

Big Yellow Group PLC



Highlights

Big Yellow Group PLC

(“Big Yellow”, “the Group” or “the Company”)

RESULTS FOR THE YEAR ENDED 31 MARCH 2017

CONTINUED GROWTH IN OUR KEY OPERATING METRICS

	Year ended 31 March 2017	Year ended 31 March 2016	% Growth
Financial metrics			
Revenue	£109.1m	£101.4m	8
Like-for-like revenue ⁽¹⁾	£107.3m	£101.4m	6
Adjusted profit before tax ⁽²⁾	£54.6m	£49.0m	11
Adjusted diluted EPRA earnings per share ⁽³⁾	34.5p	31.1p	11
Dividend – final	14.1p	12.8p	10
– total	27.6p	24.9p	11
Free cash flow (after net finance costs and pre working capital) ⁽⁵⁾	£58.3m	£53.3m	10
Store metrics			
Occupancy growth ⁽⁴⁾	188,000 sq ft	185,000 sq ft	2
Occupancy – like-for-like stores (%) ^(1,4)	78.1%	75.3%	2.8ppts
Average net achieved rent per sq ft ⁽⁴⁾	£26.16	£25.73	2
Statutory metrics			
Profit before tax	£99.8m	£112.2m	(11)
Cash flow from operating activities (after net finance costs)	£56.0m	£55.5m	1
Basic earnings per share	63.6p	71.9p	(12)

¹ Like-for-like metrics exclude Nine Elms and Twickenham 2 (acquired April 2016). ² See note 10 ³ See note 12 ⁴ See Portfolio Summary and Operating and Financial Review ⁵ See reconciliation in Financial Review

Highlights

- Like-for-like occupancy increased by 2.8 ppts to 78.1%
- 11% increase in adjusted earnings per share and total dividend
- Free cash flow (after net finance costs and pre working capital movements)⁵ up 10% to £58.3 million
- Acquisition of four store Lock and Leave portfolio in April 2016 for £21 million
 - Nine Elms and Twickenham acquired by Big Yellow (combined MLA of 87,000 sq ft)
 - Canterbury and West Molesey acquired by Armadillo (combined MLA of 65,000 sq ft)
- Acquisition by Armadillo of three stores from the Quickstore portfolio (Exeter, Plymouth and Torquay, combined MLA 92,000 sq ft) in April 2017 for £4.75 million
- Acquisition in May 2017 of prime London site on the Highway in Wapping, just east of the City, for future redevelopment

Nicholas Vetch, Executive Chairman of Big Yellow, commented:

“Trading over the last few months has been better than we anticipated, and is encouraging as we head into our seasonally stronger summer trading period. Nevertheless, these are uncertain times and we remain fully prepared for any economic reversals which could cause demand to fluctuate.

We can expect to break through 80% occupancy this summer putting us within touching distance of our (for the time being) long held goal of 85%. Occupancy gain remains the primary point of focus.

As our vacant capacity reduces, it increases the imperative to create more. The tight supply of land in our core areas of activity, and a planning regime broadly focussed on housing, remain very significant barriers for our competitors and ourselves. We have the required property and planning skills, an ability to take the necessary risks, a strong balance sheet and we are prepared to take long term views. These factors work in our favour but unlocking new opportunities for new stores remains challenging.

That said, we believe that Big Yellow’s market leading brand and operating platform can deliver attractive and sustainable growth over the medium to long term from its existing portfolio.”

Big Yellow Group PLC

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ABOUT US

Big Yellow is the UK's brand leader in self storage. Big Yellow now operates from a platform of 92 stores, including 19 stores branded as Armadillo Self Storage, in which the Group has a 20% interest. We own a further eight Big Yellow self storage development sites (including two extensions sites), of which two have planning consent. The current maximum lettable area of this platform is 5.4 million sq ft. When fully built out the portfolio will provide approximately 5.8 million sq ft of flexible storage space. Of the Big Yellow stores and sites, 96% by value are held freehold and long leasehold; with the remaining 4% short leasehold.

The Group has pioneered the development of the latest generation of self storage facilities, which utilise state of the art technology and are located in high profile, accessible, main road locations. Our focus on the location and visibility of our Big Yellow stores, coupled with our excellent customer service and our market leading online platform, has created the most recognised brand name in the UK self storage industry.

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Big Yellow Group PLC

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Big Yellow Group PLC

Chairman's Statement

Big Yellow Group PLC ("Big Yellow", "the Group" or "the Company"), the UK's brand leader in self storage, is pleased to announce its results for the year ended 31 March 2017.

Against a backdrop of increased economic uncertainty, we are pleased to have delivered another year of occupancy, revenue and adjusted earnings growth. Our main focus remains on driving earnings through occupancy growth, as we target our next goal of an average of 85% occupancy across the portfolio.

Like-for-like closing Group occupancy is up 2.8 percentage points to 78.1% compared to 75.3% at 31 March 2016.

In the quarter to March, with less churn in the business and a more stable demand environment, we successfully increased occupancy by 115,000 sq ft, and by a further 54,000 sq ft in the current quarter to date (2016: quarter to date gain of 7,000 sq ft). As of 22 May 2017, our occupancy across the portfolio is 79.2%.

Average rental growth over the year was 1.7% with closing net rent of £26.03, representing an increase of 0.5% from the same time last year, with our focus remaining on driving occupancy in the stores. We remain focussed on occupancy gain with 85% (for the time being) our primary objective. It remains our firm belief that occupancy gains are hard won and are of significantly more value than short term increases in average rent. As our occupancy rises the rate growth will come through driven by our yield management systems.

Financial results

Revenue for the year was £109.1 million (2016: £101.4 million), an increase of 8%. The like-for-like revenue growth (excluding Nine Elms and Twickenham 2 acquired in April 2016) was 6%.

Free cash flow (after interest costs and pre working capital movements) increased by £5.0 million (10%) to £58.3 million for the year (2016: £53.3 million). The Group's operating profit before property revaluations increased by £5.5 million (9%) to £65.3 million. The Group's statutory profit before tax was £99.8 million, compared to £112.2 million in the prior year. The movement is due to a lower gain in the valuation of the Group's investment properties in the current year compared to the prior year.

Given that our central overhead and operating expense is largely embedded in the business, this revenue growth has delivered an increase of 11% in the adjusted profit before tax in the year of £54.6 million (2016: £49.0 million). Adjusted earnings per share increased by 11% to 34.5p (2016: 31.1p) with an equivalent 11% increase in the dividend per share for the year.

The Group has net bank debt of £298.0 million at 31 March 2017 (2016: £295.0 million). This represents approximately 25% (2016: 26%) of the Group's gross property assets totalling £1,190.5 million (2016: £1,126.2 million) and 31% (2016: 33%) of the adjusted net assets of £963.4 million (2016: £899.0 million). The Group's interest cover for the year, expressed as the ratio of free cash flow pre working capital movements against interest paid was 6.2 times (2016: 6.0 times). This is comfortably ahead of our internal minimum interest cover requirement of 5 times.

Investment in new capacity

Developing stores in our core area of London and the South East remains challenging. Sites are scarce, and faced with a housing shortage, policy makers are focussed on residential provision at the expense of commercial development. Despite the referendum result, we still expect London's population to continue to grow, intensifying these pressures. This makes the creation of new supply difficult and we are aware of only a handful of stores likely to open in London in the next few years as legacy sites acquired before the downturn have now largely been opened. We believe that this leaves our existing platform almost irreplaceable. We and others are looking to acquire sites but even if successful, it can take three to four years to open a purpose built store.

We have commenced construction at Guildford Central in the year, with a planned store opening of March 2018, and have also started on the extension to our store at Wandsworth, which is planned to complete in April 2018.

After lengthy consultations we anticipate submitting planning applications on Battersea, Kings Cross and Manchester in the next few months, but as always the process is subject to the vagaries of the planning system.

We are pleased to announce that in May 2017 we acquired an existing building on a 0.8 acre site on the Highway in Wapping, just east of Tower Bridge, with main road frontage, for £10.75 million. This is an area with very little supply of self storage and significant self storage drivers given the changes to the built environment over the past two decades, with high density residential and other mixed use schemes. A combination of self storage and short term

Big Yellow Group PLC

Chairman's Statement

tenancies under our ownership will provide an interim income while we investigate refurbishment or redevelopment options.

The future cost of the current pipeline of eight development sites and extensions, with a potential capacity of over 450,000 sq ft, six of which are subject to planning, and including Wapping, acquired post year end, is provisionally estimated to be approximately £70 million. This excludes any net proceeds that may be received on the redevelopment of our Battersea store and adjoining retail units into a mixed use scheme of residential, retail and self storage.

The acquisitions of the Lock and Leave portfolio in April 2016 and the Quickstore portfolio since the year end are a continued demonstration of our willingness to buy existing stores for rebranding as either Big Yellows or Armadillos, from which we can drive performance through our market leading operational and digital platform.

Dividends

The Group's dividend policy is to distribute 80% of full year adjusted earnings per share. The final dividend declared is 14.1 pence per share. The dividend declared for the year of 27.6 pence per share represents an increase of 11% from 24.9 pence per share last year.

Our people

A business will only succeed if it has a fully motivated and engaged team. From the start we have always aimed to create a culture which is accessible, apolitical, non-hierarchical, socially responsible, and very importantly, a fun and enjoyable place to work.

During the year, we appointed an external consultancy to conduct an engagement survey of our employees, which delivered very pleasing levels of employee engagement of 90% in the stores and head office. In addition, we focus on customer service and engagement, measuring and responding to their feedback. Commensurate with the high levels of employee engagement, there has been a further improvement in our customer net promoter scores ("NPS") to an average of 77 over the year, a very pleasing result.

I would like to thank all those in the business for their efforts in contributing to another year of growth.

Board

Mark Richardson has announced that he is stepping down as a Non-Executive Director at the Group's next AGM. He joined the Company in 2008 and over the ensuing nine years has been an excellent Audit Committee Chair and a source of sound advice and judgement. I and the Board would like to thank him for his valued contribution to Big Yellow's success in his period of tenure. It is our intention to appoint his replacement as Audit Committee Chairman before the July AGM.

Outlook

Trading over the last few months has been better than we anticipated, and is encouraging as we head into our seasonally stronger summer trading period. Nevertheless, these are uncertain times and we remain fully prepared for any economic reversals which could cause demand to fluctuate.

We can expect to break through 80% occupancy this summer putting us within touching distance of our (for the time being) long held goal of 85%. Occupancy gain remains the primary point of focus.

As our vacant capacity reduces, it increases the imperative to create more. The tight supply of land in our core areas of activity, and a planning regime broadly focussed on housing, remain very significant barriers for our competitors and ourselves. We have the required property and planning skills, an ability to take the necessary risks, a strong balance sheet and we are prepared to take long term views. These factors work in our favour but unlocking new opportunities for new stores remains challenging.

That said, we believe that Big Yellow's market leading brand and operating platform can deliver attractive and sustainable growth over the medium to long term from its existing portfolio.

Nicholas Vetch
Executive Chairman
22 May 2017

Big Yellow Group PLC

Strategic Report

OUR STRATEGY AND BUSINESS MODEL

Our Strategy

Our strategy from the outset has been to develop Big Yellow into the market leading self storage brand, delivering excellent customer service, with a great culture and highly motivated employees. We continue to be the market leading brand, with unprompted awareness of seven times that of our nearest competitor (source: YouGov survey, April 2017). We concentrate on developing our stores in main road locations with high visibility, where our distinctive branding generates high awareness of Big Yellow. Our accreditation in 2016 for the Best 100 Companies to work for was pleasing as an independent assessment of our employee engagement, and our customer satisfaction survey scores remain very high, with an average customer net promoter score of 77, and average Trustpilot scores of 9.5 out of 10.

