% (2015: £5.68 million) – LFL up 14.0%

Strong cash flow supports 12.5% dividend increase – progressive dividend policy

- Annual dividend 9 pence per share up 12.5% (2015: 8 pence per share)
- Cash available for Distribution (CAD)[4] 18.1 pence per share up 17.7% (2015:15.4 pence)

Strong balance sheet, efficient use of capital, low debt

- Net debt down to £23.5 million (2015: £25.3 million)
- Loan to value ratio down to 20.8%[5] (2015: 25.8%)

Self-storage business performing strongly

- Self-storage revenue £13.44 million up 1.2% (2015: £13.28 million) – LFL up 5.1%
- Adjusted Store EBITDA £7.49 million up 4.2% (2015: £7.19 million) – LFL up 6.6%
- Unit Pricing up 2.2% LFL
- Unit occupancy up 2.0% LFL

Document storage profit more than doubles

- Revenue £2.17 million up 11.1% (2015: £1.96 million)
- Adjusted EBITDA £0.59 million up 125% (2015: £0.26 million)

Growth from new stores and more new stores to come

- 3 Stores opened in Chichester, Bristol and Southampton
- 4 Sites acquired in Wellingborough, Gillingham, Hemel Hempstead and Broadstairs
- New sites will add 14% to trading space

For an explanation of what we mean when we use a term above and why we use these key performance indicators please see page 73

Chairman's Review

"Our main objective is to steadily increase the cash available for distribution enabling a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet."

Strong growth and robust capital structure

Lok'nStore Group has had an exciting year successfully implementing all of our strategy objectives. Revenue, profits and particularly asset values have moved ahead rapidly. A substantial increase in the proportion of our store space which is new or purpose built will add further momentum to the growth of sales and profits with plenty of new capacity contributing to growth over the coming years.

The growth of sales, profit and asset values combined with innovative asset management has combined to achieve a reduction in the loan-to-value (LTV) ratio from 25.8% to 20.8%. While we invested £7 million in stores this year this was more than covered by £8.5 million (gross) of capital receipts.

To reflect this healthy performance we are proposing to increase the annual dividend pay-out by 12.5%. Cash available for distribution (CAD) per share which guides the dividend pay-out has moved ahead 17.7% to 18.1 pence per share.

Adjusted Net Asset Value (NAV) per share has also moved ahead sharply as our new valuers Jones Lang LaSalle (JLL) have reflected the strength of market demand for prime self-storage assets in their valuations, in addition to the uplift achieved from our new store openings and improved trading at existing stores. The year-end property valuation valued our trading stores at £112.7 million. With other land and property assets this equates to a total value of land and properties held of £116.2 million (2015: £97.8 million), an 18.8% increase in value.

Trading positive

Group revenue for the year was £16.06 million, up 4.1% year on year (2015: £15.42 million). Like for Like Revenue stripping out the effect of the sale of the Swindon operations and the opening of the new Bristol store was up 7.6%. This strong revenue growth led to a 10.8% increase in Group Adjusted EBITDA profit. Tight control over operating costs which are broadly unchanged has also contributed in pushing the Group's margins and profits to record levels.

New £40 million Banking Facility reflects financial strength of business

In January 2016 the Group agreed a new banking facility with Royal Bank of Scotland plc on significantly improved terms. The new £40 million five year revolving credit facility replaced the existing facility which was due to expire in October 2016, and will provide funding for site acquisitions and working capital. The interest margin, non-utilisation fee and arrangement fee have all been significantly reduced leading to a large saving over the life of the facility.

Appointment of New Director demonstrates operational focus

The Group is pleased to announce the appointment of Neil Newman as an Executive Director. Neil (39) brings significant managerial and operational experience to the Board having worked in the business since 2006. He is currently Group Sales Director and retains this title on the Board. Neil's contribution to Lok'nStore over the recent years has been significant and we look forward to his continuing contribution to our future growth at Board level.

Dividend

It is intended that the Company's future dividend payments will reflect the growth in the underlying cash generated by the business as reflected in the cash available for distribution (CAD) which is up 17.7% in the period. The interim dividend will represent approximately one-third of the total for the year and final dividend two-thirds.

This year we are recommending a full year dividend of 9 pence per share. This is up 12.5% from 8 pence for the full year last year. The Group will therefore pay a final dividend of 6.33 pence per share on 21 December 2016 following the payment of an interim dividend of 2.67 pence per share in June 2016.

Performance

The table below sets our achievements for the last year against our strategy objectives:

Objective		Achievements in Financial Year 2016
Continue to increase EBITDA per share over the coming years	✓	Like for like (LFL) Group Adjusted EBITDA up 14% in 2016 and adjusted EBITDA per share 24.2 pence up 8%
Fill existing stores and improve pricing	✓	LFL Self-storage occupancy up 2% and LFL self-storage pricing up 2.2% in 2016.
Develop new stores on a self-funded basis	✓	During the year we generated a further £2 million from the disposal of the old Reading store site taking the total proceeds from the sale to well in excess of the cost of the new Reading store. We received £3.5 million for the sale and manage back of the Swindon store and we sold surplus land in Portsmouth for £3 million producing a total of £8.5 million – more than covering the £7 million spent on new store development in the year.
Acquire new sites	✓	During the financial year to July 2016 we opened new stores in Bristol, Southampton and Chichester and acquired sites in Wellingborough, Gillingham, Hemel Hempstead and Broadstairs.
Increase the number of stores we manage for third parties	✓	In 2016 we sold our Swindon store on a sale-and-manage back contract, we opened a new managed store in Chichester and we signed contracts to manage further stores to be built in Hemel Hempstead and Broadstairs which will take total managed stores to 8.
Grow our document storage business	✓	In the financial year 2016 the turnover of our document storage business grew 11.1% with number of boxes up 8.7% and number of tapes stored up 13.4%. Adjusted EBITDA profit was up by 97%.

Outlook

Following this year of solid successes we have created a strong platform for significant further growth for Lok'nStore.

Our main 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.

In order to achieve this our focus will be on four key areas:

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

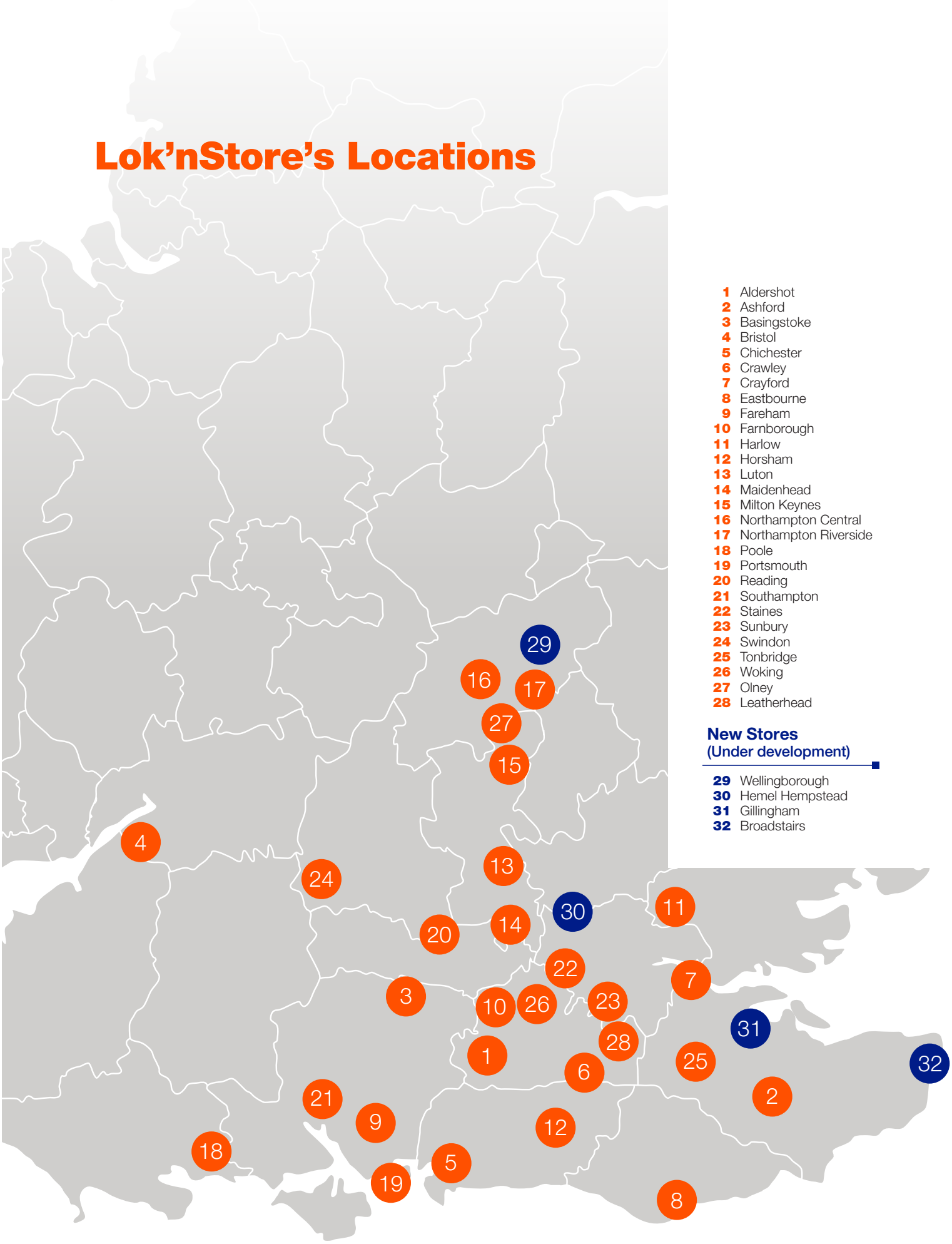
Finally, I should like to thank all of our employees for the contribution they have made to the Group's success. Lok'nStore is a robust business with a record of consistent profit growth and cash generation. With our experienced and dedicated staff we have built a firm base for the coming years and we are looking to the future with confidence.

Simon G Thomas
Chairman
14 October 2016

Opening programme of **four new** stores – available space will increase by **14%**

Landmark stores **increase to 63%** of portfolio

Lok'nStore's Locations



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

New Stores
(Under development)

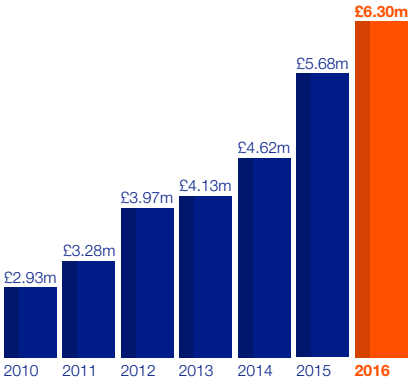
29 Wellingborough
30 Hemel Hempstead
31 Gillingham
32 Broadstairs

Read more about our Strategy and Marketplace on page 08

The Strategic Report

"Lok'nStore's eye-catching buildings with their distinctive orange livery create highly visible landmarks."

Steady growth of profit (EBITDA)



The Strategic Report covers the following areas of Lok'nStore's business:

- Strategy
- The UK Self-Storage Market
- Lok'nStore's Business Model
- Operating and Marketing Review
- Property Review
- Financial Review
- Principal Risks and Uncertainties in operating our Business

Strategy

Lok'nStore Group Plc is one of the leading companies in the fast growing UK self-storage market. We opened our first self-storage centre in 1995 and have grown consistently over the last 20 years, currently operating 26 self-storage centres and two serviced document stores in Southern England.

We have been listed on the AIM Market since June 2000 and the Board accounts for 35% of the Total Voting Rights (TVR) in the ordinary shares of the Company.

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

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

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

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

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

The UK self-storage market

There remains significant opportunity in the UK self-storage market where there are an estimated 882 self-storage facilities providing approximately 37.6 million square feet of storage space. With a population estimated at 64 million people in the UK this equates to only 0.6 square feet per person, compared to 7.7 square feet per person in the USA (Self-Storage Association 2016 UK Annual Survey).

The sector remains in good health. The Cushman & Wakefield 2016 Report for the Self-Storage Association says, "The industry enjoyed a year of healthy growth in 2015 adding around 1.9 million sq. ft. of space on top of putting on around 1.3 million sq. ft. of space in 2014....". The Report estimates that "….total annual turnover for the UK self-storage industry in 2015 was around £440 million (2014: 402 million) from approximately 490 different operators." When compared to Europe the UK has around 46% of the total space in Europe.

As awareness of self-storage continues to grow, more businesses and individuals will use self-storage in a market that is supply constrained.

Full Year Dividend 9 pence per share

Business Model

1 **Attractive Market Dynamics**	■ UK self-storage penetration remains relatively low ■ Limited new supply coming onto the market - Lok'nStore is bucking the trend with significant new store development ■ Resilient through economic downturns ■ Sector is growing
2 **Our competitive strengths**	■ Recognised brand ■ Prominent new stores on main roads ■ Strong internet marketing ■ Excellent customer service ■ Stores concentrated in the affluent South East England ■ Strong balance sheet ■ Experienced board with clear strategic direction ■ Robust business model
3 **Stable and rising income streams and low credit risk**	■ Over 9,200 customers ■ Mix of business and domestic customers ■ Low bad debt expense ■ Strong credit risk model
4 **Strong growth opportunities**	■ Demand increasing ■ Under supplied market
5 **Translation of the business model into high quality earnings**	■ The self-storage business is strongly cash generative on established stores ■ Low technology & product obsolescence ■ Lok'nStore has a track record of strong and growing cash generation ■ A progressive dividend policy
6 **Our over-riding objective**	■ To steadily increase the cash available for distribution (CAD) enabling a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet. We believe there is the opportunity for significant further growth.