Self storage demand from businesses and individuals at any given store is linked in part to local economic activity, consumer and business confidence, all of which are inter-related. Fluctuations in housing activity whether in the rented or owner occupied sector, are also a factor and in our view influence the top slice of demand over and above a core occupancy. This has been demonstrated by the resilience of our like-for-like stores since September 2007 despite a collapse in housing activity and GDP over the period 2007 to 2009. As can be seen from the ten year summary, the performance of our stores was relatively resilient during the downturn, and within that London and the South East proved to be less volatile.

Local GDP and hence business and housing activity are greatest in the larger urban conurbations and in particular London and the South East. Furthermore, people and businesses are space constrained in these more densely populated areas. Barriers to entry in terms of competition for land and difficulty around obtaining planning are also highest in more urbanised locations.

Over the last 18 years we have built a portfolio of 73 Big Yellow self storage centres, largely freehold, purpose-built and focussed on London, the South East and large metropolitan cities. We have seen an increase in our weighting to London and the South East as a result of recent openings and acquisitions. 66% of our current annualised store revenue derives from within the M25 (2016: 63%); for London and the South East, the proportion of current annualised store revenue is 83% (2016: 80%).

Our Big Yellow stores are on average 63,000 sq ft, compared to an industry average of approximately 43,000 sq ft (source: The Self Storage Association 2017 UK Annual Survey). The upside from filling our larger than average sized stores is, in our view, only possible in large metropolitan markets, where self storage demand from domestic and business customers is the highest. As the operating costs of our assets are relatively fixed, larger stores in bigger urban conurbations, particularly London, drive higher revenues and higher operating margins.

We continue to believe that the medium term opportunity to create shareholder value will be principally achieved by increasing occupancy and rental yield in our existing platform to drive revenue, the majority of which flows through to the bottom line.

Our key objectives remain:

- leveraging our market leading brand position to generate new prospects, principally from our digital, mobile and desktop platforms;
- focusing on training, selling skills, and customer satisfaction to maximise prospect conversion and referrals;
- growing occupancy and net rent so as to drive revenue optimally at each store;
- maintaining a focus on cost control, so revenue growth is transmitted through to earnings growth;
- selectively adding to the portfolio through new site development and existing store acquisitions;
- maintaining a conservative capital structure in the business with Group interest cover of a minimum of five times; and
- producing sustainable returns for shareholders through a low leverage, low volatility, high distribution REIT.

In the seventeen years since flotation in May 2000, Big Yellow has delivered a Total Shareholder Return (“TSR”), including dividends reinvested, of 14.7% per annum, in aggregate 915% at the closing price of 730.5p on 31 March 2017. This compares to 6.4% per annum for the FTSE Real Estate Index and 5.2% per annum for the FTSE All Share index over the same period. This demonstrates the power of compounding over the longer term.

Big Yellow Group PLC

Strategic Report

Our business model

Attractive market dynamics	<ul style="list-style-type: none"> • UK self storage penetration in key urban conurbations remains relatively low • Very limited new supply coming onto the market • Resilient through the downturn • Sector growth is positive, with increasing domestic demand
Our competitive advantage	<ul style="list-style-type: none"> • UK industry's most recognised brand • Prominent stores on arterial or main roads, with extensive frontage and high visibility • Largest share of web traffic from mobile and desktop platforms • Strong customer satisfaction and NPS scores reflecting excellent customer service • Largest UK self storage footprint by Maximum Lettable Area ("MLA") capacity (Big Yellow and Armadillo combined) • Primarily freehold estate concentrated in London and South East and other large metropolitan cities • Larger average store capacity – economies of scale, higher operating margins • Secure financing structure with strong balance sheet
Evergreen income streams	<ul style="list-style-type: none"> • 52,500 customers from a diverse base – individuals, SMEs and national accounts • Average length of stay for existing customers of 24 months • 30% of customers in stores greater than two year length of stay • Low bad debt expense (0.1% of revenue in the year)
Strong growth opportunities	<ul style="list-style-type: none"> • Opportunities to drive further occupancy growth • Yield management as occupancy increases • Densification of living and scarcity of flexible business space drives demand • Growth in national accounts and business customer base • Increasing the platform financed from internal resources • Growth in our Armadillo joint venture platform
Conversion into quality earnings	<ul style="list-style-type: none"> • Freehold assets for high operating margins and operational advantage • Low technology & obsolescence product, maintenance capex fully expensed • Annual compound adjusted eps growth of 17% since 2004/5 • Annual compound cash flow growth of 16% since 2004/5 • Dividend payout ratio of 80% of adjusted eps

The self storage market

In the recently published 2017 Self Storage Association UK Survey, only 42% of those surveyed had a reasonable or good awareness of self storage, in line with findings from our own research. Furthermore, only 6% of the 2,075 adults surveyed were currently using self storage, or were thinking of using self storage, in the next year. This indicates a continued opportunity for growth and with increasing use of self storage, together with the ongoing marketing efforts of everyone in the industry, we anticipate awareness will grow.

Growth in new facilities across the industry has been largely in regional areas of the UK and in particular in smaller towns. In London in the last year, we believe there were eight new store openings.

The Self Storage Association ("SSA") estimates that the UK industry is made up of approximately 1,430 self storage facilities (of which 317 are purely container operations), providing 42.2 million sq ft of self storage space, equating to 0.6 sq ft per person in the UK. This compares to 9.1 sq ft per person in the US, 1.8 sq ft per person in Australia and 0.1 sq ft for mainland Europe, where the roll-out of self storage is a more recent phenomenon (source: FEDESSA European Self Storage Annual Survey 2016). 390 self storage facilities in the UK are held by large operators (defined as those managing 10 facilities or more), which represents 35% of the total number of self storage centres (excluding container operations), but the SSA estimate approximately 50% of total capacity. Given the dominance of the larger

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brands in the South East, we would expect the proportion of revenue earned by the top five operators to be in excess of 60% of the annual industry turnover of £500 million.

Big Yellow is well placed to benefit from the growing self storage market, given the strength of our brand, and our online platform which delivers 87% of our prospect enquiries. Our portfolio is strategically focussed on London, the South East and large metropolitan cities, where barriers to entry and economic activity are at their highest.

KPIs

The key performance indicators of our stores are occupancy and rental yield, which together drive the revenue of the business. These are three key measures which are focussed on by the Board, and are reported on a weekly basis. Over the course of the past five years, both occupancy and revenue have grown significantly. Rental yield grew by 6.1% in the year to 31 March 2014, but decreased by 3.5%, in 2015 principally reflecting the acquisition of the Big Yellow Limited Partnership stores, a regional portfolio, with a lower average net rent per sq ft. In 2016 net rent increased by 2.7%, and has increased by 0.5% in the current year. Our key focus is on continuing to grow occupancy, with rental yield growth following once the stores have reached higher occupancy levels.

Adjusted profit before tax, adjusted earnings per share and distributions to shareholders are also KPIs. The Group focuses on adjusted profits and earnings measures as they give a clearer underlying picture of the Group's trading performance without distortion from external factors such as property valuations and the fair value of derivatives. We have delivered compound adjusted eps growth of 16% over the past five years, and compound dividend growth of 26% over the same period. Compound adjusted eps growth since 2004/5 is 17%.

Our non-financial KPIs are the net promoter scores we receive from our customers and the carbon intensity of the Group's business. The Group's net promoter score received from its customers during the year was 77. This has increased by 27% over the past four years, when the Group started to use this measure of customer satisfaction. We believe this overall score compares very favourably with other consumer facing businesses.

The Group has reduced its carbon intensity (our carbon emissions divided by our average occupied space) by 52% over the past five years. This has been achieved through investment in renewable technology, roof mounted solar photo-voltaic systems, and LED lighting across the Group's portfolio.

Big Yellow Group PLC

Operational and Marketing Review

Overview

We now have a portfolio of 73 open and trading Big Yellow stores, with a further six development sites and two extension opportunities. The current maximum lettable area of the 73 stores is 4.6 million sq ft. When fully built out the portfolio will provide approximately 5.0 million sq ft of flexible storage space.

In addition we part-own and manage 19 Armadillo stores which are principally located in northern towns and cities, and operate from a platform of 0.8 million sq ft.

Access to capital and bank facilities has improved in the last few years, however this is mainly for larger well-capitalised groups. Growth in new store openings over the last six years has averaged 1% to 2% of total capacity per annum, down significantly from the previous decade. Additionally, in our core markets in London and the South East, very high land values driven by competing uses such as residential, is making the creation of new supply very difficult for all operators. We believe that we are in a relatively strong position given the strength of our balance sheet and our proven property development expertise, together with our ability to access funding to exploit the right opportunity.

Operations

The Big Yellow store model is well established. The “typical” store has 60,000 sq ft of net lettable storage area and takes some three to five years to achieve 80% plus occupancy. The average room size occupied in the portfolio is currently 68 sq ft, a slight increase from 67 sq ft last year. The store is open seven days a week and is initially run by three staff, with a part time member of staff added once the store occupancy justifies the need for the extra administrative and sales workload.

The drive to improve store operating standards and consistency across the portfolio remains a key focus for the Group. Excellent customer service is at the heart of our business objectives, as a satisfied customer is our best marketing tool. We measure customer service standards through a programme of mystery shopping and online customer reviews, which are externally managed. Over the year, we have achieved an average net promoter score of 77, which we believe compares favourably to other consumer facing businesses.

We have a team of nine area managers in place who have on average worked for Big Yellow for twelve years. They develop and support the stores to drive the growth of the business.

The store bonus structure rewards occupancy performance, sales growth and cost control through quarterly targets based on occupancy and store profitability, including the contribution from ancillary sales of insurance and packing materials. Information on bonus build up is circulated monthly and stores are consulted in preparing their own targets and budgets each quarter, leading to improved visibility, a better understanding of sales lines and control of operating costs.

We believe that as a consumer-facing branded business it is paramount to maintain the quality of our estate and customer offering. We therefore continue to invest in preventative maintenance, store cleaning and the repair and replacement of essential equipment, such as lifts and gates. The ongoing annual expenditure is approximately £35,000 per store, which is included within cost of sales. This excludes our rolling programme of store makeovers, which typically take place every five years, at a cost of approximately £20,000 per store. Over the last five years we have invested £11 million in the upkeep and maintenance of our stores, all of which has been expensed in the income statement.

Demand

Awareness of self storage and the market generally will continue to grow as people use the product for the first time and with continued marketing from all industry players. We are seeing improving levels of referral and repeat use.

Of our occupied space today, 15% is occupied by customers who are longer stay lifestyle users decluttering into small rooms as an extension to their accommodation; 50% are using it for less than 12 months as a result of an event in their life, which could be inheritance, moving, carrying out work; and the balance of 35% are businesses, typically SMEs.

Of the customers moving into our stores in the last year, surveys undertaken indicate approximately 43% are house move related, split broadly equally across those renting storage space whilst moving within the rental sector and those moving within the owner occupied sector. During the year 11% of our customers who moved in took storage space as a spare room for decluttering and approximately 34% of our customers used the product because some event has occurred in their lives generating the need for storage; they may be moving abroad for a job, have inherited

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Operational and Marketing Review

possessions, are getting married or divorced, are students who need storage during the holidays, or homeowners developing into their lofts or basements. The balance of 12% of our move-ins during the year came from businesses.

Our business customers range across a number of industry types, such as retailers, e-tailers, professional service companies, hospitality companies and importers/exporters. These businesses store stock, documents, equipment, or promotional materials all requiring a convenient flexible solution to their storage, either to get started or to free up more expensive space.

There is a growing trend towards self-employment and smaller business start-ups in the UK, dynamics which are positive for self storage. Additionally, businesses in the UK are increasingly seeking more flexible lease arrangements for their office and storage space. The deindustrialisation of big cities also points to a structural growth in demand for storage for businesses.

Business customers typically stay longer than domestic customers, and also on average occupy larger rooms. Whilst only representing 12% of new customers during the year, businesses represent 20% of our overall customer numbers, occupying 35% of the space in our stores at 31 March 2017, domestic customers occupy 65%. The average room size occupied by business customers is 121 sq ft, compared to 54 sq ft for domestic customers. This compares with the 2017 SSA UK Annual Survey result for the industry as a whole which had 58% of space occupied by domestic customers and 42% of space by businesses. We would expect to have a higher proportion of domestic customers given our focus on London and other large metropolitan cities.