“Lok’nStore has a record of consistent profit growth and cash generation and has built a firm base for the coming years.”

Simon G. Thomas
CHAIRMAN

Operating and Marketing Review

"With costs firmly under control revenue growth translates into buoyant profit growth."

Self-storage business performing strongly

- Self-storage revenue £13.44 million up 1.2% (2015: £13.28 million) – LFL up 5.1%
- Adjusted Store EBITDA £7.49 million up 4.2% (2015: £7.19 million) – LFL up 6.6%
- Management fees from Managed Stores up 150.1% at £439,254 (2015: £175,630)

With costs firmly under control revenue growth translates into healthy profit growth. We again managed to increase the overall adjusted EBITDA margin across all stores by 1.6 percentage points from 53.7% to 55.3%. The adjusted Store EBITDA margins of the freehold stores were 64.6% (2015: 63.4%) and the leasehold stores 41.7% (2015: 40.7%).

Total adjusted store EBITDA in the self-storage business, a key performance indicator of profitability and cash flow of the business, increased 4.2% to £7.49 million (2015: £7.19 million). Like for like growth in store EBITDA was 6.6%.

At the end of July 2016, 34% of Lok'nStore's self-storage revenue was from business customers (2015: 33.5%) and 66% was from household customers, (2015: 66.5%). By number of customers 18.5% of our customers were business customers (2015: 18.9%) and 81.5% household customers (2015: 81.1%).

PORTFOLIO ANALYSIS AND PERFORMANCE BREAKDOWN AS AT 31 JULY 2016	Number of stores	% of valuation	% of adjusted store EBITDA	Adjusted store EBITDA margin (%)	% lettable space Lok owned	When fully developed	
						Number of stores	Total% lettable space
FREEHOLD AND LONG LEASEHOLD	12	85.0	69.5	60.7	62.6	14	54.2
OPERATING LEASEHOLDS[1]	8	14.7	30.5	41.7	37.4	8	26.3
PIPELINE (FREEHOLD)	2	0.3	–	–	–	–	–
MANAGED STORES (TRADING)	6	–	–	–	–	8	19.5
MANAGED STORES (UNDER DEVELOPMENT)	2	–	–	–	–	–	–
TOTAL	30	100	100	55.3	100	30	100

1 The average unexpired term of the Group's operating leaseholds is approximately 11 years and 8 months as at 31 July 2016 (12 years and 8 months: 31 July 2015).

Ancillary Sales

Ancillary sales which consist of boxes and packaging materials, insurance and other sales increased 5.3% over the year accounting for 11.2% of self-storage revenues (2015: 10.8%).

We continue to promote our insurance to new customers with the result that 91% (2015: 92%) of our new customers purchased our insurance over the year and this has resulted in an increase in the percentage of our customers who are insured through Lok'nStore to 80% (2015: 78%).

Document storage profit more than doubles

- Revenue £2.17 million up 11.1% (2015: £1.96 million)
- Adjusted EBITDA £0.59 million up 124.3% (2015: £0.26 million)
- Year-end boxes stored up 8.7%
- Year-end tapes stored up 13.4%

Revenue and adjusted EBITDA have increased in our document storage business as operating metrics improve in response to the Company's more customer facing marketing stance. This approach has resulted in excellent customer feedback and puts us in a good position to win new business, with boxes stored increasing 8.7% and tapes stored up 13.4%.

Last year we consolidated our serviced document warehouse capacity, closing one of the three storage sites. This year we have undertaken a further fit-out of new warehouse racking in our site in Olney and we now have the capacity to significantly increase the number of boxes stored within our existing premises. As part of this strategy, additions of £0.34 million were made in the current year to fixtures, fittings and equipment (2015: £0.46 million).

Operating and Marketing Review
continued

Managed Store Service

Over recent years we have been developing our management services to third party storage owners. In the year we sold one store to a third party owner on a sale-and-manage back basis, we opened a new managed store and we acquired two new sites for management contract clients taking our total managed stores to eight.

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

In 2016 we earned £439,254 (2015: £175,630) from our managed stores in management fees, a substantial contribution to our profit.

Security

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

Marketing

During the year our marketing efforts have been focused on the internet and the presentation of our buildings to attract passing traffic. Total enquiries were up 6.6% across all stores.

Visibility of our stores remains very important to our marketing efforts. With their prominent positions, distinctive design and bright orange elevations, our stores raise the profile of the Lok'nStore brand. We continue to invest in new signage and lighting at our existing stores as well as creating striking designs for our new landmark stores to promote and enhance their visual prominence.

The internet continues to be the main media channel for our advertising. Our website at www.loknstore.co.uk is one of the most established self-storage websites in the UK. The website was significantly upgraded during the year to further improve 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 Lok'nStore and the major operators with bigger marketing budgets compared to those of the smaller self-storage operators.

Property Review

Growth from new stores and more new stores to come

- New Bristol, Southampton and Chichester stores opened – early trading strong
- 4 new sites acquired adding 14% more space
- New and purpose built stores lettable space 63.5% of portfolio
- Continually reviewing new store opportunities

Strong cash flows and solid asset base create opportunities

Lok'nStore's strong operating cash flow, solid asset base, and tactical approach to its store property portfolio provide the Group with opportunities to improve the terms of its property usage in all stages of the economic cycle. Our focus on the trading business gives us many opportunities and our property decisions are always driven by the requirements of the trading business. Lok'nStore has 26 freehold, leasehold and managed stores trading. Of these, 20 stores are owned with 12 freehold or long leasehold, 8 leasehold and 6 further sites operated under management contracts.

Acquisition of two landmark sites for new stores

Located in Wellingborough and Gillingham, the two sites are in prominent retail locations with large catchment areas and little established competition. The total capital investment of approximately £10 million will be financed from cash flow and the new banking facility signed in January 2016. The stores are scheduled to be open at the end of 2017. When developed these stores will add around 110,000 sq. ft. to the trading portfolio increasing the company's capacity of owned stores by 10%. They will take the proportion of Lok'nStore's space which is new or purpose built to 63.5%.

Two new stores to be developed under management contracts

Two new management contracts were signed in July 2016 to develop and operate two new stores. The new sites are in prominent retail locations in Hemel Hempstead and Broadstairs. Opening for both stores is scheduled for 2017. When developed, these Managed Stores will add around 70,000 sq. ft. to the trading portfolio.

Efficient use of capital

- Additional £2 million received for sale of old Reading store
- £3 million received for sale of Portsmouth development land
- Sale and manage-back of Swindon store for £3.5 million
- Total disposal proceeds of £8.5 million (gross)

These capital receipts, combined with the managed store model enable Lok'nStore to continue to rapidly grow the operating footprint of the business while firmly capping borrowing and leverage.

Store portfolio

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

With Wellingborough, Gillingham, Hemel Hempstead and Broadstairs set to open in 2017 this will increase the number of stores we operate and will capitalise on our efficient operating systems and growing internet marketing presence.

At the year end the average length of the 7 leases which were valued at July 2015 decreased by 12 months to 11 years and 8 months (2015: 12 years and 8 months). 7 out of 8 of our leasehold stores are inside the Landlord and Tenant Act providing us with a strong security of tenure. The leaseholds produced 30.5% of the total store EBITDA in the year (2015: 32.1%).

Store property assets and Net Asset Value

- Total assets now circa £134 million (2015: £111 million)
- Adjusted net asset value of £3.86 per share up 27.6% on last year

Lok'nStore's freehold and operating leasehold stores have been independently valued by Jones Lang LaSalle (JLL) (2015 : Cushman & Wakefield) at £112.7 million (NBV £ 46.9 million) as at 31 July 2016 (2015: £88.9 million: NBV £28.1 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, land and buildings held at Director's valuation, our total property valuation is £116.2 million (2015: £97.8 million). This translates into an adjusted net asset value of £3.86 per share up 27.6% on last year (2015: £3.02 per share).

The increase in the property values of properties which were also valued last year was 19.2%

Financial Review

Record financial results on all measures

- Group Revenue £16.06 million up 4.1% (2015: £15.42 million) - like for like (LFL) up 7.6%
- Group Adjusted EBITDA £6.30 million up 10.8% (2015: £5.68 million) - LFL up 14.0%
- Operating profit (pre-exceptional items[7]) £4.41 million up 14.1% (2015: £3.86 million) LFL 18.3%
- Operating profit £6.23 million up 70.3% (2015: £3.66 million)
- Profit after taxation £4.28 million up 117% (2015 : £1.97 million)

Trading

Total revenue for the year grew 4.1% to £16.1 million (2015: £15.42 million). Group operating profit for the year is up 70% to £6.23 million (2015: £3.66 million).

Taxation

The Group will pay tax on its earnings at an effective tax rate of 20% and has made a tax provision of £0.6 million. (2015: £0.54 million).

Earnings per share

Basic earnings per share (EPS) were 16.60 pence (2015: 7.84 pence per share). Diluted EPS were 16.24 pence (2015: 7.64 pence per share). If 2016 figures are adjusted to eliminate the 2016 property sale gain of £1.94 million, the 2016 EPS is adjusted to 9.08 pence per share and the 2016 diluted EPS to 8.88 pence per share.

Treasury shares

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

Operating costs

Through disciplined management we have again reduced property costs and contained overall cost growth to less than 0.1% despite staff costs increasing by 1.1% through a combination of strong sales bonuses and additional national insurance costs arising on the exercise of employee share options. Group operating costs amounted to £9.4 million for the year, a 0.1% increase from last year (2015: £9.4 million). Overall operating costs as a percentage of revenue have decreased and represent 58.9% as a cost ratio. (2015: 61.2%).

Group	Increase/(Decrease) in costs %	2016 £'000	2015 £'000
Property costs	(4.6)	**3,913**	4,101
Staff costs	1.0	**4,232**	4,188
Overheads	7.6	**1,128**	1,049
Distribution costs	(10.4)	**170**	190
Total	0.1%	**9,443**	9,437

Strong balance sheet, efficient use of capital, low debt

- New £40 million Bank facility on lower interest margin
- Net debt down to £23.5 million (2015: £25.3 million)
- Loan to value ratio (LTV) down to 20.8% (2015: 25.8%)
- Gearing down

New £40 million Bank facility on improved terms

Following the agreement of new facilities with Royal Bank of Scotland on improved terms the new £40 million five year revolving credit facility replaced the existing facility which was due to expire in October 2016, and will provide funding for site acquisitions as well as working capital for the development of the business over the medium term.

Under this new five year facility the Group is not obliged to make any repayments prior to its expiration in January 2021 and further provides during the term of the facility for the possibility of an optional extension of the five year term by a maximum of a further two years. The facility also provides for the possibility of an additional accordion of up to £10 million which if taken up during the term of the facility will increase facilities available to £50 million.

The following interest rates applied during the financial year:

	Up to 14 January 2016	From 15 January 2016
	Lloyds Bank plc	Royal Bank of Scotland plc (RBS)
Interest margin	2.35%–2.65%	1.40%–1.65%
Non-utilisation charge	0.94%	0.56%

At current levels of borrowing this translates into a 0.95% points saving on outstanding borrowings and 0.38% saving on the unborrowed balance of the facility. At current borrowing levels this would equate to a £316,249 saving on an annualised basis.

Management of interest rate risk

Lok'nStore has £28.8 million of debt currently drawn against its £40 million revolving credit facility. £20 million is at a fixed interest rate with £10 million fixed rate swap at a fixed 1 month sterling LIBOR rate of 1.2% and £10 million swap at a fixed 1 month sterling LIBOR rate of 1.15%. With 1 month LIBOR around 0.5% for the year, this leaves a balance of £8.8 million floating at a current all-in rate of around 2.56% and results in an overall weighted average rate over the financial year of 2.88.%. The £20 million fixed rate swap is an interest rate hedge and its fair value on a mark-to-market basis fluctuates. Its current fair value of £0.037 million is currently stated as a current liability (2015: non-current liability: £0.12 million). Both swaps run up to 20 October 2016 whereupon they lapse and the Groups all-in floating rate will drop to (currently) 1.67%.

Financial Review
continued

Cash flow and financing

At 31 July 2016 the Group had cash balances of £5.3 million (2015: £2.4 million). Cash inflow from operating activities before investing and financing activities was £ 3.8 million (2015: £6.0 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a five year revolving credit facility. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £11.2 million (2015: £12.3 million).

Gearing

There was £28.8 million of gross borrowings (2015: £27.7 million) representing gearing of 32.9% (2015: 47.7%) on net debt of £23.5 million (2015: £25.3 million). If leaseholds, which are stated at depreciated historic cost in the statement of financial position, are stated at their Jones Lang LaSalle (JLL) valuation, gearing drops to.27.6% (2015: 39.2%). If the deferred tax liability carried at year-end of £15.4 million is excluded gearing drops further to 23.4% (2015: 33.0%).

Strong cash flow supports 12.5% dividend increase

- Annual dividend 9 pence per share up 12.5% (2015: 8 pence per share)
- Cash available for Distribution (CAD) from operations £4.71 million up 20.8% (2015: £4.98 million)
- Cash available for Distribution (CAD) of 18.1 pence per share up 17.7% (2015: 15.4 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 2016	Year ended 31 July 2015
Group Adjusted EBITDA	**6,295**	5,682
Less: Net finance costs (per Income Statement)	**(735)**	(1,003)
Capitalised maintenance expenses	**(110)**	(113)
New Works Team	**(134)**	(133)
Current tax	**(606)**	(535)
Total deductions	**(1,585)**	(1,784)
Cash Available for Distribution	**4,710**	3,898
Increase over last year	**20.8%**	
	Number	**Number**
Adjusted shares in issue	**26,019,241**	25,356,688
CAD per share (annualised)	**18.1p**	15.4p
Increase in CAD per share	**17.7%**	

Capital expenditure and capital commitments

The Group has grown through a combination of new site acquisition, existing store improvements and relocations, and has concentrated on extracting value from its existing assets and developing through collaborative projects and management contracts. Capital expenditure during the year totalled £6.99 million (2015: £3.58 million). This capital expenditure was more than funded by the capital receipts of £8.5 million.