We have a dedicated national accounts team for business customers who wish to occupy space in multiple stores. These accounts are billed and managed centrally. We have four full time members of staff working on growing and managing our national account customers. The national accounts team can arrange storage at short notice at any location for our customers. In smaller towns where we do not have representation, we have negotiated sub-contract arrangements with other operators who meet certain operating standards.

Marketing and ecommerce

Our marketing strategy focuses on driving enquiries and customer satisfaction through our digital platforms.

For the last eleven years, we have commissioned a YouGov survey to help us monitor our brand awareness. In our most recent survey, conducted in April 2017, we used a statistically robust sample size of 1,043 respondents in London and 2,028 for the rest of the UK. The survey has shown our prompted awareness to be at 74% in London, two and half times higher than our nearest competitor and 41% for the rest of the UK, nearly three times higher than our nearest competitor.

For unprompted brand awareness, our recall in London is 47%, nearly six times higher than our nearest competitor and for the rest of the UK it is 21%, more than eight times higher than our nearest competitor. Across the UK as a whole it is seven times higher than our nearest competitor. These surveys continue to prove we are the UK's brand leader in self storage (source: YouGov, April 2017). The UK Self Storage Association has also conducted a brand awareness survey with similar results.

Online

The Big Yellow website, whether accessed by desktop, tablet or smartphone, delivers the largest share of our prospects, accounting for 87% of all sales leads across the year ended 31 March 2017. Telephone is the first point of contact for 9% of our prospects and walk-in enquiries, where we have had no previous contact with a prospect, represent 4%.

We have the largest online market share of web visits to self storage company websites in the UK. Across the year ended 31 March 2017, our online market share of web visits ranged from 31% to 38%. Our nearest competitor ranged from 16% to 21% online market share for the same period (source: Connexity Hitwise 36 largest UK self storage operators).

We monitor and improve the website user journeys on an ongoing basis. We are committed to making the experience as easy, intuitive and informative as possible for our customers. Both the mobile specific website, which itself accounted for 42% of our web visits in the year and our desktop site are designed with helpful and time saving online tools such as check-in online, online FAQs, video store tours and online chat. These all help the customer to make an informed choice about their self storage requirements. We have also relaunched "Box Shop", our online store for boxes and packing materials which also now includes a Click and Collect service for customers to conveniently pick up their orders in store.

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Operational and Marketing Review

Online customer reviews

Consistent with our strategy of putting the customer at the heart of our business, our online customer reviews generate real-time feedback from customers as well as providing positive word of mouth referral to our web visitors. Through our 'Big Impressions' customer feedback programme, we ask our new customers to rate our product and service and with the users' permission, we then publish these independent reviews on the website. There are currently over 15,000 reviews published.

The Big Impressions programme also generates customer feedback on their experience when they move out of a Big Yellow store and also from those prospects who decided not to store with us. This programme reinforces best practice of customer service at our stores where customer reviews and mystery shop results are transparently accessible at all levels.

We also gain real-time insight from customers who submit reviews to Trustpilot, the well-known third party customer review site. These reviews are currently averaging 9.5 out of 10. We also regularly monitor Google reviews and mentions of Big Yellow within the social mediums of Twitter, online forums and blogs. We use this insight to continually improve our service offering.

Driving online traffic

Search engines are the most important acquisition tool for us, accounting for the majority of traffic to our website. We continue to invest in search engine optimisation ("SEO") techniques both on and off the site. This helps us to maintain our high positions for the most popular and most searched for terms such as "storage" and "self storage" in the organic listings on Google.

The sponsored search listings remain the largest source of paid for traffic and we ensure our prominence in these listings is balanced with effective landing pages to maximise site conversion.

Efficiencies in online spend are continuing into the year ending 31 March 2018, ensuring the return on investment is maximised from all of our different online traffic sources. Online marketing budgets will continue to remain fluid and be directed towards the media with the best return on investment.

Social media

Social media continues to be complementary to our existing marketing channels. Our activity is most focussed on Twitter, not only monitoring and answering queries regarding self storage, but also posting our own creative tweets, tips and advice. The Big Yellow YouTube channel is used to showcase our stores to web prospects through a video store tour. We use both domestic and business versions to help prospects experience the quality of the product without the need for them to visit the store in person. Our online blog is updated regularly with tips and advice for homeowners and businesses, as well as summaries of our charitable and CSR initiatives.

PR

We have been developing regional PR stories throughout the year to help raise the awareness of Big Yellow and the benefits of self storage across the UK. We have been highlighting newsworthy stories of charitable endeavours from Big Yellow staff or the support we provide to the local charities through offering free storage.

Budget

During the year the Group spent approximately £4.2 million on marketing (4% of total store revenue). We have increased the budget for the year ahead to £4.5 million with a focus on delivering more prospects to our stores from our digital channels.

Cyber security

The Group receives specialist advice and consultancy in respect of cyber security and we have dedicated in-house monitoring. We regularly review of our security systems and we limit the retention of customer data to the minimum requirement.

During the year we have continued to invest in digital security. Some of the changes include more frequent penetration testing of internet facing systems, adding components such as anti-ransomware as well as the maintenance replacement of components (such as firewalls) to the latest technology and specification. Policies and procedures are under regular review and benchmarked against industry best practice by our consultants. These policies also include defend, detect and response policies. We have also instigated a new working group to ensure our compliance with the new EU General Data Protection Regulation ("GDPR") which comes into effect on 25 May 2018.

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Store Performance

PORTFOLIO SUMMARY – BIG YELLOW STORES

	2017				2016			
	Mature ⁽¹⁾	Established	Developing	Total	Mature	Established	Developing	Total
Number of stores	64	6	3	73	62	6	3	71
At 31 March								
Total capacity (sq ft)	3,955,000	406,000	190,000	4,551,000	3,868,000	406,000	190,000	4,464,000
Occupied space (sq ft)	3,111,000	315,000	125,000	3,551,000	2,988,000	290,000	85,000	3,363,000
Percentage occupied	78.7%	77.6%	65.8%	78.0%	77.2%	71.4%	44.7%	75.3%
Net rent per sq ft	£26.32	£24.50	£22.40	£26.03	£26.12	£24.35	£22.54	£25.90
For the year								
REVPAF ⁽²⁾	£24.23	£21.82	£14.67	£23.62	£23.30	£19.76	£11.57	£22.59
Average occupancy	78.3%	74.4%	56.3%	77.1%	76.4%	68.0%	45.4%	74.7%
Average annual rent psf	£26.43	£24.83	£22.33	£26.16	£25.92	£24.58	£22.07	£25.73
	£000	£000	£000	£000	£000	£000	£000	£000
Self storage income	81,712	7,499	2,389	91,600	76,662	6,786	1,452	84,900
Other storage related income ⁽³⁾	13,543	1,259	387	15,189	13,197	1,154	217	14,568
Ancillary store rental Income	412	102	12	526	261	84	9	354
Total store revenue	95,667	8,860	2,788	107,315	90,120	8,024	1,678	99,822
Direct store operating costs (excluding depreciation)	(27,929)	(2,510)	(1,278)	(31,717)	(26,592)	(2,508)	(986)	(30,086)
Short and long leasehold rent ⁽⁴⁾	(2,126)	-	-	(2,126)	(1,893)	-	-	(1,893)
Store EBITDA ⁽⁵⁾	65,612	6,350	1,510	73,472	61,635	5,516	692	67,843
Store EBITDA margin	68.6%	71.7%	54.2%	68.5%	68.4%	68.7%	41.2%	68.0%
	£m	£m	£m	£m	£m	£m	£m	£m
To 31 March 2017	477.2	80.9	34.2	592.3				
Capex to complete	-	-	0.2	0.2				
Total	477.2	80.9	34.4	592.5				

- (1) The mature stores have been open for more than six years at 1 April 2016. The established stores have been open for between three and six years at 1 April 2016 and the developing stores have been open for fewer than three years at 1 April 2016. The Group acquired two stores during the year in Nine Elms and Twickenham. These are shown within mature stores as they have been open for more than six years. Like-for-like measures presented within this statement exclude these two stores.
- (2) Total store revenue divided by the average maximum lettable area in the year.
- (3) Packing materials, insurance and other storage related fees.
- (4) Rent for seven mature short leasehold properties accounted for as investment properties and finance leases under IFRS with total self storage capacity of 420,000 sq ft, and a long leasehold lease-up store with a capacity of 64,000 sq ft. The EBITDA margin for the 57 freehold mature stores is 70.5%, and 49.8% for the seven leasehold mature stores.
- (5) Store earnings before interest, tax, depreciation and amortisation. See the financial review for a reconciliation of Store EBITDA to gross profit.

Big Yellow Group PLC

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PORTFOLIO SUMMARY – ARMADILLO STORES

	2017	2016
Number of stores ⁽¹⁾	16	14
At 31 March:		
Total capacity (sq ft)	738,000	673,000
Occupied space (sq ft)	551,000	477,000
Percentage occupied	74.7%	70.9%
Net rent per sq ft	£16.51	£15.59
For the year:		
REVPAF	£14.31	£13.33
Average occupancy	73.3%	70.7%
Average annual rent psf	£16.36	£15.64
	£000	£000
Self storage income	8,781	7,428
Other storage related income	1,659	1,531
Ancillary store rental income	43	9
Total store revenue	10,483	8,968
Direct store operating costs (excluding depreciation)	(4,222)	(3,681)
Leasehold rent	(411)	(411)
Store EBITDA ⁽²⁾	5,850	4,876
Store EBITDA margin	55.8%	54.4%
Cumulative capital expenditure		
	£m	
To 31 March 2017	51.0	
To complete	0.5	
Total capital expenditure	51.5	

(1) Armadillo acquired two stores in April 2016 in Canterbury and West Molesey.

(2) Store earnings before interest, tax, depreciation, amortisation, and management fees charged by Big Yellow to the Armadillo portfolios (see note 26).

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Store Performance

The table below shows the quarterly move-in and move-out activity over the year.

	Total move-ins Year ended 31 March 2017	Total move-ins Year ended 31 March 2016	%	Total move-outs Year ended 31 March 2017	Total move-outs Year ended 31 March 2016	%
April to June	19,509	20,112	(3)	15,625	15,595	0
July to September	20,702	21,763	(5)	22,239	22,898	(3)
October to December	15,409	16,643	(7)	17,679	18,600	(5)
January to March	16,095	16,920	(5)	14,468	15,450	(6)
Total	71,715	75,438	(5)	70,011	72,543	(3)

In the quarter to June, leading up to the referendum, we saw a modest year-on-year reduction in move-in activity of 3%. However, in the six months following the referendum, year-on-year move-ins were down on average 6% across the business with a fall in London of 8% and a fall of 5% in the regions. Since November, we also saw a further reduction in year-on-year move outs, with less churn in the business, resulting in a loss in occupancy for the December quarter in line with the previous year. Like-for-like revenue growth for the third quarter was 5%, a slower rate of growth than in the first half of the year, impacted by the loss of occupancy in the quarter being more front-ended coupled with slower average rate growth. In the fourth quarter, move-in activity began to stabilise and for March and April move-ins were up on the comparative months last year.

In all Big Yellow stores, the occupancy growth in the current year was 188,000 sq ft, against an increase of 185,000 sq ft in the prior year. The current year figure includes 76,000 sq ft of occupancy acquired with Nine Elms and Twickenham 2; the net occupancy growth in the year was therefore 112,000 sq ft.

Quarterly net occupancy	Net sq ft Year ended 31 March 2017	Net sq ft Year ended 31 March 2016	Net move-ins Year ended 31 March 2017	Net move-ins Year ended 31 March 2016
April to June	110,000	146,000	3,884	4,460
July to September	24,000	54,000	(1,537)	(1,183)
October to December	(137,000)	(138,000)	(2,350)	(1,998)
January to March	115,000	123,000	1,547	1,420
Total	112,000	185,000	1,544	2,699

We had a solid quarter to June with an increase in occupancy of 110,000 sq ft, slightly down on the prior year, partially because of some activity being front-ended into March 2016 as a result of the stamp duty changes, coupled with uncertainty in the run-up to the referendum. The second quarter peaked in August and then many of our students and short term house movers vacate in September and October, leading to a net loss in occupied rooms and sq ft occupancy. In the final quarter we have seen a return to growth in net occupied rooms and increased occupancy in the stores by 115,000 sq ft.

Since the year end occupancy has grown by 54,000 sq ft to date (2016: quarter to date gain of 7,000 sq ft). As of 22 May 2017, our occupancy across the portfolio is 79.2%.

The 64 mature stores are 78.7% occupied compared to 77.2% at the same time last year. The 6 established stores have grown in occupancy from 71.4% to 77.6%. The three developing stores added 40,000 sq ft of occupancy in the year to reach closing occupancy of 65.8%. Overall store occupancy has increased in the year from 75.3% to 78.0%. On a like-for-like basis, closing occupancy was 78.1%, an increase of 2.8 percentage points.

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All of the stores open at the year end are trading profitably at the EBITDA level. The table below shows the average key metrics across the store portfolio for the year ended 31 March 2017:

	Mature stores	Established stores	Developing stores	All stores
Store capacity	61,800	67,700	63,300	62,300
Sq ft occupied per store at 31 March 2017	48,600	52,500	41,700	48,650
% occupancy	78.7%	77.6%	65.8%	78.0%
Revenue per store (£000)	1,495	1,477	929	1,470
EBITDA per store (£000)	1,025	1,058	503	1,006
EBITDA margin	68.6%	71.7%	54.2%	68.5%

Pricing and rental yield

We have continued our sales promotion offer throughout the year of “50% off for up to your first 8 weeks storage”. Our Price Promise is also used to match competitors’ prices if the product is comparable. Pricing is dynamically generated and takes into account room availability and local competition.

In the year ended 31 March 2017, the average growth in the net achieved rent per sq ft was 1.7% compared to 2.5% in the prior year. We remain focussed on achieving our next occupancy target of 85% across the portfolio, and to that end we took the decision to be more aggressive in our promotions over the winter months, resulting in a slight reduction in average rate over the second half of the year. This is now embedded in the business, with rate having stabilised, and as occupancy grows from this level we would expect to see a return to like-for-like rate growth.

For stores at a higher level of occupancy, our pricing model reduces promotions and increases asking prices where individual units are in scarce supply. This lowering of promotions, coupled with price increases to existing and new customers, leads to an increase in achieved net rents. Rental growth can also be driven through sub-dividing larger rooms into smaller rooms, which yield a higher net rent per sq ft.

The table below shows the growth in net rent per sq ft for the portfolio over the period (the table below excludes Cambridge which opened in January 2016 and Nine Elms and Twickenham 2, which were acquired in April 2016).

Average occupancy in the year	Number of stores	Net rent per sq ft growth over the year
0 to 75%	22	-1.0%
75 to 80%	20	1.7%
80 to 85%	20	2.0%
Above 85%	8	2.1%

Lock and Leave acquisition

In April 2016, we acquired the Lock and Leave portfolio. Big Yellow acquired two stores in London, at Nine Elms (65,000 sq ft MLA freehold) and Twickenham (22,000 sq ft MLA, 19 years unexpired leasehold), for £13.5 million and £1.1 million respectively, totalling £14.6 million. The Nine Elms store sits neatly between our strong performing Kennington and Battersea stores, and our aim will be to drive revenue and cash flow through yield management. The Twickenham store is adjacent to our existing highly occupied freehold 73,000 sq ft store. The freehold stores in Canterbury (30,000 sq ft MLA) and West Molesey (35,000 sq ft MLA) were acquired by Armadillo for £6.4 million, and again we expect to drive operational performance from these stores under our management.

Armadillo Self Storage

The Group has a 20% investment in Armadillo Self Storage, with the balance of 80% held by an Australian consortium. During the year, Armadillo acquired two stores from Lock and Leave, in Canterbury and West Molesey, with a combined capacity of 65,000 sq ft.

In April 2017 we acquired a further three stores into the Armadillo platform in Exeter, Plymouth and Torquay, for £4.75 million. This takes the Armadillo platform to 19 stores and 830,000 sq ft of MLA. As with the other existing store acquisitions, the intention will be to upgrade and reconfigure the stores through additional investment to drive cash flow growth. In the year to 31 March 2017, £1.3 million of capital expenditure has been invested in the Armadillo stores.

Armadillo is a lower-frills brand, with largely freehold conversions of existing buildings. They are located in towns where we would not typically locate a Big Yellow, and have an average capacity of 44,000 sq ft (lower than the 62,000 sq ft average for Big Yellow stores). Armadillo provides a number of operational advantages to the Group,

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such as a wider platform to sell to national accounts, more opportunities for staff promotion, and more efficient use of the Company's marketing and central overhead costs. The Group continues to look for opportunities to add to the Armadillo platform.

Development pipeline

We have commenced construction on our Guildford Central store, which we anticipate opening in March 2018 and on the extension to our existing store in Wandsworth, which we anticipate completing in April 2018. We own a further six development sites for which planning is to be negotiated, including an existing store where planning is being sought to extend and redevelop. The status of the Group's development pipeline is summarised in the table below:

Site	Location	Status	Anticipated capacity
Guildford	Prime location in centre of Guildford on Woodbridge Meadows	Construction commenced, store due to open in March 2018, cost to complete of £4.4 million	56,000 sq ft
Wandsworth, London	Extension to existing 47,000 sq ft store.	Construction commenced, extension due to open in April 2018, cost to complete of £4.2 million.	Additional 25,000 sq ft
Manchester	Prime location on Water Street in central Manchester	Planning application to be submitted in June 2017.	60,000 to 65,000 sq ft
Camberwell, London	Located in prominent location on Southampton Way	Planning application refused. Appeal submitted with a decision due by December 2017.	55,000 to 60,000 sq ft
Kings Cross, London	Prominent location on York Way	Planning application currently being prepared to be submitted this year.	100,000 to 110,000 sq ft
Battersea, London	Prominent location on junction of Lombard Road and York Road (South Circular)	Potential redevelopment to increase size of existing 34,000 sq ft Big Yellow store. Redevelopment of adjoining retail into a mixed use led residential scheme. Ongoing detailed planning discussions with the Borough Council.	Up to an additional 40,000 sq ft
Newcastle	Prime location on Scotswood Road	Negotiations ongoing with existing long leasehold tenant to obtain vacant possession.	50,000 to 60,000 sq ft
Wapping, London	Prominent location on The Highway	Site recently acquired. We will convert part into self storage and collect income from the other tenancies with a view to achieving a more comprehensive self storage centre in the longer term.	50,000 sq ft to 90,000 sq ft

The capital expenditure committed for the financial year ended 31 March 2018 is approximately £20 million, which includes the acquisition of Wapping, the construction of Guildford Central and the extension to Wandsworth.

The Group manages the construction and fit-out of its stores in-house, as we believe it provides both better control and quality, and we have an excellent record of building stores on time and within budget.

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Financial results

Revenue

Total revenue for the year was £109.1 million, an increase of £7.7 million (8%) from £101.4 million in the prior year. Like-for-like revenue for the year was £107.3 million, an increase of 6% from the prior year (2016: £101.4 million). Like-for-like revenue excludes Nine Elms and Twickenham 2 which were acquired in April 2016.

Other sales (included within the above), comprising the selling of packing materials, insurance and storage related charges, represented 16.6% of storage income for the year (2016: 17.2%) and generated revenue of £15.2 million for the year, up 4% from £14.6 million in 2016.

The other revenue earned by the Group is management fee income, largely from the Armadillo Partnerships, and tenant income on sites where we have not started development.

Operating costs

Cost of sales is principally comprised of the direct store operating costs, including store staff salaries, utilities, business rates, insurance, a full allocation of the central marketing budget and repairs and maintenance.

The breakdown of the portfolio's operating costs compared to the prior year is shown in the table below:

Category	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000	% change	% of store operating costs in 2017
Cost of sales (insurance and packing materials)	2,391	2,149	11%	7%
Staff costs	8,572	8,001	7%	27%
General & Admin	1,196	1,183	1%	4%
Utilities	1,470	1,406	5%	5%
Property Rates	10,044	9,544	5%	32%
Marketing	4,152	3,865	7%	13%
Repairs / Maintenance	2,539	2,240	13%	8%
Insurance	893	992	(10%)	3%
Computer Costs	443	440	1%	1%
Irrecoverable VAT	17	266	(94%)	0%
Total per portfolio summary	31,717	30,086	5%	

Operating costs per the portfolio summary have increased by £1.6 million. £0.9 million of this increase is due to new stores acquired in the year at Nine Elms and Twickenham 2, coupled with the full year impact of Cambridge. The remaining increase of £0.7 million (representing a 2.4% increase on the prior year on a like-for-like basis) is due to an increased investment in marketing and increases in property rates and repairs and maintenance, in part offset by the saving in VAT (see below).

During the year, the Group agreed a new Partial Exemption Special Method with HMRC. This method increases the Group's VAT recoverability from 89.0% to 99.4%. This saves approximately £0.3 million per annum on the Group's operating costs, in addition to reducing the irrecoverable VAT on construction projects. There is a credit in respect of prior years of £0.3 million from the date the application was submitted, which is an item in the adjustments to the Group's recurring profit for the year. This credit is split between cost of sales (£278,000) and administrative expenses (£50,000).

Following the recent rating review, we have calculated that the impact on the Group's rates bill for the year ending 31 March 2018 will increase by 9% (£0.9 million). We expect rates to increase beyond next year in line with inflation. The improvement in our VAT position mentioned above will serve to mitigate part of this increased cost.

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The table below reconciles store operating costs per the portfolio summary to cost of sales in the income statement:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Direct store operating costs per portfolio summary (excluding rent)	31,717	30,086
Rent included in cost of sales (total rent payable is included in portfolio summary)	1,196	967
Depreciation charged to cost of sales	489	478
Prior period VAT recovery	(278)	-
Head office operational management costs charged to cost of sales	798	672
Other (e.g. void costs of development sites)	153	429
Cost of sales per income statement	34,075	32,632

Store EBITDA

Store EBITDA for the year included in the income statement was £73.5 million, an increase of £5.6 million (8%) from £67.8 million for the year ended 31 March 2016 (see Portfolio Summary). The overall EBITDA margin for all Big Yellow stores during the year was 68.5% an improvement from 68.0% last year. The table below reconciles Store EBITDA per the portfolio summary to gross profit in the income statement.

	Year ended 31 March 2017 £000			Year ended 31 March 2016 £000		
	Store EBITDA per portfolio summary	Reconciling items	Gross profit per income statement	Store EBITDA per portfolio summary	Reconciling items	Gross profit per income statement
Revenue ⁽¹⁾	107,315	1,755	109,070	99,822	1,560	101,382
Cost of sales ⁽²⁾	(31,717)	(2,358)	(34,075)	(30,086)	(2,546)	(32,632)
Rent ⁽³⁾	(2,126)	2,126	-	(1,893)	1,893	-
	<u>73,472</u>	<u>1,523</u>	<u>74,995</u>	<u>67,843</u>	<u>907</u>	<u>68,750</u>

(1) See note 3, reconciling items include management fees and non-storage income

(2) See reconciliation in cost of sales section above.

(3) The rent shown above is the cost associated with leasehold stores, only part of which is recognised within gross profit in line with finance lease accounting principles. The amount included in gross profit is shown in the reconciling items in cost of sales.

Administrative expenses

Administrative expenses in the income statement have increased by £0.8 million compared to the prior year. £0.3 million of the increase is as a result of the write-off of the Group's acquisition costs for the purchase of Lock and Leave, which has been adjusted from recurring profit. The remaining difference is due principally to an increased investment in IT infrastructure and inflationary increases. In addition, it is important to note that of our total £9.7 million administrative expense for the year, £2.3 million relates to the non-cash share based payments charge.