The Group has capital expenditure contracted but not provided for in the financial statements of £1.10 million (2015: £3.03 million). The Company was also committed to complete on its new Wellingborough site following completion of all relevant planning matters.

Statement of Financial Position

Net assets at the year-end were £71.5 million (2015: £53.0 million). Freehold and long leasehold properties independently valued at 31 July 2016 were £96.1 million (2015: £74.1 million). Please refer to the table of property values below.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

It is the Group's policy to commission an independent external valuation of its properties at each year-end. In previous years this work had been undertaken by Cushman & Wakefield (C&W). This year the Group selected Jones Lang LaSalle Limited (JLL) to undertake this work due to their greater exposure to the transactions undertaken in the market.

Our eleven freehold properties and one long leasehold are held in the statement of financial position at fair value and have been valued by JLL. Refer to note 10b) – property, plant and equipment and also to the accounting policies for details of the fair value of trading properties.

The valuations of the leasehold stores held as 'operating leases' are not taken onto the statement of financial position. However seven of these have also been valued and these valuations have been used to calculate the adjusted net asset value position of the Group. The value of our operating leases in the valuation totals £16.6 million (2015: £14.8 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. The proceeds from the sale of the Reading store sold with the benefit of its permission for residential development have been reinvested into new store development. It is not the intention of the Directors to make any other significant disposals of operational stores, although individual disposals may be considered where it is clear that added value can be created by recycling the capital into other opportunities.

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 2016 Valuation £**	No of stores/ sites	31 July 2015 Valuation £
Freehold & Long Leasehold valued by JLL (2015 C&W) [1]	12	**96,125,000**	12	74,110,000
Short Leasehold valued by JLL (2015 C&W) [2]	7	**16,575,000**	7	14,760,000
Freehold land and buildings at Director valuation [3]	1	**3,000,000**		–
Subtotal	20	**115,700,000**	19	88,870,000
Sites in development at cost	2	**457,826**	3	8,887,858
Total[4]	22	**116,157,826**	22	97,757,858

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

2 The seven leaseholds valued by JLL are all within the terms of the Landlord and Tenant Act (1954) giving a degree of security of tenure. The average length of the leases on the leasehold stores valued was 11 years and 8 months at the date of the 2016 valuation (2015 valuation: 12 years and 8 months). One leasehold store is not valued by JLL due to the relatively short unexpired period of its lease.

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

4 Total freeholds account for 85.7% of property values (2015: 84.9%).

Financial Review
continued

Adjusted Net Asset Value per Share

Adjusted Net Asset Value per share up 27.6% to £3.86 (2015: £3.02)

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

At July 2016 the adjusted net asset value per share (before deferred tax) increased an impressive 27.6% to £3.86 from £3.02 last year. This substantial increase is a result of higher property values as our new valuers recognised the strength of our landmark stores, cash generated from operations and additional sale proceeds from the disposal of our Reading site, offset in part by an increase in the shares in issue due to the exercise of share options by management and staff during the year

Analysis of net asset value (NAV)	**31 July 2016 £'000**	31 July 2015 £'000
Net assets	**71,475**	52,969
Adjustment to include operating/short leasehold stores at valuation		
Add: JLL leasehold valuation (2015: C & W)	**16,575**	14,760
Deduct: leasehold properties and their fixtures and fittings at NBV	**(3,065)**	(3,339)
	84,985	64,390
Deferred tax arising on revaluation of leasehold properties[1]	**(2,432)**	(2,284)
Adjusted net assets	**82,553**	62,106
Shares in issue	**Number**	Number
Opening shares in issue	**28,447**	27,809
Shares issued for the exercise of options	**662**	638
Closing shares in issue	**29,109**	28,447
Shares held in treasury	**(2,467)**	(2,467)
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**26,019**	25,357
Adjusted net asset value per share after deferred tax provision	**£3.17**	£2.45
Adjusted net asset value per share before deferred tax provision		
Adjusted net assets	**82,553**	62,106
Deferred tax liabilities and assets recognised by the Group	**15,361**	12,252
Deferred tax arising on revaluation of leasehold properties[1]	**2,432**	2,284
Adjusted net assets before deferred tax	**100,346**	76,642
Closing shares for NAV purposes	**26,019**	25,357
Adjusted net asset value per share before deferred tax provision	**£3.86**	£3.02

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

Summary

Lok'nStore is a robust business with low debt and gearing which generates a rapidly growing cash flow from its substantial asset base. The UK self-storage market is still immature and presents an excellent opportunity for further growth of the business.

Principal Risks and Uncertainties in operating our Business

Finance

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

Cash deposits are placed with Royal Bank of Scotland plc on a no-notice treasury deposit account which tracks base rate and yields a rate equivalent to RBS bank base rate on all deposited balances. The Group's cash position is reviewed daily and cash is transferred daily between these accounts and the Group's operational current accounts as required.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. Full details are set out in the Financial Review. Further information on our treasury arrangements is set out in note 16.

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

Risk Management

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

Market Risk

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

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

We have a large customer base spread across the stores including those customers who have used Lok'nStore regularly over the years. Many of these periodically return as their circumstances and their storage needs change. Across all of the stores we operate self-storage customers are a broad mix of both domestic and business.

Property Risk

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

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

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

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

Credit Risk

Lok'nStore's self-storage credit model is strong with customers paying four weekly in advance in addition to an initial four weeks rental deposit. We retain a legal lien over customers' goods which can be sold to cover their unpaid bills. Credit control remains tight with only £33,210 (2015: £38,891) of bad debts recognised during the year representing around 0.21% of Group revenue (2015: 0.25%). There was £8,116 of additional costs associated with recovery (2015: £8,714). Given the tight credit conditions in the wider economy our own credit control indicators are resilient, showing no appreciable signs of weakening during the year.

Tax Risk

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

Corporate Social Responsibility and Employee Risk

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

Reputational Risk

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

Approved by the Board of Directors and authorised for issue on 14 October 2016 and signed on its behalf by:

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Board of Directors and Advisers

Executive Directors

Simon Thomas
Chairman

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

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

Andrew Jacobs
Chief Executive Officer

Andrew established Lok'nStore in February 1995 after eight years' experience at Nomura International in London. He has an MPhil in Economics from Cambridge University and a BSc in Economics from the London School of Economics.

Andrew is responsible for strategy, corporate finance and property.

Ray Davies
Finance Director

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

Ray is responsible for finance, administration and risk management.

Colin Jacobs
Director

Colin has been a director since founding in 1995.

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

Neil Newman
Director

Neil joined the Lok'nStore group in October 2006 rising to the position of Group Sales Director in September 2014 and as an Executive Director of the Group since November 2015. Prior to joining Lok'nStore, Neil gained a wealth of experience in the retail sector including positions at Wickes and Woolworths plc.

Neil takes responsibility for sales, marketing and our people in Lok'nStore and Saracen.

Non-Executive Directors

Edward Luker
Senior Non-Executive Director

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

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

Richard Holmes
Non-Executive Director

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

Richard sits on the Remuneration Committee.

Charles Peal
Non-Executive Director

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

Charles chairs the Audit Committee.

Directors and Advisers

Directors

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

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

Auditor
RSM UK AUDIT LLP
(formerly Baker Tilly UK Audit LLP)
Chartered Accountants
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Solicitors
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Glovers LLP
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Bankers
Royal Bank of Scotland
Abbey Gardens
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Reading
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Directors' Report

The Directors submit their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2016.

Principal Activity

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

Review of the Business and Future Developments

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

The key performance indicators are set out in the Highlights on page 3 and discussed in more detail in the Financial Review and the Performance of our Stores sections of the Strategic Report.

Going Concern

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

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

The Directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and the Group have adequate resources and facilities to continue in operational existence for the foreseeable future based on Group cash balances of £5.3 million, (2015: £2.4 million) undrawn committed facilities at 31 July 2016 of £11.2 million (2015: £12.3 million) and cash generated from operations in the year to 31 July 2016 of £3.8 million (2015: £6.1 million). Following the agreement of new facilities with Royal Bank of Scotland on improved terms, the Group now operates a five year £40 million revolving credit facility with RBS plc. The facility has been in place since 15 January 2016 and runs until 14 January 2021. The Group is fully compliant with all bank covenants and undertakings and is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Dividend

In respect of the current year, the Directors propose that a final dividend of 6.33 pence per share (2015: 5.67 pence) will be paid on 19 December 2016 to shareholders on the register on 18 November 2016. The total estimated dividend to be paid is £1,689,379 based on the number of shares in issue on 3 October 2016 as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Events after the Reporting Date

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

Directors

The following Directors held office during the year and subsequently:

SG Thomas	ETD Luker
A Jacobs	RJ Holmes
RA Davies	CP Peal
CM Jacobs	N Newman (from 26 November 2015)

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

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

Reappointment of Directors

In accordance with the Company's Articles of Association, Ray Davies and Charles Peal retire by rotation and each being eligible offer themselves for re-election at the next Annual General Meeting (AGM). Richard Holmes and Edward Luker who have over 12 years and 9 years tenure respectively as non-executives are required under the Companies Act 2006 to offer themselves for re-election at every AGM and accordingly offer themselves for re-election at the next AGM. Neil Newman a board appointee during the year, offers himself for election at the next AGM.

Directors' and Officers' Liability Insurance

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

Substantial Shareholdings

The Directors have been notified or are aware that the following are interested in 3% or more of the issued Ordinary Share capital of the Company as at 3 October 2016:

	Current rank	% at 3 October 2016	Number of shares	Total shares in issue (excluding treasury shares)	% at 5 October 2015	Number of shares	Total shares in issue (excluding treasury shares)
Andrew Jacobs	1	**19.51**	5,206,600		20.32	5,305,200	
Miton Capital Partners	2	**12.92**	3,447,476		11.79	3,077,476	
Simon Thomas	3	**6.74**	1,800,000		7.66	2,000,000	
Cavendish Asset Management	4	**6.48**	1,729,700		7.02	1,831,700	
Slater Investments	5	**4.60**	1,228,750		4.89	1,275,501	
Charles Peal	6	**3.24**	865,000		3.31	865,000	
				26,688,453[1]			**26,102,803**

[1] Represents total shares in issue (excluding treasury shares) at 3 October 2016.

Market Valuation of Freehold Land and Buildings

The changes in property, plant and equipment during the year and details of property valuations at 31 July 2016 are shown in note 10b to the Financial Statements. Further commentary on the property portfolio is contained in the Property Review and in the Financial Review.

Share Buy-back Authority

Authority will be sought at the Company's AGM on 24 November 2016 from shareholders to approve a share buyback authority. The buy-back authority will only be exercised in circumstances where the Directors regard such purchases to be in the best interests of shareholders as a whole.

Statement of Disclosure of Information to the Auditor

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

Annual General Meeting

The Company's Annual General Meeting will be held on 24 November 2016 at 5.30pm at the offices of Goodman Derrick LLP 10, St Bride Street London EC4A 4AD.

Auditor

A resolution to reappoint RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) as auditor will be put to the members at the Annual General Meeting.

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

On behalf of the Board.

Ray Davies
Director
14 October 2016

Corporate Social Responsibility Report

Corporate and Social Responsibilities

Lok'nStore conducts its business in a manner that reflects honesty, integrity and ethical conduct. Our Corporate Social Responsibility Report sets out our environmental policy and how we manage our impact on the environment, our policies and principles in relation to our responsibilities to stakeholders including suppliers, customers and employees.

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

Customers

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

Suppliers

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

Employees

At 31 July 2016 we had 153 employees (2015:145).

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

The Lok'nStore Academy

This will be the second year of our running the Lok'nStore Academy which has been received very positively by our people throughout the Group. The Academy brings some great strategic and operational benefits, including:-

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

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

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

Share Ownership Plans

All employees are eligible to participate in our share ownership plans. Lok'nStore operates a Share Incentive Plan with 124 members (2015: 117), a total of 81% of employees participating in the Scheme (2015: 81%). This high level of participation is testament to the loyalty and commitment of our staff. Our personnel are committed and motivated and help maintain the exemplary levels of friendly service that Lok'nStore provides to its customers. I would like to thank all of our staff for their commitment to our business and for their hard work and efforts over the year.

Policy on Payment of Suppliers

The Group does not follow any formal code or standard on payment practice. The Company's policy, which is also applied by the Group, is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with standard payment practice, whereby all outstanding trade accounts are settled within the terms agreed with the supplier at the time of the supply or otherwise 30 days from invoice date. At the year-end the credit taken from suppliers by the Group was 50 days (2015: 56 days).

Health and Safety

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

Lok'nStore has a Property Risk Committee which meets every other month and considers issues relevant to Health and Safety and other risk issues within the Group under the overall supervision of Ray Davies, Finance Director, who carries Board responsibility for risk management.

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

Employee Benefit Trust

The Employee Benefit Trust owns 623,212 shares (2015: 623,212), the costs of which are shown as a deduction from shareholders' funds. Full details are provided in note 26 - Own Shares.

Environmental Performance

Our Environmental Policy is to effectively manage our waste, control our polluting emissions and to encourage our suppliers to minimise their impact on the environment. Trucost, the environmental reporting company has reviewed Lok'nStore Group plc's reporting of environmental matters in its Annual Report for the year ended 31 July 2016.

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

Environmental Management and Performance

Lok'nStore Group has been measuring its environmental impacts for the last eleven years (since FY 2005). Monitoring focuses on environmental key performance indicators (eKPIs): greenhouse gas emissions (GHG), water use and waste.

Highlights year ending 31 July 2016

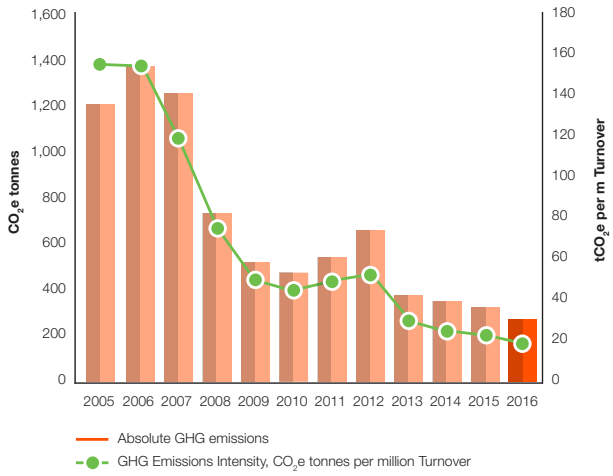
- In 2016 total GHG emissions have been reduced by 10%, with 288 tonnes (319 tonnes in 2015). Over the eleven-year period, GHG emissions have reduced by 76%, from 1,189 tonnes in 2005. When normalized to turnover, there has been an 11% reduction this year, from 21 tCO2e/£m to 18 tCO2e/£m.
- Following the effective elimination of indirect emissions from electricity at its Lok'nStore facilities by the purchase of 100% renewable sourced electricity, the Group's direct emissions, which result from natural gas and vehicle fuel consumption, now account for 85% of overall GHG emissions. As direct gas and fuel use is now the largest source of GHG emissions, Lok'nStore has concentrated on reducing this impact by 5% (normalised to turnover) to 246 tonnes (2015, 255 tonnes).
- Electricity generation from PV installations rose by 23% to 149 MWh (2015, 122 MWh). The electricity generation in 2016 is equivalent to 62 tonnes CO2e when supplied from the national grid. Lok'nStore has opened a new facility in Bristol, which has contributed an additional 18 MWh.
- Total waste sent to landfill reduced for the 11th successive year to 164 tonnes (2015, 168 tonnes), a 3% reduction on a normalised basis.
- Water consumption has been reduced by 72% since 2005.

Overall GHG emissions

The total GHG emissions (direct and indirect) have decreased by 10%, falling from 319 tCO2e to 288 tCO2e. Since the start of reporting in 2005, when emissions were 1,189 tonnes in the year, the current level represents a 76% reduction. When normalized based on turnover, the decrease in emissions from 2005 is 88%.

Figure 1 shows the level of total GHG emissions each year since the start of reporting. The figures include direct emissions from vehicles and gas boilers and indirect emissions from electricity. Since 2015 Lok'nStore has stopped hiring vans to customers, and hence the emissions, previously accounted for as indirect emissions, are now zero.

Figure 1: Direct and Indirect GHG emissions



In previous years, indirect GHG emissions from electricity consumption have been proportionally higher than direct emissions. However, due to using 100% renewable energy at its Lok'nStore facilities for the fourth consecutive year, direct GHG emissions from 2013 onwards are proportionally higher than indirect GHG emissions. Lok'nStore will continue identifying opportunities to reduce its GHG emissions with a particular focus on natural gas consumption and fuel use.

Indirect GHG Emissions (electricity)

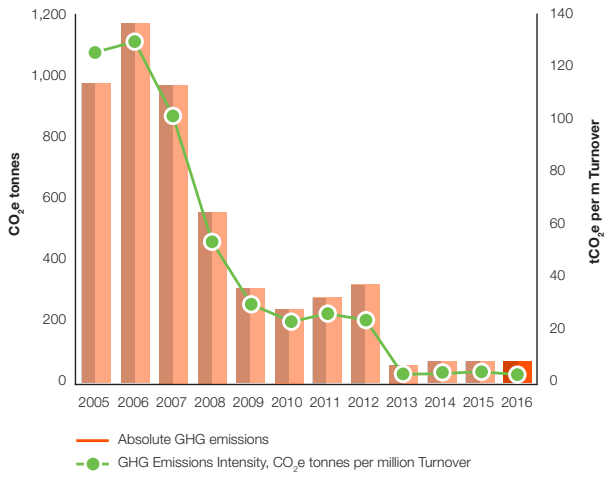
For the eighth year running all of Lok'nStore Ltd.'s electricity was supplied by Green Energy plc. It has been confirmed by Green Energy that 100% of the electricity supplied to Lok'nStore Ltd has been from renewable sources. Since 2013 reporting, an emission factor of zero is applied to Lok'nStore's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

Absolute indirect GHG emissions from electricity consumption decreased from 64 tCO2e to 42 tCO2e. The decrease is due to Saracen using renewable energy (10% of its total energy consumption) for the first time this year. When normalised to turnover, the intensity is 3 tCO2e per £m turnover, which is a 35% decrease from the previous year.

Environmental Performance

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

Figure 2: GHG emissions from electricity consumption

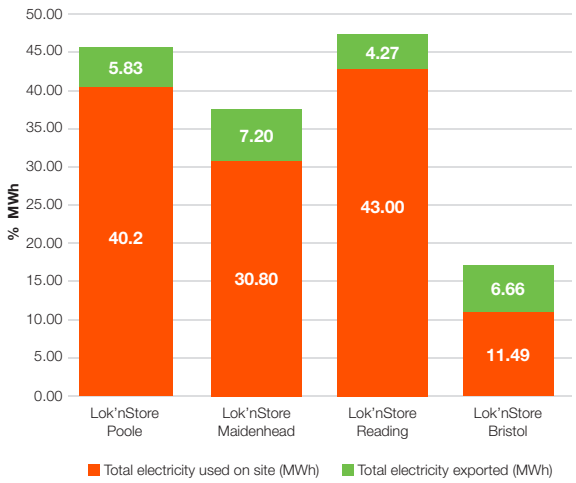


Electricity generation

Where appropriate Lok'nStore equips new stores with solar panel arrays. In 2014, Lok'nStore installed a 50kWp array at Maidenhead in addition to the installation at Poole. In 2015 Lok'nStore added PV installations at their new Reading facility and then later that year, at their facility in Bristol. Lok'nStore will continue and expand its electricity generation from solar power and has also installed PV arrays at the new building completed for the Southampton centre, which will start being operational in the next financial year.

Figure 3 and table 1 below show the overall electricity generation from the PV systems, the consumption of this electricity at each site and the electricity exported to the national grid.

Figure 3: Electricity usage on site and exported from PV systems



Poole, Maidenhead and Reading were operating for the full financial year and generated 131 MWh of electricity (2015, 122 MWh). Of this 86% was used on site providing 26% of the stores' annual electricity needs, with a balance of 17 MWh exported back to the grid. Technical issues reduced the output from the Maidenhead store for a part of the reporting period. The system generated 38 MWh of electricity (2015, 50MWh) which still provided 29% of the store's annual electricity requirement.

The solar arrays in Bristol were added later in the year. The facility has generated 18 MWh electricity. Of the total installed capacity at Bristol, 11 MWh was used at its own facility and 7 MWh was exported to the grid. With the solar panel arrays installed at Poole, Maidenhead, Reading and Bristol, Lok'nStore was able to increase electricity generation by 23% compared to 2015. This year a larger proportion of the electricity generated has been used on site. 84% of the total electricity produced is now used by Lok'nStore's facilities. Lok'nStore also exported 24 MWh to the national grid in 2016, which is a decrease of 7% when compared to last year (2015, 26 MWh).

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

	2015	2016	% change
Generation (MWh) – Poole	50	**46**	-8%
Generation (MWh) – Maidenhead	50	**38**	-25%
Generation (MWh) – Reading	21	**47**	125%
Generation (MWh) – Bristol		**18**	
Total generation, MWh	122	**149**	23%
tCO_2e of generated electricity at national standard mix	56	**62**	9%

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

	2015	2016	% change
Generation (MWh) – Poole	7	**6**	-21%
Generation (MWh) – Maidenhead	18	**7**	-60%
Generation (MWh) – Reading	0.2	**4**	2011%
Generation (MWh) – Bristol	-	**7**	
Total exported, MWh	26	**24**	-7%
tCO_2e of exported electricity at national standard mix	12	**12**	-7%

The total generation of 149 MWh would represent 62 tCO_2e (2015, 56 tCO_2e), if drawn from the national grid. Although Lok'nStore generated 23% more electricity from its photovoltaic installations, there was a 7% decrease in the amount of electricity exported, which is a change in direction of its previous trend of increasing annual export.

Direct GHG emissions

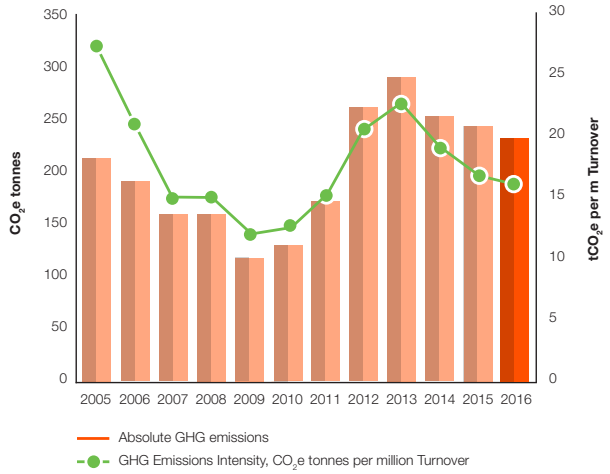
In 2011, Lok'nStore acquired the Saracen records management business which includes a document delivery and collection service. This has led to a 16% increase in the GHG emissions in comparison to the baseline year 2005. The Group has introduced a new van fleet fitted with Euro V compliant diesel engines which greatly improve fuel efficiency. In 2015, the company discontinued its services to hire vans to customers, reducing the absolute GHG emission to 212 tCO_2e (2015, 221 tCO_2e) Overall, vehicle fuel GHG emissions were reduced by 5% on a normalised basis to 14 tCO_2e/£m.

Emissions from gas boilers have changed marginally with 33 tCO_2e in 2016 compared to 34 tCO_2e in the previous year. Direct GHG emissions intensity from natural gas usage has remained constant at 2 tCO_2e per £m turnover. The natural gas consumption includes the gas consumed by office tenants. Lok'nStore is currently exploring options to improve the tenants' consumption and to monitor their consumption separately.

Overall, the Group's direct carbon footprint has decreased from 255 to 246 CO_2e tonnes. Normalised to turnover, direct GHG emissions decreased from 17 to 16 CO_2e tonnes per £m, which is a 5% reduction.

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

Figure 4: GHG emissions from natural gas and vehicles

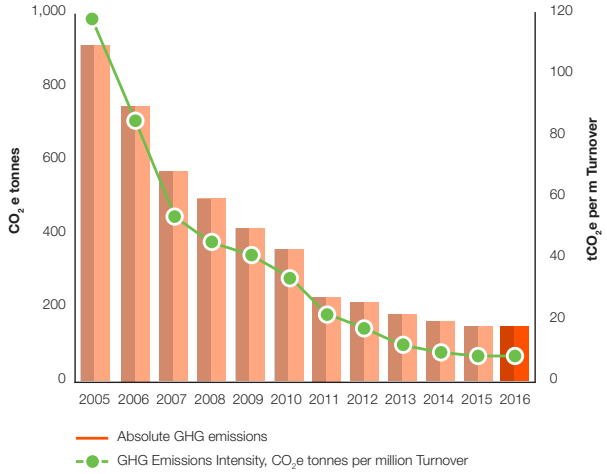


Waste generation and recycling

In line with the Group's waste management strategy, we continue to monitor waste generation and recycling levels. For the eleventh successive year Lok'nStore reduced the quantity of waste produced. Waste sent to landfill fell to 164 tonnes in 2016, from 168 tonnes in the previous year, a 3% reduction when normalised to turnover. Total waste recycled has fallen from 240 tonnes to 218 tonnes this year, representing a 9% decrease in absolute quantity. However, this can be attributed to the reduction of total waste by 7% when normalised to turnover. We also monitor hazardous (sanitary) waste, but the amount is negligible.

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

Figure 5: Landfill waste



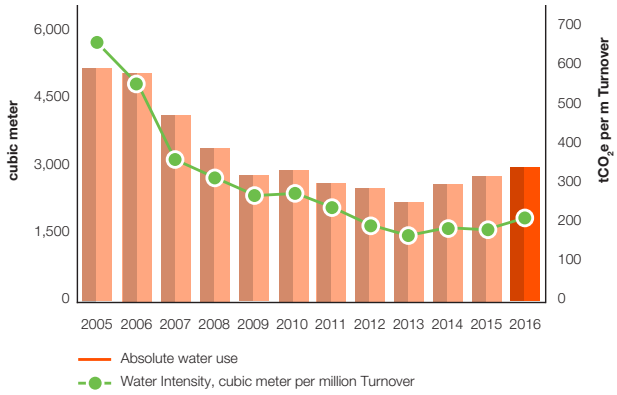
Since the acquisition of Saracen, the Group also monitors its contracted waste produced (i.e. consumer waste sent to Saracen for disposal). In 2016, Saracen recycled 268 tonnes of shredded paper on behalf of its customers, compared to 344 tonnes in 2015. It also disposed of media and exhibition items and PC equipment, which is nearly three times as much as in 2015 (0.61 tonne).