Interest expense on bank borrowings

The gross bank interest expense for the year was £11.0 million, a reduction of £0.2 million from the prior year. This reflects slightly higher average debt levels offset by a reduction in the Group's average cost of debt. The average cost of borrowing during the year was 3.3% compared to 3.6% in the prior year.

Capitalised interest decreased by £0.1 million from the prior year. The interest capitalised in the year is principally on our Guildford Central store and the Wandsworth extension, but interest was only capitalised on these developments in the final quarter. During the prior year, interest was capitalised on our Cambridge development for the majority of the year.

Total interest payable has decreased in the statement of comprehensive income from £11.9 million to £11.8 million due to the reduction in interest payable, partly offset by the reduction in capitalised interest.

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Profit before tax

The Group made a profit before tax in the year of £99.8 million, compared to a profit of £112.2 million in the prior year.

After adjusting for the gain on the revaluation of investment properties and other matters shown in the table below, the Group made an adjusted profit before tax in the year of £54.6 million, up 11% from £49.0 million in 2016.

Profit before tax analysis	2017	2016
	£m	£m
Profit before tax	99.8	112.2
Gain on revaluation of investment properties	(43.7)	(58.0)
Movement in fair value on interest rate derivatives	(0.7)	-
Acquisition costs written off	0.3	-
Prior year VAT recovery	(0.3)	-
Gains on surplus land	-	(4.8)
Share of non-recurring gains and losses in associates	(0.8)	(0.4)
Adjusted profit before tax	54.6	49.0

The movement in the adjusted profit before tax from the prior year is illustrated in the table below:

	£m
Adjusted profit before tax – year ended 31 March 2016	49.0
Increase in gross profit	5.9
Decrease in net interest payable	0.2
Increase in administrative expenses	(0.5)
Increase in share of recurring profit of associates	0.1
Decrease in capitalised interest	(0.1)
Adjusted profit before tax – year ended 31 March 2017	54.6

Basic earnings per share for the year was 63.6p (2016: 71.9p) and fully diluted earnings per share was 63.1p (2016: 71.6p). Diluted EPRA earnings per share based on adjusted profit after tax was up 11% to 34.5p (2016: 31.1p) (see note 12).

REIT status

The Group converted to a Real Estate Investment Trust (“REIT”) in January 2007. Since then the Group has benefited from a zero tax rate on the Group’s qualifying self storage earnings. The Group only pays tax on the profits attributable to our residual business, comprising primarily of the sale of packing materials and insurance, and fees earned from the management of the Armadillo portfolio.

REIT status gives the Group exemption from UK corporation tax on profits and gains from its qualifying portfolio of UK stores. Revaluation gains on developments and our existing open stores will be exempt from corporation tax on capital gains, provided certain criteria are met.

The Group has a rigorous internal system in place for monitoring compliance with criteria set out in the REIT regulations. On a monthly basis, a report on compliance with these criteria is issued to the Executive. To date, the Group has complied with all REIT regulations, including forward looking tests.

Taxation

There is a tax charge in the current year of £0.3 million. This compares to a charge in the prior year of £0.2 million. The current year tax charge reflects an increase in profits in our residual business, in part offset by deductions allowed for tax purposes from the exercise of share options.

Dividends

The Board is recommending the payment of a final dividend of 14.1 pence per share in addition to the interim dividend of 13.5 pence, giving a total dividend for the year of 27.6 pence, an increase of 11% from the prior year.

REIT regulatory requirements determine the level of Property Income Dividend (“PID”) payable by the Group. On the basis of the full year distributable reserves for PID purposes, a PID of 24.0 pence per share is payable (31 March 2016: 18.1 pence). The balance of the total annual dividend represents an ordinary dividend declared at the discretion of the

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Board, in line with our policy to distribute 80% of our adjusted earnings per share in each reporting period. The PID for the year to 31 March 2017 accounts for 87% of the total dividend, up from 73% in the prior year.

The table below summarises the declared dividend for the year:

Dividend (pence per share)	31 March 2017	31 March 2016
Interim dividend – PID	13.5p	12.1p
– discretionary	nil p	nil p
– total	13.5p	12.1p
Final dividend – PID	10.5p	6.0p
– discretionary	3.6p	6.8p
– total	14.1p	12.8p
Total dividend – PID	24.0p	18.1p
– discretionary	3.6p	6.8p
– total	27.6p	24.9p

Subject to approval by shareholders at the Annual General Meeting to be held on 20 July 2017, the final dividend will be paid on 27 July 2017. The ex-div date is 22 June 2017 and the record date is 23 June 2017.

Cash flow growth

The Group is strongly cash generative and draws down from its longer term committed facilities as required to meet obligations. The Group's cash flow from operating activities for the year was £56.0 million, an increase of 1% from £55.5 million in the prior year. There are distortive working capital items in both years, and therefore the summary cash flow below sets out the free cash flow pre working capital movements, which shows an increase of 10% to £58.3 million in the year.

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Cash generated from operations pre working capital movements	69,574	64,023
Net finance costs	(11,235)	(10,748)
Free cash flow pre working capital movements	58,339	53,275
Working capital movements	(2,365)	2,192
Cash flow from operating activities	55,974	55,467
Capital expenditure	(20,577)	(44,575)
Finance lease payments	(1,196)	(967)
Asset sales	300	7,835
Receipt from Capital Goods Scheme	2,917	184
Dividends received from associates	396	270
Cash flow after investing activities	37,814	18,214
Ordinary dividends	(41,158)	(36,443)
Issue of share capital	286	378
(Decrease)/increase in borrowings	(7,243)	26,864
Net cash (outflow)/inflow	(10,301)	9,013
Opening cash and cash equivalents	17,207	8,194
Closing cash and cash equivalents	6,906	17,207
Closing debt	(304,955)	(312,198)
Closing net debt	(298,049)	(294,991)

Net debt is defined as gross bank borrowings less cash and cash equivalents.

In the year capital expenditure outflows were £20.6 million, down from £44.6 million in the prior year. The capital expenditure during the year principally relates to the acquisition of Nine Elms and Twickenham 2 from Lock and Leave. We have commenced construction in our Guildford Central store and the extension to our existing Wandsworth store and also continued to invest in fitting out further Phase 2 space at our existing stores.

The cash flow after investing activities was a net inflow of £37.8 million in the year, compared to an inflow of £18.2 million in 2016.

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Balance sheet

Property

The Group's 73 stores and 5 stores under development at 31 March 2017, which are classified as investment properties, have been valued individually by Cushman & Wakefield ("C&W") and this has resulted in an investment property asset value of £1,190.5 million, comprising £1,110.9 million (93%) for the 66 freehold (including two long leaseholds) open stores, £43.5 million (4%) for the seven short leasehold open stores and £36.1 million (3%) for the five freehold investment properties under construction.

Analysis of property portfolio	Value at 31 March 2017	Revaluation movement in year
Investment property	£1,154.4m	£44.4m
Investment property under construction	£36.1m	(£0.7m)
Total	£1,190.5m	£43.7m

Investment property

The valuations in the current year have grown from the prior year, with a revaluation surplus of £44.4 million arising on the open Big Yellow stores. Of this increase £19.5 million is due to an improvement in the cap rate used in the valuations. £24.9 million of the increase in value is due to the growth in cash flow from the assets and the operating assumptions adopted in the valuations. The growth in cash flow has been partly offset by the increase in property rates mentioned above.

The valuation is based on an average occupancy over the 10 year cash flow period of 82.1% across the whole portfolio.

	Mature		Established	Developing	
	Leasehold	Freehold	Freehold	Freehold	Total
Number of stores	7	57	6	3	73
MLA capacity (sq ft)	420,000	3,535,000	406,000	190,000	4,551,000
Valuation at 31 March 2017	£43.5m	£957.6m	£108.1m	£45.2m	£1,154.4m
Value per sq ft	£104	£271	£266	£238	£254
Occupancy at 31 March 2017	81.6%	78.3%	77.6%	65.8%	78.0%
Stabilised occupancy assumed	84.4%	82.2%	85.6%	85.0%	82.8%
Net initial yield pre-admin expenses	12.2%	6.3%	6.1%	4.8%	6.5%
Stabilised yield assuming no rental growth	12.9%	7.0%	7.0%	7.4%	7.2%

The initial yield pre-administration expenses assuming no rental growth 6.5% (2016: 6.5%) rising to a stabilised yield of 7.2% (2016: 7.2%). The stores are assumed to grow to stabilised occupancy in 22 months on average. Note 14 contains more detail on the assumptions underpinning the valuations.

There is little transaction activity in the prime self storage market, although there has been some activity for secondary assets. As referenced in note 14, C&W's valuation report further confirms that the properties have been valued individually but that if the portfolio was to be sold as a single lot or in selected groups of properties, the total value could differ significantly. C&W state that in current market conditions they are of the view that there could be a material portfolio premium.

Investment property under construction

The investment property under construction valuation has increased by £2.1 million in the year. Capital expenditure accounts for £2.8 million of this increase, notably on Guildford Central. This has been partly offset by a revaluation deficit of £0.7 million across a couple of the development sites, where our projected construction costs have increased due to a change in the planned schemes.

Purchaser's cost adjustment

As in prior years, we have instructed an alternative valuation on our assets using a purchaser's cost assumption of 2.75% (see note 14 for further details) to be used in the calculation of our adjusted diluted net asset value. This Red Book valuation on the basis of 2.75% purchaser's costs, results in a higher property valuation at 31 March 2017 of £1,258.5 million (£68.0 million higher than the value recorded in the financial statements). With the share of uplift on the revaluation of the Armadillo stores (£0.5 million), this translates to 43.2 pence per share.

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The revised valuation translates into an adjusted net asset value per share of 607.6 pence (2016: 569.1 pence) after the dilutive effect of outstanding share options.

Surplus land

During the year, the Group sold its remaining piece of land for £0.3 million, which represented its book value. In the prior year, the Group sold its surplus site in Central Manchester for £8 million. This represented a profit over book value, after selling costs, of £4.8 million, which included the release of a provision previously made against the land of £2.3 million.

Receivables

At 31 March 2017 we have a receivable of £6.8 million in respect of payments due back to the Group under the Capital Goods Scheme as a consequence of the introduction of VAT on self storage from 1 October 2012.

The debtor has been discounted in accordance with International Accounting Standards to the net present value using the Group's average cost of debt, with £0.3 million of the discount being unwound through interest receivable in the period. The gross value of the debtor before discounting is £7.2 million.

The Group received £2.9 million under the Scheme in the year.

Movement in adjusted NAV

The year on year movement in adjusted net asset value (see note 12) is illustrated in the table below:

Movement in adjusted net asset value	Equity shareholders' funds £m	EPRA adjusted NAV per share (pence)
1 April 2016	899.0	569.1
Adjusted profit	54.6	34.6
Equity dividends paid	(41.1)	(26.1)
Revaluation movements (including share of associate)	44.5	28.2
Movement in purchaser's cost adjustment	4.0	2.5
Other movements (e.g. share schemes)	2.4	(0.7)
31 March 2017	963.4	607.6

Borrowings

We focus on improving our cash flows allied to a relatively conservative debt structure secured principally against the freehold estate. For the year we had healthy Group interest cover of 6.2 times (2016: 6.0 times) based on free cash flow pre working capital movements against interest paid.