Water consumption

The water consumption intensity reduced by 72% from 662 m^3/£m in 2005 to 185 m^3/£m in 2016. This KPI is an extremely sensitive and useful indicator of any anomalous use or leakage. This year's water consumption intensity of 185 m^3/£m represents a 2% rise compared to 2015. The 2016 absolute consumption of 2,885 m^3 of water (2015, 2,780 m^3) represents a 4% increase.

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

Figure 6: Water use



Environmental Performance

Direct Impacts (Operational)			Absolute Tonnes CO_2e		Normalised* Tonnes CO_2e Per £m Turnover		
Greenhouse Gases	Definition	Data Source and Calculation Methods	2016	2015	2016	2015	% change in normalised quantity
Gas	Emissions from utility boilers	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines	**33**	34	**3**	2	4%
Vehicle Fuel	Diesel and petrol used in company vans and by employees on company business.	Fuel invoices, recorded mileage or satellite tracking converted according to Defra Guidelines.	**212**	221	**14**	14	-5%
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O)	Calculated according to Defra Guidelines	**246**	255	**16**	17	-5%

			Quantity				
			Absolute Tonnes		Normalised* Tonnes Per £m Turnover		
Greenhouse Gases	Definition	Data Source and Calculation Methods	2016	2015	2016	2015	% change in normalised quantity
Landfill	General office waste, which includes a mixture of paper, card, wood, plastics and metals.	Volume of waste generated per annum, calculated by recording the number of bins & skips removed, converted to tonnes according to Defra Guidelines.	**164**	168	**11**	11	-3%
Recycled	General office waste recycled, primarily cardboard, and fluorescent lights.	Volume of waste recycled per annum, calculated by recording the number of bins & skips removed for recycling, converted to tonnes according to Defra Guidelines.	**218**	240	**14**	16	-10%

Indirect Impacts (Supply Chain)			Quantity				
			Absolute Tonnes CO_2e		Normalised* Tonnes CO_2e Per £m Turnover		
Greenhouse Gases	Definition	Data Source and Calculation Methods	2016	2015	2016	2015	% change in normalised quantity
Energy Use	Directly purchased electricity, which generates Greenhouse Gases including CO2 emissions	Yearly consumption of directly purchased electricity in kWh collected, converted according to Defra Guidelines	**42**	64	**3**	4	35%

			Quantity				
			Absolute m^3		Normalised* m^3 Per £m Turnover		
Water	Definition	Data Source and Calculation Methods	2016	2015	2016	2015	% change in normalised quantity
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water	**2,885**	2,708	**185**	180	-2%

Indirect Impacts – Downstream			Quantity				
			Absolute Tonnes CO_2e		Normalised* Tonnes CO_2e Per £m Turnover		
Greenhouse Gases	Definition	Data Source and Calculation Methods	2016	2015	2016	2015	% change in normalised quantity
Vehicle Fuel	Petrol and diesel used by customers in van hire fleet.	Recorded mileage, converted according to Defra Guidelines.	**–**	–	**–**	–	–

Figures are rounded up

* Normalised based on annual turnover for the respective years.

Corporate Governance

Introduction

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

Narrative Statement Directors

There is a Board of Directors, which is set up to control the Group and consists of five Executive and three Non-Executive Directors. Richard Holmes who by virtue of over twelve years tenure as a non-executive is not considered to be independent. Edward Luker and Charles Peal are by virtue of a tenure now exceeding 9 years also not considered to be independent. SG Thomas is Chairman of the Board and the Board has a formal schedule of matters reserved for its consideration and decision. This schedule includes approval of financial strategy, major investments, review of performance, monitoring risk, ensuring adequate capital resources are available and reporting to shareholders. The Chairman is not independent as he is a substantial shareholder of the Company and was formerly the Chief Executive.

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

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

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

Directors' Remuneration

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

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

Shareholders' Relations

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

Accountability and Audit

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

Internal Control

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

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

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

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

Audit Committee

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

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

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

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

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

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

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

On behalf of the Board.

Simon G Thomas
Chairman
14 October 2016

Directors' Responsibilities in the Preparation of Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 July 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

David Clark (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, (formerly Baker Tilly UK Audit LLP) Statutory Auditor
Chartered Accountants
25 Farringdon Street
EC4A 4AB
14 October 2016

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2016

	Notes	2016 £'000	2015 £'000
Revenue	1a	16,056	15,424
Total property, staff, distribution and general costs	2a	(9,761)	(9,742)
Adjusted EBITDA[1]		6,295	5,682
Amortisation of intangible assets		(165)	(165)
Depreciation and loss on sale		(1,537)	(1,440)
Equity settled share based payments		(182)	(211)
Irrecoverable property costs		–	(209)
Property disposal costs	2c	(123)	–
Net settlement proceeds	2c	1,940	–
		(67)	(2,025)
Operating profit[1]		6,228	3,657
Finance income	3	313	141
Finance cost	4	(1,048)	(1,144)
Profit before taxation	5	5,493	2,654
Income tax expense	7	(1,211)	(686)
Profit for the year		4,282	1,968
Profit attributable to:			
Owners of the parent	25	4,282	1,968
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Increase in property valuation		17,651	8,009
Deferred tax relating to change in property valuation		(2,387)	(1,578)
		15,264	6,431
Items that may be subsequently reclassified to profit and loss			
Increase/(decrease) in fair value of cash flow hedges		83	(170)
Deferred tax relating to cash flow hedges		(21)	38
		62	(132)
Other comprehensive income		15,326	6,299
Total comprehensive income for the year		19,608	8,267
Attributable to owners of the parent		19,608	8,267
Earnings per share			
Basic	9	16.60p	7.84p
Diluted	9	16.24p	7.64p

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 2016

	Share capital £'000	Share premium £'000	Other reserves £'000	Revaluation reserve £'000	Retained earnings £'000	**Total equity £'000**
1 August 2014	**279**	**1,801**	**8,595**	**26,478**	**8,057**	**45,210**
Profit for the year	–	–	–	–	1,968	**1,968**
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	6,431	–	**6,431**
Increase in fair value of cash flow hedges net of deferred tax	–	–	(132)	–	–	**(132)**
Total comprehensive income for the year	–	–	(132)	6,431	1,968	**8,267**
Transactions with owners:						
Dividend paid	–	–	–	–	(1,847)	**(1,847)**
Share based payments	–	–	211	–	–	**211**
Transfers in relation to share based payments	–	–	(298)	–	298	**–**
Deferred tax credit relating to share options	–	–	309	–	–	**309**
Exercise of share options	6	813	–	–	–	**819**
Total transactions with owners	6	813	222	–	(1,549)	**(508)**
Transfer realised gain on asset disposal	–	–	–	(421)	421	**–**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(249)	249	**–**
31 July 2015	**285**	**2,614**	**8,685**	**32,239**	**9,146**	**52,969**
Profit for the year	–	–	–	–	4,282	**4,282**
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	15,264	–	**15,264**
Decrease in fair value of cash flow hedges net of deferred tax	–	–	62	–	–	**62**
Total comprehensive income for the year	–	–	62	15,264	4,282	**19,608**
Transactions with owners:						
Dividend paid	–	–	–	–	(2,147)	**(2,147)**
Share based payments	–	–	182	–	–	**182**
Transfers in relation to share based payments	–	–	(401)	–	401	**–**
Deferred tax credit relating to share options	–	–	(96)	–	–	**(96)**
Exercise of share options	6	953	–	–	–	**959**
Total transactions with owners	6	953	(315)	–	(1,746)	**(1,102)**
Transfer realised gains on asset disposal	–	–	–	(1,639)	1,639	**–**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(262)	262	**–**
31 July 2016	**291**	**3,567**	**8,432**	**45,602**	**13,583**	**71,475**

Company Statement of Changes in Equity

For the year ended 31 July 2016

	Share capital £'000	Share premium £'000	Retained deficit £'000	Other reserves £'000	Total £'000
31 July 2014	**279**	**1,801**	**(167)**	**2,267**	**4,180**
Loss for the year	–	–	(139)	–	**(139)**
Equity settled share based payments	–	–	–	211	**211**
Transfer in relation to share based payments	–	–	298	(298)	**–**
Exercise of share options	6	813	–	–	**819**
31 July 2015	**285**	**2,614**	**(8)**	**2,180**	**5,071**
Loss for the year	–	–	(276)	–	**(276)**
Equity settled share based payments	–	–	–	182	**182**
Transfer in relation to share based payments	–	–	401	(401)	**–**
Exercise of share options	6	953	–	–	**959**
31 July 2016	**291**	**3,567**	**117**	**1,961**	**5,936**

Statements of Financial Position

31 July 2016

Company Registration No. 04007169

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Assets					
Non-current assets					
Intangible assets	10a	3,593	3,758	–	–
Property, plant and equipment	10b	104,363	87,802	–	–
Investments	11	–	–	2,288	2,106
Development loan capital	12	3,159	2,779	–	–
Amounts due from subsidiary undertakings	29	–	–	3,648	2,965
		111,115	94,339	5,936	5,071
Current assets					
Inventories	13	165	141	–	–
Trade and other receivables	14	4,952	2,479	–	–
Cash and cash equivalents	16	5,335	2,435	–	–
Total current assets		10,452	5,055	–	–
Total assets		121,567	99,394	5,936	5,071
Liabilities					
Current liabilities					
Trade and other payables	15	(5,794)	(5,971)	–	–
Current tax liabilities		(173)	(535)	–	–
Derivative financial instruments	17b	(37)	–	–	–
		(6,004)	(6,506)	–	–
Non-current liabilities					
Borrowings	17a	(28,727)	(27,548)	–	–
Derivative financial instruments	17b	–	(119)	–	–
Deferred tax	18	(15,361)	(12,252)	–	–
		(44,088)	(39,919)	–	–
Total liabilities		(50,092)	(46,425)	–	–
Net assets		71,475	52,969	5,936	5,071
Equity attributable to owners of the parent					
Called up share capital	19	291	285	291	285
Share premium		3,567	2,614	3,567	2,614
Other reserves	24a	8,432	8,685	1,961	2,180
Retained earnings/(deficit)	25	13,583	9,146	117	(8)
Revaluation reserve		45,602	32,239	–	–
Total equity attributable to owners of the parent		71,475	52,969	5,936	5,071

Approved by the Board of Directors and authorised for issue on 14 October 2016 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 2016

	Notes	2016 £'000	2015 £'000
Operating activities			
Cash generated from operations	27a	3,774	5,984
Income tax paid		(961)	(338)
Net cash generated from operations		2,813	5,646
Investing activities			
Development loan capital		(380)	(2,650)
Purchase of property, plant and equipment		(6,988)	(3,583)
Proceeds from disposal of property, plant and equipment		8,399	2,901
Interest received		14	12
Net cash generated from investing activities		1,045	(3,320)
Financing activities			
Proceeds from new borrowings		28,816	–
Repayment of borrowings		(27,701)	–
Finance costs paid		(885)	(1,041)
Equity dividends paid		(2,147)	(1,847)
Proceeds from issue of ordinary shares (net)		959	819
Net cash used in financing activities		(958)	(2,069)
Net increase in cash and cash equivalents in the year		2,900	257
Cash and cash equivalents at beginning of the year		2,435	2,178
Cash and cash equivalents at end of the year		5,335	2,435

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

Accounting Policies

General Information

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

Basis of accounting

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations as adopted by the European Union and comply with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretation Committee relevant to its operations and effective for accounting periods beginning on or after 1 August 2015.

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

Adoption of new and revised standards

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

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

Standards in issue but not yet effective

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

Standards, interpretations and amendments Not Yet Endorsed		Effective date: Periods commencing on or after
IFRS 9	Financial Instruments	1 Jan 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 Jan 2016
IFRS11	Accounting for Acquisitions of Interests in Joint Operations	1 Jan 2016
IFRS15	Revenue from Contracts with Customers	1 Jan 2018
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 2016
IAS 27	Equity Method in Separate Financial Statements	1 Jan 2016
IAS 1	Disclosure Initiative	1 Jan 2016
IFRS 16	Leases	1 Jan 2019

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

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

Basis of consolidation

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

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

Accounting Policies

Goodwill

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

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

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

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

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

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 £5.3 million (2015: £2.4 million), undrawn committed bank facilities at 31 July 2016 of £11.2 million (2015: £12.3 million), and cash generated from operations in the year to 31 July 2016 of £3.8 million (2015: £6.0 million).

Following the agreement of new facilities with Royal Bank of Scotland on improved terms, the Group now operates a five year £40 million revolving credit facility with RBS plc. The facility has been in place since 15 January 2016 and runs until 14 January 2021. The Group is fully compliant with all bank covenants and undertakings and is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Revenue recognition

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

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

a) Self-storage revenue

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

b) Retail sales

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

c) Insurance

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

d) Management fee income

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

e) Serviced archive and records management

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

Segmental information

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

Adjusted EBITDA

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

Store adjusted EBITDA

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

Operating profit

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

Taxation

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

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

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

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

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

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

Retirement benefits

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

Equity share-based payments

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

Accounting Policies

Property lease premiums

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

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

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

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

Leased assets and obligations

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

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

Investments

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

Inventories

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

Financial instruments

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

Bank borrowings and finance costs

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

Cash flow hedges

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

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

Accounting Policies

Loans and receivables

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

Liabilities and equity

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

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

Net debt

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

Provisions

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

Employee Benefit Trust

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

Own shares

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

Critical accounting estimates and judgements

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

a) Estimate of fair value of trading properties

The Group values its self storage stores using a discounted cash flow methodology which is based on current and projected net operating income. Principal assumptions underlying management's estimation of the fair value are those relating to stabilised occupancy levels; expected future growth in storage rents and operating costs, maintenance requirements, capitalisation rates and discount rates. A more detailed explanation of the background and methodology adopted in the valuation of the Group's trading properties is set out in note 10b. The carrying value of land and buildings held at valuation at the reporting date was £81 million (2015: £61.0 million) as shown in the table in note 10b.