Our financing policy is to fund our current needs through a mix of debt, equity and cash flow to allow us to selectively build out our development pipeline and achieve our strategic growth objectives, which we believe improves returns for shareholders. We aim to ensure that there are sufficient medium-term facilities in place to finance our committed development programme, secured against the freehold portfolio, with debt serviced by our strong operational cash flows. Treasury continues to be closely monitored and its policy approved by the Board. We maintain a keen watch on medium and long-term rates and the Group's policy in respect of interest rates is to maintain a balance between flexibility and hedging of interest rate risk. The table below summarises the Group's debt facilities:

Debt	Expiry	Facility	Drawn at 31 March 2017	Average cost
Aviva Loan	April 2027	£90 million	£90 million	4.9%
M&G loan	June 2022	£70 million	£70 million	3.7%
Bank loan (Lloyds & HSBC)	October 2021	£190 million	£145 million	1.8%
Total	Average term 5.9 years	£350 million	£305 million	3.2%

The Group's loan with Aviva is at a fixed rate and amortises to £60 million from the original loan of £100 million over the course of its 15 year term. The M&G loan is 50% fixed and 50% floating and is for a bullet seven year term.

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During the year the Group extended the term of its bank loan from October 2020 to October 2021. The revolving element of the bank loan pays a margin of 125 bps and the term debt 150 bps. The Group has an option to increase the amount of the revolving loan facility by a further £60 million during the course of the loan's term.

During the year, the Group took out an interest rate derivative of £30 million expiring in October 2021 at a pre-margin cost of 0.4%, replacing an expiring swap which was at a pre-margin cost of 2.8%. The bank loan requires 45% of all drawn debt to be hedged or fixed.

The Group was in compliance with its banking covenants at 31 March 2017. The Group currently has a net debt to gross property assets ratio of 25%, and a net debt to adjusted net assets ratio of 31%.

At 31 March 2017, the fair value on the Group's interest rate derivatives was a liability of £3.0 million. The Group does not hedge account its interest rate derivatives. As recommended by EPRA (European Public Real Estate Association), the fair value movements are eliminated from adjusted profit before tax, diluted EPRA earnings per share, and adjusted net assets per share.

Cash deposits are only placed with approved financial institutions in accordance with the Group's Treasury policy.

Share capital

The share capital of the Company totalled £15.8 million at 31 March 2017 (2016: £15.7 million), consisting of 157,882,867 ordinary shares of 10p each (2016: 157,369,287 shares).

Shares issued for the exercise of options during the year amounted to 0.5 million at an average exercise price of 738p (2016: 0.7 million shares at an average price of 704p).

The Group holds 1.1 million shares within an Employee Benefit Trust ("EBT"). These shares are shown as a debit in reserves and are not included in calculating net asset value per share.

	2017 No.	2016 No.
Opening shares	157,369,287	158,055,735
Cancellation of treasury shares	-	(1,418,750)
Shares issued for the exercise of options	513,580	732,302
Closing shares in issue	157,882,867	157,369,287
Shares held in EBT	(1,122,907)	(1,122,907)
Closing shares for NAV purposes	156,759,960	156,246,380

74.9 million shares were traded in the market during the year ended 31 March 2017 (2016: 56.9 million). The average mid-market price of shares traded during the year was 735.8p with a high of 886.5p and a low of 635.0p.

Investment in Armadillo

The Group has a 20% investment in Armadillo Storage Holding Company Limited and a 20% investment in Armadillo Storage Holding Company 2 Limited. In the consolidated accounts of Big Yellow Group PLC, our investments in the vehicles are treated as associates using the equity accounting method.

The occupancy of the Armadillo stores at 31 March 2017 was 551,000 sq ft, against a total capacity of 738,000 sq ft, with growth of 74,000 sq ft over the year, including 50,000 sq ft acquired with Canterbury and West Molesey in April 2016. The stores' occupancy at 31 March 2017 was 74.7% (31 March 2016: 70.9%). The net rent achieved at 31 March 2017 by the Armadillo stores is £16.51 per sq ft, an increase of 6% from the same time last year. The 6% increase is in part due to the acquisition of Canterbury and West Molesey which increased the average net rent of the portfolio. Revenue increased by 17% to £10.5 million for the year to 31 March 2017 (2016: £9.0 million); the like-for-like increase in revenue was 4%.

The Armadillo Partnerships made a combined operating profit of £5.2 million in the year, of which Big Yellow's share is £1.0 million. After net interest costs, the revaluation of investment properties (valued by Jones Lang Lasalle), deferred tax on the revaluation surplus and interest rate derivatives, the profit for the year was £7.2 million, of which the Group's share was £1.4 million.

Big Yellow has a five year management contract in place in each Partnership. For the year to 31 March 2017, the Group earned management fees of £0.8 million. The Group's share of the declared dividend for the year is £0.4 million, representing an 11% yield on our investment for the year.

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Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The section below details the principal risks and uncertainties that are considered to have the most material impact on the Group's strategy and objectives. These key risks are monitored on an ongoing basis by the Executive Directors, and considered fully by the Board in its annual risk review.

Risk and impact	Mitigation	Change during the year and outlook
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Self storage market risk

There is a risk to the business that the self storage market does not grow in line with our projections, and that economic growth in the UK is below expectations, which could result in falling demand and a loss of income.

Self storage is a relatively immature market in the UK compared to other self storage markets such as the United States and Australia, and we believe has further opportunity for growth. Awareness of self storage and how it can be used by domestic and business customers is relatively low throughout the UK, although higher in London. The rate of growth of branded self storage on main roads in good locations has historically been limited by the difficulty of acquiring sites at affordable prices and obtaining planning consent. New store openings within the sector have slowed significantly over the past few years.

Our performance during the downturn was relatively resilient, although not immune. We believe that the resilience of our performance is due to a combination of factors including:

- a prime portfolio of freehold properties;
- a focus on London and the South East and other large metropolitan cities, which have proved more resilient during the downturn and where the drivers in the self storage market are at their strongest and the barriers to competition are at their highest;
- the strength of operational and sales management;
- continuing innovation to deliver the highest levels of customer service;
- the UK's leading self storage brand, with high public awareness and online strength; and
- strong cash flow generation and high operating margins, from a secure capital structure.

We have a large current storage customer base of approximately 52,500 spread across the portfolio of stores and many thousands more who have used Big Yellow over the years. In any month, customers move in and out at the margin resulting in changes in occupancy. This is a seasonal business and typically we see growth over the spring and the summer months,

The UK economy is projected to grow at approximately 1.6% in 2017, and is ahead of the level of output last achieved in 2007 before the global financial crisis. Self storage proved relatively resilient through the crisis, with our revenue and earnings increasing over the last seven years. As the economy has recovered in the past few years, the market risk has fallen in line with increasing occupancy.

There is increased macroeconomic uncertainty associated with the UK's future exit from the EU, and this has resulted in a broad range of opinions on the UK's future economic performance.

The Group's like-for-like occupancy has increased by 2.8 percentage points in the year from 75.3 % to 78.1%.

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with the seasonally weaker periods being the winter months.

Property risk

There is a risk that we will be unable to acquire new development sites which meet management's criteria. This would impact on our ability to grow the overall store platform.

Our management has significant experience in the property industry generated over many years and in particular in acquiring property on main roads in high profile locations and obtaining planning consents. We do take planning risk where necessary, although the availability of land, and competition for it makes acquiring new sites challenging.

Our in-house development team and our professional advisers have significant experience in obtaining planning consents for self storage centres.

We manage the construction of our properties very tightly. The building of each site is handled through a design and build contract, with the fit out project managed in-house using an established professional team of external advisers and sub-contractors who have worked with us for many years to our Big Yellow specification. We carried out an external benchmarking of our construction costs and tendering programme in the prior year, which had satisfactory results.

The planning process remains difficult and to achieve a planning consent can take anything from eighteen months to three years. Local planning policy is increasingly favouring residential development over other uses, and we don't expect this to change given the shortage of housing in the UK.

Valuation risk

The valuations of the Group's investment properties may fall due to external pressures or the impact of performance.

Lack of transactional evidence in the self storage sector leads to more subjective valuations.

The valuations are carried out by independent, qualified external valuers who value a significant proportion of the UK self storage industry.

The portfolio is diverse with approximately 52,500 customers currently using our stores for a wide variety of reasons.

There is significant headroom on our loan to value banking covenants.

The revaluation surplus on the Group's open stores investment properties was £44.4 million in the year (an uplift of 4%).

There has been an increase in transactional evidence in the year, with the Group's acquisition of Lock and Leave, and the acquisition of the Big Box portfolio by Storage Mart.

Treasury risk

The Group may face increased costs from adverse interest rate movements.

Our financing policy is to fund our current needs through a mix of debt, equity and cash flow to allow us to selectively build out the remaining development pipeline and achieve our strategic growth objectives, which we believe improve returns for shareholders. We have made it clear that we believe optimal leverage for a business such as ours should be LTV in the range 20% to 30% and this informs our management of treasury risk.

We aim to ensure that there are sufficient medium-term facilities in place to finance our committed development programme, secured

Interest rates are forecast to remain low for the foreseeable future, although following the reduction in the sterling exchange rates following the Brexit referendum, UK inflation is forecast to increase in 2017.

Debt providers currently remain supportive to companies with a strong capital structure. That said, a weaker macro-economic performance

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against the freehold portfolio, with debt serviced by our strong operational cash flows.

We have a fixed rate loan in place from Aviva Commercial Finance Limited, with 10 years remaining. In the prior year, the Group drew down on a seven year £70 million loan from M&G Investments, which is 50% fixed and 50% floating. For our bank debt, we borrow at floating rates of interest and use swaps to hedge our interest rate exposure. Our policy is to have at least 45% of our total borrowings fixed, with the balance floating. At 31 March 2017 51% of the Group's total borrowings were fixed or subject to interest rate derivatives. The Group reviews its current and forecast projections of cash flow, borrowing and interest cover as part of its monthly management accounts. In addition, an analysis of the impact of significant transactions is carried out regularly, as well as a sensitivity analysis assuming movements in interest rates and store occupancy on gearing and interest cover. This sensitivity testing underpins the viability statement below.

The Group regularly monitors its counterparty risk. The Group monitors compliance with its banking covenants closely. During the year it complied with all its covenants, and is forecast to do so for the foreseeable future.

Tax and regulatory risk

The Group is exposed to changes in the tax regime affecting the cost of corporation tax, VAT and Stamp Duty Land Tax ("SDLT"), for example the imposition of VAT on self storage from 1 October 2012.

The UK's future exit from the EU creates uncertainty over the future UK tax and regulatory environment.

The Group is exposed to potential tax penalties or loss of its REIT status by failing to comply with the REIT legislation.

Human resources risk

Our people are key to our success and as such we are exposed to a risk of high

We regularly monitor proposed and actual changes in legislation with the help of our professional advisers, through direct liaison with HMRC, and through trade bodies to understand and, if possible, mitigate or benefit from their impact.

HMRC have designated the Group as having a low-risk tax status, and we hold regular meetings with them. We carry out detailed planning ahead of any future regulatory and tax changes using our expert advisors.

The Group has internal monitoring procedures in place to ensure that the appropriate REIT rules and legislation are complied with. To date all REIT regulations have been complied with, including projected tests.

We have developed a professional, lively and enjoyable working environment and believe our success stems from attracting and retaining the

by the UK economy could adversely affect liquidity and pricing.

The Group's interest cover ratio for the year to 31 March 2017 was 6.2 times, comfortably ahead of our internal target of 5 times.

In addition to the regulatory and tax uncertainty linked to the UK's future exit from the EU, the Group has experienced an increase in cost of £0.9 million for the year ending March 2018 following the Government's review of business rates.

During the year, an employee consultancy conducted an engagement survey of our

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staff turnover, and a risk of the loss of key personnel.

With unemployment falling, and a risk of higher staff turnover, difficulty in finding the right employees increases.

right people. We encourage all our staff to build on their skills through appropriate training and regular performance reviews. We believe in an accessible and open culture and everyone at all levels is encouraged to review and challenge accepted norms, so as to contribute to the performance of the Group.

We were ranked 80th in the Sunday Times Best 100 Companies to Work For survey in February 2016.

employees. The survey results showed very high levels of employee engagement (90%), which was an increase from 86% from our previous survey in 2014.

Security risk

The Group is exposed to the risk of the damage or loss of store due to vandalism, fire, or natural incidents such as flooding. This may also cause reputational damage.

The safety and security of our customers, their belongings, and stores remains a key priority. To achieve this we invest in state of the art access control systems, individual room alarms, digital CCTV systems, intruder and fire alarm systems and the remote monitoring of all our stores outside of our trading hours. We are the only major operator in the UK self storage industry that has every room in every store individually alarmed.

We have continued to run courses for all our staff to enhance the awareness and effectiveness of our procedures in relation to security.

We regularly review and implement improvements to our security processes and procedures.

We have implemented customer security procedures in line with advice from the Police and continue to work with the regulatory authorities on issues of security, reviewing our operational procedures regularly. The importance of security and the need for vigilance is communicated to all store staff and reinforced through training and routine operational procedures.

Cyber risk

High profile cyber-attacks and data breaches are a regular staple in today's news. The results of any breach may result in reputational damage, or customer compensation, causing a loss of market share and income.

The Group receives specialist advice and consultancy in respect of cyber security and we have dedicated in-house monitoring and regular review of our security systems, we also limit the retention of customer data to the minimum requirement.

Policies and procedures are under regular review and benchmarked against industry best practice by our consultants. These policies also include defend, detect and response policies.

We have also instigated a new working group for compliance with the new EU General Data Protection Regulation ("GDPR") which comes into effect on 25 May 2018.

We don't consider the risk to have increased any faster for the Group than anyone else; however we consider that the threats in the entire digital landscape do continue to increase.

During the year we have continued to invest in digital security. Some of the changes include more frequent penetration testing of internet facing systems, adding components such as anti-ransomware as well as the maintenance replacement of components such as firewalls to the latest technology and specification.

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Responsibility statement of the Directors on the annual report

The responsibility statement below has been prepared in connection with the Company's full annual report for the year ended 31 March 2017. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the board of Directors on 22 May 2017 and is signed on its behalf by:

James Gibson

John Trotman

Chief Executive Officer

Chief Financial Officer

Big Yellow Group PLC

Independent auditors' report to the shareholders of Big Yellow Group PLC on the Preliminary Announcement of Big Yellow Group PLC

We confirm that we have issued an unqualified opinion on the full financial statements of Big Yellow Group PLC.

Our audit report on the full financial statements sets out the following risks of material misstatement which had the greatest effect on our audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those risks and the key observations arising from our work:

Investment Property Valuations

Risk description



As at 31 March 2017, the Group held wholly-owned investment properties and investment properties under construction valued at £1,190.5 million (2015: £1,126.2 million) all located within the United Kingdom.

The Group also has minority investments in two associate entities (Armadillo Storage Holding Company Limited and Armadillo Storage Company 2 Limited”), together ‘the Associates’ for which equity accounting is applied. The Associates control a combined gross value of £69.3 million (2015: £57.7 million) in self-storage assets, of which 20% is recognised by the Group.

Investment properties are held at fair value on the Consolidated Balance Sheet. The net valuation gain in the year relating to Group held wholly-owned investment properties was £43.7 million (2016: £58.0 million), which was recognised through the Consolidated Income Statement.

The net valuation gain, included within the share of profit of associates, relating to the properties held by the Associates was £4.0 million (2016: £3.5 million) on a gross basis and therefore £0.8 million (2016: £0.7 million) on a Group share basis.

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

We consider investment property valuation to be a significant and key risk of material misstatement as the valuation process is subjective and inherently judgemental in nature. The investment market for prime self-storage, in particular, is subject to market uncertainty due to the low volume of transactions.

See note 14 to the preliminary announcement for further information on the investment property valuations.

How the scope of our audit responded to the risk

- We assessed the design and implementation of the key internal controls around the property valuation process;
- We tested the integrity of the information provided to the external valuers by management by agreeing key inputs such as actual occupancy and net rent per square foot to underlying records and source evidence;
- We modelled ten years of valuations and key valuation inputs of the investment properties subject to audit, to understand the historical trends of key inputs and compared these against the key forecast assumptions included in the property valuation;
- We met with the external valuers covering both the Group and Associate portfolios and assessed their independence, the scope of the work they were requested to perform by management, quality control procedures in place internally and the valuation methodology applied;

Big Yellow Group PLC

Independent auditors' report to the shareholders of Big Yellow Group PLC on the Preliminary Announcement of Big Yellow Group PLC

- We challenged the external valuers on the key assumptions applied and focussed on properties we identified as having significant or unusual valuation movements (compared to market data or previous periods). Our challenge was informed by input from our internal valuation specialists, utilising their knowledge and expertise in the market at a macro level and the relevant geographies to challenge the key judgmental inputs. We also researched comparable transactions and understood trends in analogous industries and utilised this information in our audit challenge. We understood the rationale for outlying valuations or movements and obtained corroborative evidence. We also assessed the valuations for a sample of other properties; and
- We visited a sample of properties to assess the condition of the buildings and validate a sample of occupancy data inputs.

Key observations

- We concluded that the underlying assumptions included in the valuation are reasonable;
- At a property level, no exceptions were identified that required reporting to the Audit Committee; and
- The valuation, as a whole, is a reasonable reflection of the fair value of the portfolio.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Our liability for this report, and for our full audit report on the financial statements is 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 our audit report or this report, or for the opinions we have formed.

Deloitte LLP

Chartered Accountants and Statutory Auditor

Big Yellow Group PLC

Consolidated Statement of Comprehensive Income Year ended 31 March 2017

	Note	2017 £000	2016 £000
Revenue	3	109,070	101,382
Cost of sales		(34,075)	(32,632)
Gross profit		74,995	68,750
Administrative expenses		(9,679)	(8,896)
Operating profit before gains on property assets		65,316	59,854
Gain on the revaluation of investment properties	13a,14	43,706	58,001
Profit on disposal of surplus land	15	-	4,754
Operating profit		109,022	122,609
Share of profit of associates	13d	1,442	1,104
Investment income – interest receivable	7	356	403
– fair value movement on derivatives	7, 18	719	-
Finance costs – interest payable	8	(11,756)	(11,866)
– fair value movement of derivatives	8, 18	-	(4)
Profit before taxation		99,783	112,246
Taxation	9	(272)	(247)
Profit for the year (attributable to equity shareholders)	5	99,511	111,999
Total comprehensive income for the year (attributable to equity shareholders)		99,511	111,999
Basic earnings per share	12	63.6p	71.9p
Diluted earnings per share	12	63.1p	71.6p

EPRA earnings per share are shown in Note 12.

All items in the consolidated statement of comprehensive income relate to continuing operations.

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Consolidated Balance Sheet 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets			
Investment property	13a	1,154,390	1,092,210
Investment property under construction	13a	36,115	33,945
Interests in leasehold property	13a	23,601	20,165
Plant, equipment and owner-occupied property	13b	3,216	3,405
Goodwill	13c	1,433	1,433
Investment in associates	13d	7,452	6,406
Capital Goods Scheme receivable	16	4,091	6,561
		1,230,298	1,164,125
Current assets			
Surplus land	15	-	300
Inventories		283	266
Trade and other receivables	16	18,042	16,222
Cash and cash equivalents		6,906	17,207
		25,231	33,995
Total assets		1,255,529	1,198,120
Current liabilities			
Trade and other payables	17	(36,935)	(36,122)
Borrowings	19	(2,356)	(2,243)
Obligations under finance leases	21	(2,005)	(1,722)
		(41,296)	(40,087)
Non-current liabilities			
Derivative financial instruments	18c	(2,964)	(3,683)
Borrowings	19	(299,323)	(306,520)
Obligations under finance leases	21	(21,596)	(18,443)
		(323,883)	(328,646)
Total liabilities		(365,179)	(368,733)
Net assets		890,350	829,387
Equity			
Share capital	22	15,788	15,737
Share premium account		45,462	45,227
Reserves		829,100	768,423
Equity shareholders' funds		890,350	829,387

The financial statements were approved by the Board of Directors and authorised for issue on 22 May 2017. They were signed on its behalf by:

James Gibson, Director

John Trotman, Director

Company Registration No. 03625199

Big Yellow Group PLC

Consolidated Statement of Changes in Equity

Year ended 31 March 2017

	Share capital £000	Share premium account £000	Other non- distributable reserve £000	Capital redemption reserve £000	Retained earnings £000	Own shares £000	Total £000
At 1 April 2016	15,737	45,227	74,950	1,795	692,697	(1,019)	829,387
Total comprehensive gain for the year	-	-	-	-	99,511	-	99,511
Issue of share capital	51	235	-	-	-	-	286
Dividend	-	-	-	-	(41,158)	-	(41,158)
Credit to equity for equity-settled share based payments	-	-	-	-	2,324	-	2,324
At 31 March 2017	15,788	45,462	74,950	1,795	753,374	(1,019)	890,350

The other non-distributable reserve arose in the year ended 31 March 2015 following the placing of 14.35 million ordinary shares.

Year ended 31 March 2016

	Share capital £000	Share premium account £000	Other non- distributable reserve £000	Capital redemption reserve £000	Retained earnings £000	Own shares £000	Total £000
At 1 April 2015	15,806	44,922	74,950	1,653	619,206	(5,623)	750,914
Total comprehensive gain for the year	-	-	-	-	111,999	-	111,999
Issue of share capital	73	305	-	-	-	-	378
Cancellation of treasury shares	(142)	-	-	142	(3,727)	3,727	-
Use of own shares to satisfy share options	-	-	-	-	(877)	877	-
Dividend	-	-	-	-	(36,443)	-	(36,443)
Credit to equity for equity-settled share based payments	-	-	-	-	2,539	-	2,539
At 31 March 2016	15,737	45,227	74,950	1,795	692,697	(1,019)	829,387

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Consolidated Cash Flow Statement Year ended 31 March 2017

	Note	2017 £000	2016 £000
Operating profit		109,022	122,609
Gain on the revaluation of investment properties	13a, 14	(43,706)	(58,001)
Profit on disposal of surplus land	15	-	(4,754)
Depreciation	13b	738	663
Depreciation of finance lease capital obligations	13a	1,196	967
Employee share options	6	2,324	2,539
Cash generated from operations pre working capital movements		<u>69,574</u>	<u>64,023</u>
(Increase)/decrease in inventories		(17)	38
(Increase)/decrease in receivables		(1,456)	369
(Decrease)/increase in payables		(892)	1,785
Cash generated from operations		<u>67,209</u>	<u>66,215</u>
Interest paid		(10,980)	(10,763)
Interest received		16	15
Tax paid		(271)	-
Cash flows from operating activities		<u>55,974</u>	<u>55,467</u>
Investing activities			
Sale of surplus land		300	7,835
Acquisition of Lock and Leave (net of cash acquired)	13a	(14,239)	-
Purchase of non-current assets		(6,338)	(44,509)
Additions to surplus land		-	(66)
Receipts from Capital Goods Scheme		2,917	184
Dividend received from associates	13d	396	270
Cash flows from investing activities		<u>(16,964)</u>	<u>(36,286)</u>
Financing activities			
Issue of share capital		286	378
Payment of finance lease liabilities		(1,196)	(967)
Equity dividends paid	11	(41,158)	(36,443)
Drawing of M&G loan		-	70,000
Repayment of Lloyds short term loan		-	(70,000)
(Decrease)/increase in borrowings		(7,243)	26,864
Cash flows from financing activities		<u>(49,311)</u>	<u>(10,168)</u>
Net (decrease)/increase in cash and cash equivalents		(10,301)	9,013
Opening cash and cash equivalents		17,207	8,194
Closing cash and cash equivalents		<u>6,906</u>	<u>17,207</u>

Big Yellow Group PLC

Consolidated Cash Flow Statement (continued) Year ended 31 March 2017

Reconciliation of net cash flow movement to net debt

	Note	2017 £000	2016 £000
Net (decrease)/increase in cash and cash equivalents in the year		(10,301)	9,013
Cash flow from decrease/(increase) in debt financing		7,243	(26,864)
Change in net debt resulting from cash flows		<u>(3,058)</u>	<u>(17,851)</u>
Movement in net debt in the year		(3,058)	(17,851)
Net debt at the start of the year		(294,991)	(277,140)
Net debt at the end of the year	18	<u>(298,049)</u>	<u>(294,991)</u>

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

1. GENERAL INFORMATION

Big Yellow Group PLC is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 2 The Deans, Bridge Road, Bagshot, Surrey, GU19 5AT. The nature of the Group's operations and its principal activities are set out in note 4 and in the Strategic Report.