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

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

The carrying value of development property assets at the reporting date was £0.5 million (2015: £8.9 million). Please see note 10b for more details.

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

The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives important to the Group's financial position and performance. At 31 July 2016 intangible assets, excluding goodwill, amounted to £2.48 million (2015: £2.65 million). The valuation method used and key assumptions are described in note 10a.

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

Notes to the Financial Statements

For the year ended 31 July 2016

1a Revenue

Analysis of the Group's revenue is shown below:

Stores trading	2016 £'000	2015 £'000
Self-storage revenue	**11,931**	11,851
Other storage related revenue	**1,510**	1,434
Ancillary store rental revenue	**3**	7
Management fees	**439**	176
Sub-total	**13,883**	13,468
Document storage revenue	**2,173**	1,956
Total revenue per statement of comprehensive income	**16,056**	15,424

1b Segmental information

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

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

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

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

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

1b Segmental information continued

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

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

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 430 customers has a greater customer concentration with its ten largest corporate customers accounting for 34.6% (2015: 34.6%) of revenue, its top 50 customers accounting for 61.7% (2015: 63.3%) and its top 100 customers accounting for 77.0% (2015: 79.9%) of revenue. The self-storage segment with over 9,200 customers has no individual self-storage customer accounting for more than 1% of total revenue and no group of entities under common control (e.g. Government) accounts for more than 10% of total revenues.

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

Notes to the Financial Statements

For the year ended 31 July 2016

1b Segmental information continued

2015	Self-storage 2015 £'000	Serviced archive & records management 2015 £'000	Total 2015 £'000
Segment assets	93,296	6,098	99,394
Segment liabilities	(18,222)	(536)	(18,758)
Borrowings			(27,548)
Derivative financial instruments not allocated to segments			(119)
Total liabilities			(46,425)
Capital expenditure (note 10b)	3,126	457	3,583

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

2a Property, staff, distribution and general costs

	2016 £'000	2015 £'000
Property and premises costs	3,913	4,010
Staff costs	4,232	4,188
General overheads	1,128	1,049
Distribution costs	170	190
Retail products cost of sales (see note 2b)	318	305
	9,761	9,742

2b Cost of sales of retail products

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

	2016 £'000	2015 £'000
Retail	118	130
Insurance	51	33
Other	2	2
	171	165
Serviced archive consumables and direct costs	147	140
	318	305

2c Other Income and costs

	2016 £'000	2015 £'000
Property disposal costs[1]	123	–
Net settlement proceeds[2]	(1,940)	–
Irrecoverable property costs[3]	–	209
	(1,817)	209

1 Property disposal costs relate to the sale and manage back of the Swindon store.
2 Net settlement proceeds relate to an additional £2 million received for sale of old Reading store net of costs.
3 Irrecoverable property costs relate to site demolition costs not recoverable from the purchaser of the Portsmouth North site.

3 Finance income

	2016 £'000	2015 £'000
Bank interest	14	12
Other interest	299	129
	313	141

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

4 Finance costs

	2016 £'000	2015 £'000
Bank interest	797	925
Non-utilisation fees and amortisation of bank loan arrangement fees	251	219
	1,048	1,144

5 Profit before taxation

	2016 £'000	2015 £'000
Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
Owned assets	1,535	1,440
Amortisation of intangible assets	165	165
Operating lease rentals – land and buildings	1,529	1,562

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

Audit services		
– UK statutory audit of the Company and consolidated accounts	48	45
Other services		
– the auditing of accounts of associates of the Company pursuant to legislation	14	14
Other services supplied pursuant to such legislation		
– interim review	7	7
Tax services		
– compliance services	26	26
– advisory services	2	13
	97	105
Comprising:		
Audit services	62	59
Non-audit services:	35	46
	97	105

6 Employees

	2016 No.	2015 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	121	113
Administration	29	30
	150	143

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For the year ended 31 July 2016

6 Employees continued

	2016 £'000	2015 £'000
Costs for the above persons:		
Wages and salaries	**3,425**	3,451
Social security costs	**532**	443
Pension costs	**92**	87
	4,049	3,981
Share based remuneration (options)	**182**	211
	4,231	4,192

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £133,669 (2015: £132,543) have been capitalised as additions to property, plant and equipment as they are directly attributable to the acquisition of these assets. All other employee costs are included in staff costs in the statement of comprehensive income.

In relation to pension contributions, there was £11,705 (2015: £9,260) outstanding at the year-end.

Directors' remuneration

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

* Appointed 29 November 2015

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

Pension contributions of £30,775 (2015: £30,475) were paid by the Group on behalf of R A Davies and are not included in the Directors' emoluments table above. The highest paid Director did not accrue any pension rights during the year. The benefits in kind all relate to medical insurance premiums paid on behalf of the Directors.

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes in respect of qualifying service is one (2015: one).

7 Taxation

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax at 20% (2015: 20.7%)	606	535
Deferred tax:		
Origination and reversal of temporary differences	976	100
Adjustments in respect of prior periods	75	51
Impact of change in tax rate on closing balance	(446)	–
Total deferred tax	605	151
Income tax expense for the year	1,211	686

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

	2016 £'000	2015 £'000
Profit before tax	5,493	2,654
Tax on ordinary activities at the effective standard rate of corporation tax in the UK of 20% (2015: 20.7%)	1,099	549
Expenses not deductible for tax purposes	3	2
Depreciation of non-qualifying assets	85	85
Share based payment charges in excess of corresponding tax deduction	36	–
Impact of change in tax rate on closing deferred tax balance	(69)	–
Adjustments in respect of prior periods – deferred tax	75	51
Other	4	(1)
Share option scheme	(22)	–
Income tax expense for the year	1,211	686
Effective tax rate	22%	26%

The UK's main rate of corporation tax and the applicable rate for this period is 20.0%.

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 £2,387,114 (2015: £1,577,896) and the movement in the fair value of cash flow hedges of (£20,834) (2015: (£37,549) has been recognised as a debit/credit directly in other comprehensive income (see note 18 on deferred tax).

8 Dividends

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2014 (5.0 pence per share)	–	1,258
Interim dividend for the six months to 31 January 2015 (2.33 pence per share)	–	589
Final dividend for the year ended 31 July 2015 (5.67 pence per share)	1,456	–
Interim dividend for the six months to 31 January 2016 (2.67 pence per share)	691	–
	2,147	1,847

In respect of the current year the Directors propose that a final dividend of 6.33 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £1,689,379 based on the number of shares in issue at 3 October 2016 as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 17 November 2016; the record date 18 November 2016; with an intended payment date of 19 December 2016.

9 Earnings per share

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

	2016 £'000	2015 £'000
Profit for the financial year attributable to owners of the parent	4,282	1,968

	2016 No. of shares	2015 No. of shares
Weighted average number of shares		
For basic earnings per share	25,791,821	25,102,032
Dilutive effect of share options[1]	577,822	654,598
For diluted earnings per share	26,369,643	25,756,630

[1] Further options that could potentially dilute EPS in the future are excluded from the above because they are not dilutive in the period presented. Full details of share options are included in notes 20 to 23.

623,212 (2015: 623,212) shares held in the Employee Benefit Trust and 2,466,869 (2015: 2,466,869) Treasury shares are excluded from the above (see note 26).

	2016 £'000	2015 £'000
Earnings per share		
Basic	16.60p	7.84p
Diluted	16.24p	7.64p

10a Intangible assets

Group	Goodwill £'000	Contractual customer relationships £'000	Total £'000
Cost at 1 August 2014	1,110	3,309	4,419
Amortisation at 1 August 2014	–	(496)	(496)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2015	–	(661)	(661)
Net book value at 31 July 2015	1,110	2,648	3,758
Cost at 1 August 2015	1,110	3,309	4,419
Amortisation at 1 August 2015	–	(661)	(661)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2016	–	(826)	(826)
Net book value at 31 July 2016	1,110	2,483	3,593

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 2016 is 14 years and 11 months (2015: 15 years 11 months).

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

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

10b Property, plant and equipment

Group	Development property assets at cost £'000	Land and buildings at valuation £'000	Long leasehold land and buildings at valuation £'000	Short leasehold improvements at cost £'000	Fixtures, fittings and equipment at cost £'000	Motor vehicles at cost £'000	Total £'000
Cost or valuation							
1 August 2014	**13,013**	**51,412**	**5,121**	**2,560**	**18,242**	**32**	**90,380**
Additions	1,504	525	–	3	1,551	–	**3,583**
Disposals	–	–	–	–	(289)	(2)	**(291)**
Reclassification	(4,025)	2,958	–	–	1,067	–	**–**
Revaluations	–	6,140	1,304	–	–	–	**7,444**
31 July 2015	**10,492**	**61,035**	**6,425**	**2,563**	**20,571**	**30**	**101,116**
Depreciation							
1 August 2014	**1,604**	**–**	**–**	**1,599**	**9,478**	**19**	**12,700**
Depreciation	–	572	23	91	751	3	**1,440**
Disposals	–	–	–	–	(230)	(1)	**(231)**
Revaluations	–	(572)	(23)	–	–	–	**(595)**
31 July 2015	**1,604**	**–**	**–**	**1,690**	**9,999**	**21**	**13,314**
Net book value at 31 July 2015	**8,888**	**61,035**	**6,425**	**873**	**10,572**	**9**	**87,802**
Cost or valuation							
1 August 2015	**10,492**	**61,035**	**6,425**	**2,563**	**20,571**	**30**	**101,116**
Additions	3,281	152	1	–	3,554	–	**6,988**
Disposals	(4,604)	(3,228)	–	–	(701)	(13)	**(8,546)**
Reclassification	(8,711)	9,377	–	–	(666)	–	**–**
Revaluations	–	13,617	2,837	–	–	–	**16,454**
31 July 2016	**458**	**80,953**	**9,263**	**2,563**	**22,758**	**17**	**116,012**
Depreciation							
1 August 2015	**1,604**	**–**	**–**	**1,690**	**9,999**	**21**	**13,314**
Depreciation	–	606	100	91	736	2	**1,535**
Disposals	(1,604)	–	–	–	(389)	(11)	**(2,004)**
Reclassification	–	490	–	–	(490)	–	**–**
Revaluations	–	(1,096)	(100)	–	–	–	**(1,196)**
31 July 2016	**–**	**–**	**–**	**1,781**	**9,856**	**12**	**11,649**
Net book value at 31 July 2016	**458**	**80,953**	**9,263**	**782**	**12,902**	**5**	**104,363**

If all property, plant and equipment were stated at historic cost the carrying value would be £49.5 million (2015: £47.5 million).

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

In August 2015, the Group received an additional £2 million (gross) from the purchaser of the original Reading store site in return for relinquishing of all remaining rights to receive further payments in connection with the sale of the property. This sum is in addition to the £2.9 million received from the purchaser on 31 October 2014, taking the total consideration to £4.9m.

Property, plant and equipment (non-current assets) with a carrying value of £104.4 million (2014: £87.8 million) are pledged as security for bank loans.

10b Property, plant and equipment continued

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2016, a professional valuation was prepared by Jones Lang LaSalle Limited (JLL) (2015: Cushman & Wakefield) in respect of eleven freehold, one long leasehold and seven operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation - Professional Standards, published by The Royal Institution of Chartered Surveyors ("the Red Book") 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 Red Book JLL have confirmed that:

- This is the first 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%

The valuation report indicates a total valuation for all properties valued of £112.7 million (2015: £88.9 million) of which £96.1 million (2015: £74.1 million) relates to freehold and long leasehold properties, and £16.6 million (2015: £14.8 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 £96.1 million valuation of the freehold and long leasehold properties £9.0 million (2015: £6.7 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £87.1 million (2015: £67.4 million) relates to freehold and long leasehold properties.

The 2016 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 rents charged to customers. Judgements are made as to the trading potential and likely long term sustainable occupancy.

Stable occupancy depends upon the nature of demand, size of property and nearby competition, and allows for a reasonable vacancy rate to enable the operator to sell units to new customers. In the valuation the assumed stabilised occupancy level for the 19 trading stores (both freeholds and leaseholds) averages 81% (2015: 68.4%).

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 continue 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.

10b Property, plant and equipment continued

- The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 11.32% (2015: 11.25%). The yield arising from the first year of the projected cash flow is 7.43% (2015: 7.76%), rising to 10.86% in year five
- JLL have assumed purchasers costs of 6.8%
- The average stabilised occupancy is 80.1%
- The average exit yield assumed is 7.9%

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

For leaseholds the same methodology has been used as for freehold property, except that no sale of the assets in the 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 8 months as at 31 July 2016 (12 years and 8 months: 31 July 2015). Valuations for stores held under operating leases are not reflected in the statement of financial position and the assets in relation to these stores are carried at cost less accumulated depreciation.

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

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

Directors' valuation of land and property

The Old Southampton Store: Following the development and opening of the new Southampton store with the corresponding transfer of all customers from the old Southampton store, the vacant building will be redeveloped for alternative use. Accordingly the Directors have placed their valuation on the site at the year-end at £2.5 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 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 2016 is £3 million (2015: nil).

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**

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For the year ended 31 July 2016

11 Investments continued

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

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

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

12 Development capital

In May 2015 Lok'nStore opened a new managed store in Aldershot, Hampshire. The store is managed for third party investors under the Lok'nStore brand. Lok'nStore has managed the building and subsequent operation of the store. Lok'nStore generates a 10% annual return on £2.5 million of the total development capital committed to the project, and a management fee for the construction, operation and branding of the store. The capital provided is fully secured by a first fixed charge on the property.

	Group 2016 £'000	Group 2015 £'000
Development capital	3,159	2,779

Contingent Asset

When the Aldershot Store is sold by its owners the Group is entitled to receive a capital fee of 5% of the proceeds of sale (less reasonable selling costs).

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

13 Inventories

	Group 2016 £'000	Group 2015 £'000
Consumables and goods for resale	165	141

The amount of inventories recognised in cost of sales as an expense during the year was £156,121 (2015: £184,716).

14 Trade and other receivables

	Group 2016 £'000	Group 2015 £'000
Trade receivables	2,027	1,302
Other receivables	1,910	640
Prepayments and accrued income	1,015	537
	4,952	2,479

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

Trade receivables

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

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

In respect of its document storage business, customers are invoiced typically monthly in advance for the storage of their boxes, tapes and files. The provision of additional services, such as document boxes or tape collection and retrieval from archive, typically are invoiced monthly in arrears. The serviced archive segment with over 400 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 £269,153 (2015: £202,546) 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 40 days past due (2015: 39 days past due).

Other receivables

The Group has provided bridging finance on normal commercial terms (interest at 4.5% p.a.) to Chichester Storage Limited (CSL) to facilitate the development of the site (including obtaining the requisite planning approvals). As the store approaches breakeven and all conditions precedent have been met the CSL has facilities agreed whereupon it will refinance the bridging loan. The amounts included in other receivables above includes £1.025 million (2015: £Nil) in respect of the Chichester loan.

Ageing of past due but not impaired receivables

	Group 2016 £'000	Group 2015 £'000
0–30 days	147	119
30–60 days	72	43
60+ days	50	41
Total	269	203

Movement in the allowance for bad debts

	Group 2016 £'000	Group 2015 £'000
Balance at the beginning of the year	174	163
Impairment losses recognised	34	39
Amounts written off as uncollectible	(22)	(28)
Balance at the end of the year	186	174

14 Trade and other receivables continued

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 2016 £'000	Group 2015 £'000
0–30 days	–	–
30–60 days	–	–
60+ days	186	174
Total	186	174

15 Trade and other payables

	Group 2016 £'000	Group 2015 £'000
Trade payables	887	1,901
Taxation and social security costs	1,369	464
Other payables	1,197	1,173
Accruals and deferred income	2,341	2,433
	5,794	5,971

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

16 Financial instruments

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

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

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

Capital Management

	Group 2016 £'000	Group 2015 £'000
Gross borrowings	(28,816)	(27,701)
Cash and cash equivalents	5,335	2,435
Net debt	(23,481)	(25,266)
Total equity	71,475	52,968
Net debt to equity ratio	32.8%	47.7%

The decrease in the Group's gearing ratio arises principally through 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. The Group currently has two interest rate swaps with Lloyds Bank plc which run until 20 October 2016. These have been maintained and are reported fully in the Financial Review and in note 17(b).

16 Financial instruments continued

B Debt management

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

The Group borrows through a senior five year term revolving credit facility, arranged during the year with Royal Bank of Scotland plc secured on its store portfolio and other Group assets, excluding intangibles, with a net book value of £118.0 million (2015: £95.6 million). Borrowings are arranged to ensure the Group fulfils its strategy of growth and development of its stores and to maintain short-term liquidity. As at the reporting date the Group has a committed revolving credit facility of £40 million (2015: £40 million). This facility expires on 15 January 2021. Undrawn committed facilities at the year-end amounted to £11.2 million (2015: £12.3 million).

C Interest rate risk management

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

Following the agreement of new facilities with Royal Bank of Scotland on improved terms the following interest rates applied during the financial year:

d. Up to 14 January 2016: London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds Bank plc margin based on a loan to value covenant test for the revolving advances amounting to £28.5 million (2015: £27.7 million).

e. Up to 14 January 2016: 40% of the applicable margin for non-utilisation (i.e. that part of the facility which remains undrawn from time to time). For this period the prevailing non-utilisation charge is calculated at a rate of 0.94%.

f. From 15 January 2016: London Inter-Bank Offer Rate (LIBOR) plus 1.40%–1.65% Lloyds Bank plc margin based on a loan to value covenant test for the revolving advances amounting to £28.5 million (2015: £27.7 million).

g. From 15 January 2016: 40% of the applicable margin for non-utilisation (i.e. that part of the facility which remains undrawn from time to time). For this period the prevailing non-utilisation charge is calculated at a rate of 0.56%.

h. Rates prevailing on the Group's Interest rate swaps. See note 17b.

Cash balances held in current accounts attract no interest but surplus cash is transferred daily to a treasury deposit account which earns interest at the prevailing money market rates1. All amounts are denominated in Sterling. The balances at 31 July 2016 are as follows:

	Group 2016 £'000	Group 2015 £'000
Variable rate treasury deposits[1]	**4,915**	1,744
SIP trustee deposits	**34**	46
Cash in operating current accounts	**339**	602
Other cash and cash equivalents	**47**	43
Total cash and cash equivalents	**5,335**	2,435

[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 2016 was 0.5%.

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

16 Financial instruments continued

D Interest rate sensitivity analysis

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

At 31 July 2016, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £88,156 (2015: £77,005) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £88,156 (2015: £77,005). There would have been no effect on amounts recognised directly in other comprehensive income. The sensitivity has been calculated by increasing by 1% the average variable interest rate of 2.56% applying to the variable rate borrowings of £8.8 million in the year (2015: £7.7 million/2.84%).

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 2016 was £3.70 million (2015: £1.47 million) on receivables and £5.33 million (2015: £2.44 million) on cash and cash equivalents. Additionally, the Group has provided development loan capital in respect of the Aldershot store development, a managed contract. The current balance outstanding at 31 July 2016 was £3.16 million. (2015: £2.78 million). These amounts are secured by way of a fixed priority first charge and a debenture over all of the Aldershot assets.

H Maturity analysis of financial liabilities

The undiscounted contractual cash flow maturities are as follows:

2016 – Group

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

2015 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	–	–	–
From one to two years	–	27,701	205
Due after more than one year	–	27,701	205
Due within one year	3,392	–	925
Total contractual undiscounted cash flows	3,392	27,701	1,130

16 Financial instruments continued

I Fair values of financial instruments

	2016 £'000	2015 £'000
Categories of financial assets and financial liabilities		
Financial assets		
Trade and other receivables	**3,700**	1,468
Cash and cash equivalents	**5,335**	2,435
Development loan capital	**3,159**	2,779
Financial liabilities		
Trade and other payables	**(2,359)**	(3,392)
Bank loans	**(28,728)**	(27,548)

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

J Company's financial instruments

The Company's financial assets are amounts owed by subsidiary undertakings amounting to £3.8 million (2015: £3.0 million) which are classified as loans and receivables, and the investment in its subsidiary undertaking of £0.2 million (excluding capital contributions). These amounts are denominated in Sterling, are non-interest bearing, are unsecured and fall due for repayment within one year. No amounts are past due or impaired. The Company has no financial liabilities.

17a Borrowings

	Group 2016 £'000	Group 2015 £'000
Non-current		
Bank loans repayable in more than two years but not more than five years		
Gross	**28,816**	27,701
Deferred financing costs	**(89)**	(153)
Net bank borrowings	**28,727**	27,548
Non-current borrowings	**28,727**	27,548

On 15 January 2016, the Group agreed a new banking facility on improved terms with Royal Bank of Scotland Bank plc (RBS). The new £40 million five year revolving credit facility replaced the existing facility which was due to expire in October 2016, and will provide funding for site acquisitions as well as working capital for the development of the business over the medium term.

Under this new five year facility the Group is not obliged to make any repayments prior to its expiration in January 2021 and further provides during the term of the facility for the possibility of an optional extension of the five year term by a maximum of a further two years. The facility also provides for the possibility of an additional accordion of up to £10 million which if taken up during the term of the facility will increase facilities available to £50 million.

The Group currently has £28.8 million drawn against its existing £40 million facility. The margin on the new facility is at the London Inter-Bank Offer Rate (LIBOR) plus 1.40%–1.65% margin based on a loan to value covenant test (1.40% at Lok'nStore's current LTV level). This is a marked improvement on the previous 2.35%–2.65% margin and the Group will therefore benefit from a lower average cost of debt and thus improved cash flow. Loan to value covenants are in line with the previous facility.

The £40 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 £118.0 million (2015: £95.6 million) together with cross-company guarantees from Group companies.

17b Derivative financial instruments

The Group continues to operate two separate £10 million interest rate swaps as a cash flow hedge with Lloyds Bank plc, both effective from 31 May 2012, the first at a fixed 1 month sterling LIBOR rate of 1.2% and the second at a fixed one-month sterling LIBOR rate of 1.15%. Both swaps run up to 20 October 2016 whereupon they lapse. The balance of the drawn facility of £8.8 million (2015: £7.7 million) remains at a floating rate.

	Currency	Principal £	Maturity date	**Fair value 2016 £'000**	Fair value 2015 £'000
3032816LS Interest rate swap	GBP	10,000,000	20/10/2016	**(19)**	(63)
3047549LS Interest rate swap	GBP	10,000,000	20/10/2016	**(18)**	(56)
		20,000,000		**(37)**	(119)

The movement in fair value of the interest rate swaps of £82,675 (2015: £169,925) has been recognised in other comprehensive income in the year.

18 Deferred tax

Deferred tax liability	**Group 2016 £'000**	Group 2015 £'000
Liability at start of year	**12,252**	10,870
Credited to income for the year	**605**	151
Tax credited directly to other comprehensive income	**2,408**	1,540
Debit/(credit) to share based payment reserve	**96**	(309)
Liability at end of year	**15,361**	12,252

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 31 August 2014	**1,441**	**563**	**29**	**7,008**	**1,829**	**–**	**10,870**
Charge/(credit) to income for the year	267	(33)	(1)	–	(42)	(42)	151
(Credit)/charge to other comprehensive income	–	–	(38)	1,578	–	–	1,540
Credit to share based payment reserve						(309)	(309)
At 31 July 2015	**1,708**	**530**	**(8)**	**8,586**	**1,787**	**(351)**	**12,252**
Charge/(credit) to income for the year	147	(83)	11	–	524	6	605
Charge to other comprehensive income	–	–	21	2,375	12	–	2,408
Charge to share based payment reserve	–	–	–	–	–	96	96
At 31 July 2016	**1,855**	**447**	**24**	**10,961**	**2,323**	**(249)**	**15,361**

19 Share capital

Authorised:	2016 £'000	2015 £'000
35,000,000 ordinary shares of 1 pence each (2015: 35,000,000)	350	350

Allotted, issued and fully paid ordinary shares	£'000	£'000
Balance 1 August	285	279
Options exercised 662,573 shares (2015: 637,641 shares)	6	6
Balance 31 July	291	285

	Called up, allotted and fully paid Number	Called up, allotted and fully paid Number
Number of shares at 31 July	29,109,322	28,466,749

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

20 Equity settled share-based payment plans

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

The Company has the following share options:

2016 Summary	As at 31 July 2015 No of options	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2016 No of options
Unapproved Share Options	1,722,361	59,858	(643,894)	(43,841)	1,094,482
Approved CSOP Share Options	172,462	23,137	(18,679)	(10,909)	170,763
Total	1,894,823	82,995	(662,573)	(54,750)	1,260,459

2015 Summary	As at 31 July 2014 No of options	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2015 No of options
Enterprise Management Initiative Scheme	41,414	–	(41,414)	–	–
Unapproved Share Options	2,276,111	5,182	(535,321)	(23,611)	1,722,361
Approved CSOP Share Options	246,286	13,471	(60,906)	(26,389)	172,462
Total	2,563,811	18,653	(637,641)	(50,000)	1,894,823

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20 Equity settled share-based payment plans continued

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

	Total at 31 July 2015	Options granted	Options exercised	Unapproved Scheme	Approve CSOP share otions	**Total at 31 July 2016**
2016						
Executive Directors						
A Jacobs – Unapproved	**380,000**	**26,087**	**(200,000)**	**206,087**	**–**	**206,087**
SG Thomas – Unapproved	**170,000**	**5,217**	**(100,000)**	**75,217**	**–**	**75,217**
RA Davies – Unapproved	531,977	–	(250,000)	281,977	–	**281,977**
RA Davies – CSOP	14,493	–	–	–	14,493	**14,493**
RA Davies total	**546,470**	**–**	**(250,000)**	**281,977**	**14,493**	**296,470**
CM Jacobs – Unapproved	145,668	3,329	(25,000)	123,997	–	**123,997**
CM Jacobs – CSOP	20,577	3,594	(5,245)	–	18,926	**18,926**
CM Jacobs total	**166,245**	**6,923**	**(30,245)**	**123,997**	**18,926**	**142,923**
Neil Newman – Unapproved	180,714	17,028	(10,000)	187,742		**187,742**
Neil Newman – CSOP	19,939	1,434	(5,178)		16,195	**16,195**
N Newman total	**200,653**	**18,462**	**(15,178)**	**187,742**	**16,195**	**203,937**
Non-Executive Directors						
ETD Luker – Unapproved	15,000	–	–	15,000	–	**15,000**
C P Peal – Unapproved	10,000	–	(10,000)	–	–	**–**
Non-Executive total	**25,000**	**–**	**(10,000)**	**15,000**	**–**	**15,000**
All Directors total	**1,488,368**	**56,689**	**(605,423)**	**890,020**	**49,614**	**939,634**

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. 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 £182,124 (2015: £210,558), all of which relates to equity-settled share-based payment transactions.

21 Enterprise Management Initiative Scheme

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

The Group has for some years no longer met the EMI Scheme qualifying criteria. Accordingly, there were no options issued under this scheme during the year, and no options remained at the year end. The scheme is now closed.

22 Unapproved Share Options

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

Movements in the year are shown below:

	Options 2016 number	Weighted average exercise price 2016 pence	Options 2015 number	Weighted average exercise price 2015 price
Outstanding at 1 August	1,722,361	148.65	2,276,111	144.68
Granted during the year	59,858	305.50	5,182	287.50
Forfeited during the year	(43,841)	166.51	(23,611)	207.00
Exercised during the year	(643,894)	143.98	(535,321)	129.21
Outstanding at 31 July	1,094,482	159.85	1,722,361	148.65
Exercisable at 31 July	798,957	134.60	1,152,443	139.49

The options outstanding at 31 July 2016 had a weighted average remaining contractual life of 5.4 years (2015: 5.3 years). The exercise prices for shares exercisable at 31 July 2016 ranged from 56.5 pence per share to 269.5 pence per share. .

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

	As at 31 July 2015	Granted	Exercised /lapsed	As at 31 July 2016	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	380,000	26,087	(200,000)	206,087	1.085 – 2.855	31/7/15 – 6/8/18	31/7/22 – 6/8/25
S Thomas	170,000	5,217	(100,000)	75,217	1.360 – 2.855	31/7/16 – 6/8/18	31/1/24 – 6/8/25
R Davies	531,977	–	(250,000)	281,977	0.565 – 2.135	31/7/10 – 31/7/17	31/7/17 – 31/7/24
N Newman	180,714	17,028	(10,000)	187,742	1.070 – 3.250	31/7/10 – 31/7/19	31/7/17 – 31/7/26
C Jacobs	145,668	3,329	(25,000)	123,997	1.070 – 3.250	24/4/10 – 31/7/19	24/4/17 – 31/7/26
ETD Luker	15,000	–	–	15,000	0.565	31/7/12	31/7/19
C Peal	10,000	–	(10,000)	–	–	–	–
Total	1,433,359	51,661	(595,000)	890,020			

23 CSOP Approved Share Options

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

Movements in the year are shown below:

	Options 2016 number	Weighted average exercise price 2016 pence	Options 2015 number	Weighted average exercise price 2015 pence
Outstanding at 1 August	172,462	178.82	246,286	144.48
Granted during the year	23,137	325.00	13,471	287.50
Forfeited/surrendered during the year	(10,909)	207.00	(26,389)	113.68
Exercised during the year	(18,679)	98.75	(60,906)	101.47
Outstanding at 31 July	166,011	206.05	172,462	178.82
Exercisable at 31 July	43,890	116.49	44,727	97.35

The options outstanding at 31 July 2016 had a weighted average remaining contractual life of 7.8 years (2015: 7.1 years). The exercise prices for shares exercisable at 31 July 2016 ranged from 85.0 pence per share to 136.0 pence per share.

23 CSOP Approved Share Options continued

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

Date of grant	Expected life (years)	Share price at date of grant (pence)	Exercise price (pence)	Expected volatility (%)	Expected dividend yield (%)	Risk free interest rate (%)	Fair value charge per award (pence)
31 July 2016	**6.5**	**325.0**	**325.0**	**25.0**	**2.57**	**0.36**	**54.67**

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

	As at 31 July 2015	Granted	Exercised/ lapsed	**As at 31 July 2016**	Exercise price (pence)	Date from which exercisable	Expiry date
R Davies	14,493	–	–	**14,493**	2.070	31/7/17	31/7/24
C Jacobs	20,577	3,594	(5,245)	**18,926**	0.850 – 3.250	31/7/14 – 31/7/19	31/7/20 – 31/7/26
N Newman	19,939	1,434	(5,178)	**16,195**	1.070 – 3.250	31/7/14 – 31/7/19	31/7/21 – 31/7/26
	55,009	5,028	(10,423)	**49,614**			

24a Other reserves

Group	Cash flow hedge reserve £'000	Merger reserve £'000	Other reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2014	**33**	**6,295**	**1,294**	**34**	**939**	**8,595**
Share based remuneration (options)	–	–	–	–	211	**211**
IFRS 2 — transfer to retained earnings	–	–	–	–	(298)	**(298)**
Cash flow hedge reserve net of tax	(132)	–	–	–	–	**(132)**
Tax credit relating to share options	–	–	–	–	309	**309**
31 July 2015	**(99)**	**6,295**	**1,294**	**34**	**1,161**	**8,685**
Share based remuneration (options)	–	–	–	–	182	**182**
IFRS 2 — transfer to retained earnings	–	–	–	–	(401)	**(401)**
Cash flow hedge reserve net of tax	62	–	–	–	–	**62**
Tax charge relating to share options	–	–	–	–	(96)	**(96)**
31 July 2016	**(37)**	**6,295**	**1,294**	**34**	**846**	**8,432**

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 £400,957 (2015: £298,268).

24b Other reserves

Company	Other reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2014	**1,114**	**1,153**	**2,267**
Share based remuneration (options)	–	211	**211**
IFRS 2 — transfer to retained earnings	–	(298)	**(298)**
31 July 2015	**1,114**	**1,066**	**2,180**
Share based remuneration (options)	–	182	**182**
IFRS 2 — transfer to retained earnings	–	(401)	**(401)**
31 July 2016	**1,114**	**847**	**1,961**

25 Retained earnings

Group	Retained earnings before deduction of own shares £'000	Own shares (note 26) £'000	Retained earnings Total £'000
1 August 2014	**12,298**	**(4,241)**	**8,057**
Profit attributable to owners of Parent for the financial year	1,968	–	**1,968**
Transfer from revaluation reserve			
(Additional depreciation on revaluation)	249	–	**249**
Transfer from share based payment reserve (Note 24a)	298	–	**298**
Transfer realised gain on asset disposal	421	–	**421**
Dividend paid	(1,847)	–	**(1,847)**
31 July 2015	**13,387**	**(4,241)**	**9,146**
Profit attributable to owners of Parent for the financial year	4,282	–	**4,282**
Transfer from revaluation reserve			
(Additional depreciation on revaluation)	262	–	**262**
Transfer from share based payment reserve (Note 24a)	401	–	**401**
Transfer realised gain on asset disposal	1,639	–	**1,639**
Dividend paid	(2,147)	–	**(2,147)**
31 July 2016	**17,824**	**(4,241)**	**13,583**

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

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

The Company has taken advantage of the exemption available under the Companies Act 2006 not to present the Company income statement of Lok'nStore Group plc. The Company loss for the year was £276,288 (2015: £139,354).

26 Own shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
31 July 2015 and 31 July 2016	**623,212**	**499,910**	**2,466,869**	**3,741,036**	**4,240,946**

Lok'nStore Limited holds a total of 2,466,869 of Lok'nStore Group plc ordinary shares of 1p each for treasury with an aggregate nominal value of £24,669 purchased for an aggregate cost of £3,741,036 at an average price of £1.503 per share. These shares represent 8.5% (2015: 8.7%) of the Parent Company's called-up share capital. The maximum number of shares held by Lok'nStore Limited in the year was 2,466,869. No shares were disposed of or cancelled in the year.

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

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

As at 31 July 2016, the Trust held 623,212 (2015: 623,212) ordinary shares of 1 pence each with a market value of £2,025,439 (2015: £1,791,735). No shares were transferred out of the scheme during the year (2015: nil).

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

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27 Cash flows

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

	2016 £'000	2015 £'000
Profit before tax	5,493	2,654
Depreciation	1,535	1,440
Amortisation of intangible assets	165	165
Equity settled share based payments	182	211
Net settlement proceeds — Reading site	(1,940)	–
Disposal costs — Swindon stores	123	–
Interest receivable	(313)	(141)
Interest payable	1,048	1,144
Increase in inventories	(24)	(10)
(Increase)/decrease in receivables	(2,471)	423
(Decrease)/increase/in payables	(24)	98
Cash generated from operations	3,774	5,984

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

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

	2016 £'000	2015 £'000
Increase in cash in the year	2,900	257
Change in net debt resulting from cash flows	(1,115)	–
Movement in net debt in year	1,785	(257)
Net debt brought forward	(25,266)	(25,523)
Net debt carried forward	(23,481)	(25,266)

28 Commitments under operating leases

At 31 July 2016 the total future minimum lease payments as a lessee under non-cancellable operating leases were as follows:

	Group 2016 £'000	Group 2015 £'000
Land and buildings		
Amounts due:		
Within one year	1,535	1,546
Between two and five years	5,847	5,725
After five years	7,468	8,054
	14,850	15,325

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

29 Related party transactions

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

	2016 £'000	2015 £'000
Net amount due from Lok'nStore Limited	3,648	2,965

The amount due from Lok'nStore Limited is interest free. The balance is repayable on demand, however the Company has no present intention to demand repayment within one year and so the amount has been presented as a non-current asset as at 31 July 2016.

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

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

	2016 £'000	2015 £'000
Short term employee benefits	1,648	988
Post-employment benefits	31	30
Share-based payments	182	211
Total	1,861	1,229

The Group uses Trucost plc, an environmental research company, to provide information and undertake performance assessment of the environmental effect of its business activities. Trucost plc is a company in which Andrew Jacobs and Simon Thomas have a beneficial interest. The total fees payable to Trucost plc in respect of its environmental assessment and reporting for the year was £6,000 (2015: £6,000). The balance outstanding to Trucost plc at year-end was £nil (2015: £nil).

30a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £1.10 million (2015: £3.03 million) relating to building contract retentions outstanding on the completed Bristol, Southampton and Reading stores and also the strip out works at the old Southampton store. The Company was also committed to complete on its new Wellingborough site following completion of all relevant planning matters.

30b Bank borrowings

The Company has guaranteed the bank borrowings of Lok'nStore Limited, a subsidiary company. As at the year-end, that company had gross bank borrowings of £28.8 million (2015: £27.7 million).

31 Events after the reporting date

a) Legal completion of the purchase of the Wellingborough site

On 14 September 2016 following completion of all relevant planning matters the Group completed its purchase of the Wellingborough site.

b) Planning permission obtained and subsequent completion of the Gillingham site

(i) On 16 September 2016 planning permission was granted for the demolition of existing commercial buildings on the site the and construction of a self-storage unit with associated vehicular access, parking and landscaping works.

(ii) On 14 October 2016 following completion of all relevant planning matters the Group completed its purchase of the Gillingham site.

Glossary

Abbreviation	
Adjusted EBITDA	Earnings before all depreciation and amortisation charges, losses or profits on disposal, share-based payments, acquisition costs, and non-recurring professional costs, finance income, finance costs and taxation
AGM	Annual General Meeting
APD	Auditing Practices
Bps	Basis Points
C&W	Cushman & Wakefield
CAC	Contributory asset charges
CAD	Cash available for Distribution
Capex	Capital Expenditure
CGU	Cash generating units
C_2O e	Carbon Dioxide Emissions
CSOP	Company Share Option Plan
EBT	Employee Benefit Trust
EMI	Enterprise Management Incentive Scheme
ESOP	Employee Share Option Plan
EU	European Union
GHG	Greenhouse gas
HMRC	Her Majesty's Revenue & Customs
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JLL	Jones Lang LaSalle
LIBOR	London Interbank Offered Rate
LFL	Like for like
LTV	Loan to Value Ratio
MWh	Megawatt Hour
NAV	Net Asset Value
NBV	Net book value
Operating Profit	Earnings before interest and tax (EBIT)
PV	Photovoltaic
RICS	Royal Institution of Chartered Surveyors
sq. ft.	Square Feet
Store adjusted EBITDA	Adjusted EBITDA (see above) but before central and head
VAT	Value Added Tax

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

KPI	Description
1. NAV	**Net Asset Value per share –** Adjusted net asset value per share is the net assets adjusted for the valuation of leasehold stores and deferred tax divided by the number of shares at the year-end. The shares held in the Group's employee benefits trust and treasury shares are excluded from the number of shares.
2. LFL	**Like for like –** This measure is used to give transparency on improvements in the operating business unrelated to the opening of new stores or closure of old stores therefore giving visibility of the true trading picture. On 30 September 2015, Lok'nStore sold its store in Swindon on a sale and manage-back basis. Like-for-like (LFL) growth figures for the period strip out the effect of this sale and the opening of the new Bristol store during the period.
3. GROUP EBITDA	**Earnings before interest, tax, depreciation and amortisiation –** 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, and exceptional items.
4. CAD	**Cash available for Distribution –** is calculated as Adjusted EBITDA minus total net finance cost, less capitalised maintenance expenses, New Works Team costs and current tax. This measure is designed to give clarity to the capacity of the business to generate net operating cash that can be used to pay dividends to shareholders.
5. 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 £23.5 million (2015: £25.3 million) as a percentage of the total properties independently valued by JLL and including development land assets totalling £113.2 million (2015: £97.8 million) as set out in the Business and Financial Review section of the Strategic Report.
6. STORE ADJUSTED EBITDA	Is Adjusted EBITDA (see 3 above) before the deduction of central and head office costs.
7. EXCEPTIONAL ITEMS	Arose during the year from a further £2 million received from the disposal of the old Reading store site and £0.12 million of costs relating to the disposal of the old Swindon site(s).
8. 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.
9. CAPEX	**Capital expenditure**

Our Stores

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