2. BASIS OF PREPARATION

The condensed set of financial statements set out above (which was approved by the Board on 22 May 2017) has been compiled in accordance with IFRS, but does not contain sufficient information to constitute a full set of IFRS financial statements. This financial information does not constitute the Company's statutory accounts for the years ended 31 March 2016 and 31 March 2017, but is derived from those accounts. Those accounts give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole. The Company's statutory accounts for the year ended 31 March 2016 have been filed with the Registrar of Companies. The Company's statutory accounts for the year ended 31 March 2017 will be filed with the Registrar of Companies following the Annual General Meeting. The auditors' reports on both the 2016 and 2017 accounts were unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under s498(2) or (3) Companies Act 2006 or preceding legislation.

The statutory accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and 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 Interpretations Committee relevant to its operations and effective for accounting periods beginning on 1 April 2016. The same accounting policies as applied in the Group's statutory accounts for the year ended 31 March 2016 have been applied in this condensed set of financial statements.

Going concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out on in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow statement and accompanying notes to the financial statements. Further information concerning the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk can be found in the Strategic Report and in the notes to the financial statements.

After reviewing Group and Company cash balances, borrowing facilities, forecast valuation movements and projected cash flows, the Directors believe that the Group and Company have adequate resources to continue operations for the foreseeable future. In reaching this conclusion the Directors have had regard to the Group's operating plan and budget for the year ending 31 March 2018 and projections contained in the longer term business plan which covers the period to March 2021. The Directors have carefully considered the Group's trading performance and cash flows as a result of the uncertain global economic environment and the other principal risks to the Group's performance, and are satisfied with the Group's positioning. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

3. REVENUE

Analysis of the Group's operating revenue can be found below and in the Portfolio Summary.

	2017	2016
	£000	£000
Open stores		
Self storage income	91,600	84,900
Other storage related income	15,189	14,568
Ancillary store rental income	526	354
	<u>107,315</u>	<u>99,822</u>
Other revenue		
Non-storage income	885	808
Management fees earned	870	752
	<u>109,070</u>	<u>101,382</u>
Revenue per statement of comprehensive income	<u>109,070</u>	<u>101,382</u>
Interest receivable on bank deposits (see note 7)	16	15
	<u>109,086</u>	<u>101,397</u>
Total revenue per IAS 18	<u>109,086</u>	<u>101,397</u>

Non-storage income derives principally from rental income earned from tenants of properties awaiting development.

4. SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. Given the nature of the Group's business, there is one segment, which is the provision of self storage and related services.

Revenue represents amounts derived from the provision of self storage and related services which fall within the Group's ordinary activities after deduction of trade discounts and value added tax. The Group's net assets, revenue and profit before tax are attributable to one activity, the provision of self storage and related services. These all arise in the United Kingdom in the current year and prior year.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

5. PROFIT FOR THE YEAR

a) Profit for the year has been arrived at after charging/(crediting):

	2017	2016
	£000	£000
Depreciation of plant, equipment and owner-occupied property	738	663
Leasehold property depreciation	1,196	967
Gain on the revaluation of investment property	(43,706)	(58,001)
Profit on disposal of surplus land	-	(4,754)
Cost of inventories recognised as an expense	1,035	1,095
Employee costs (see note 6)	15,622	15,094
Operating lease rentals	133	78
Auditor's remuneration for audit services (see below)	186	186

b) Analysis of auditor's remuneration:

	2017	2016
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	156	156
Fees payable to the Company's auditor for the subsidiaries' annual accounts	30	30
Total audit fees	<u>186</u>	<u>186</u>
Audit related assurance services - interim review	31	31
Tax advisory services	19	60
Other assurance services – assurance of CSR report	22	22
Other services – planning consultancy	11	-
Other services	2	-
Total non-audit fees	<u>85</u>	<u>113</u>

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. Fees charged by Deloitte LLP to the Group's associates, Armadillo Storage Holding Company Limited and Armadillo Storage Holding Company 2 Limited in the year amounted to £49,000 (2016: £43,000), which all related to audit services.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

6. EMPLOYEE COSTS

The average monthly number of full-time equivalent employees (including Executive Directors) was:

	2017	2016
	Number	Number
Sales	279	271
Administration	50	47
	<hr/> 329	<hr/> 318

At 31 March 2017 the total number of Group employees was 361 (2016: 358).

	2017	2016
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	10,990	10,443
Social security costs	1,783	1,634
Other pension costs	525	478
Share-based payments	2,324	2,539
	<hr/> 15,622	<hr/> 15,094

7. INVESTMENT INCOME

	2017	2016
	£000	£000
Bank interest receivable	16	15
Unwinding of discount on Capital Goods Scheme receivable	340	388
Total interest receivable	<hr/> 356	<hr/> 403
Change in fair value of interest rate derivatives	719	-
Total investment income	<hr/> 1,075	<hr/> 403

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

8. FINANCE COSTS

	2017	2016
	£000	£000
Interest on bank borrowings	10,953	11,187
Capitalised interest	(128)	(247)
Interest on obligations under finance leases	931	926
	<hr/>	<hr/>
Total interest payable	11,756	11,866
	<hr/>	<hr/>
Change in fair value of interest rate derivatives	-	4
Total finance costs	<hr/>	<hr/>
	11,756	11,870

9. TAXATION

The Group converted to a REIT in January 2007. As a result the Group does not pay UK corporation tax on the profits and gains from its qualifying rental business in the UK provided that it meets certain conditions. Non-qualifying profits and gains of the Group are subject to corporation tax as normal. The Group monitors its compliance with the REIT conditions. There have been no breaches of the conditions to date.

Finance (No.2) Bill 2015 provides that the rate of corporation tax for the 2017 Financial Year (commencing 1 April 2017) will be 19% and that the rate from 1 April 2020 would be 18%. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. This rate was incorporated in Finance Act 2016 which was fully enacted on 15 September 2016.

	2017	2016
	£000	£000
UK current tax		
Current tax:		
- Current year	417	247
- Prior year	(145)	-
	<hr/>	<hr/>
	272	247

A reconciliation of the tax charge is shown below:

	2017	2016
	£000	£000
Profit before tax	99,783	112,246
Tax charge at 20% (2016 - 20%) thereon	<hr/>	<hr/>
	19,957	22,449
<i>Effects of:</i>		
Revaluation of investment properties	(8,741)	(11,600)
Share of profit of associates	(288)	(220)
Other permanent differences	(1,242)	(930)
Profits from the tax exempt business	(8,791)	(7,725)
Profit on disposal of surplus land	-	(951)
Utilisation of brought forward losses	-	(51)
Movement on other unrecognised deferred tax assets	(478)	(725)
Current year tax charge	<hr/>	<hr/>
	417	247
Prior year adjustment	<hr/>	<hr/>
	(145)	-
Total tax charge	<hr/>	<hr/>
	272	247

At 31 March 2017 the Group has unutilised tax losses of £32.6 million (2016: £32.3 million) available for offset against certain types of future taxable profits. All losses can be carried forward indefinitely.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

10. ADJUSTED PROFIT

	2017	2016
	£000	£000
Profit before tax	99,783	112,246
Gain on revaluation of investment properties – wholly owned	(43,706)	(58,001)
– in associate (net of deferred tax)	(756)	(566)
Change in fair value of interest rate derivatives – Group	(719)	4
– in associate	8	23
Profit on disposal of surplus land	-	(4,754)
Prior period VAT recovery	(328)	-
Acquisition costs written off	296	-
Share of associate acquisition costs written off	63	-
	<hr/>	<hr/>
Adjusted profit before tax	54,641	48,952
Tax	(272)	(247)
Adjusted profit after tax	<hr/> 54,369	<hr/> 48,705

Adjusted profit before tax which excludes gains and losses on the revaluation of investment properties, changes in fair value of interest rate derivatives, net gains and losses on surplus land, and non-recurring items of income and expenditure have been disclosed to give a clearer understanding of the Group's underlying trading performance.

11. DIVIDENDS

	2017	2016
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2016 of 12.8p (2015: 11.3p) per share.	20,003	17,541
Interim dividend for the year ended 31 March 2017 of 13.5p (2016: 12.1p) per share.	21,155	18,902
	<hr/> 41,158	<hr/> 36,443
Proposed final dividend for the year ended 31 March 2017 of 14.1p (2016: 12.8p) per share.	22,107	20,003

Subject to approval by shareholders at the Annual General Meeting to be held on 20 July 2017, the final dividend will be paid on 27 July 2017. The ex-div date is 22 June 2017 and the record date is 23 June 2017.

The Property Income Dividend ("PID") payable for the year is 24.0 pence per share (2016: 18.1 pence per share).

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

12. EARNINGS AND NET ASSETS PER SHARE

Earnings per ordinary share

	Year ended 31 March 2017			Year ended 31 March 2016		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic	99.5	156.5	63.6	112.0	155.8	71.9
Dilutive share options	-	1.2	(0.5)	-	0.7	(0.3)
Diluted	99.5	157.7	63.1	112.0	156.5	71.6
<i>Adjustments:</i>						
Gain on revaluation of investment properties	(43.7)	-	(27.7)	(58.0)	-	(37.1)
Change in fair value of interest rate derivatives	(0.7)	-	(0.4)	-	-	-
Profit on disposal of surplus land	-	-	-	(4.8)	-	(3.1)
Acquisition costs written off	0.3	-	0.2	-	-	-
Prior period VAT recovery	(0.3)	-	(0.2)	-	-	-
Share of associate non-recurring gains	(0.7)	-	(0.5)	(0.5)	-	(0.3)
EPRA – diluted	54.4	157.7	34.5	48.7	156.5	31.1
EPRA – basic	54.4	156.5	34.8	48.7	155.8	31.3

The calculation of basic earnings is based on profit after tax for the year. The weighted average number of shares used to calculate diluted earnings per share has been adjusted for the conversion of share options.

EPRA earnings and earnings per ordinary share before non-recurring items, movements on revaluation of investment properties, gains on surplus land, the change in fair value of interest rate derivatives, and share of associate non-recurring gains and losses (including deferred tax on revaluation surpluses) have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

12. EARNINGS AND NET ASSETS PER SHARE (CONTINUED)

The European Public Real Estate Association (“EPRA”) has issued recommended bases for the calculation of net assets per share information and this is shown in the table below:

	31 March 2017	31 March 2016
	£000	£000
Basic net asset value	890,350	829,387
Exercise of share options	820	700
EPRA NNNAV	<u>891,170</u>	<u>830,087</u>
Adjustments:		
Fair value of derivatives	2,964	3,683
Fair value of derivatives – share of associate	77	69
Share of deferred tax in associates	626	573
EPRA NAV	<u>894,837</u>	<u>834,412</u>
Basic net assets per share (pence)	568.0	530.8
EPRA NNNAV per share (pence)	562.1	525.5
EPRA NAV per share (pence)	564.4	528.3
EPRA NAV (as above) (£000)	894,837	834,412
Valuation methodology assumption (see note 14) (£000)	68,530	64,560
Adjusted net asset value (£000)	<u>963,367</u>	<u>898,972</u>
Adjusted net assets per share (pence)	607.6	569.1
	No. of shares	No. of shares
Shares in issue	157,882,867	157,369,287
Own shares held in EBT	(1,122,907)	(1,122,907)
Basic shares in issue used for calculation	<u>156,759,960</u>	<u>156,246,380</u>
Exercise of share options	1,781,652	1,707,743
Diluted shares used for calculation	<u>158,541,612</u>	<u>157,954,123</u>

Net assets per share are equity shareholders’ funds divided by the number of shares at the year end. The shares currently held in the Group’s Employee Benefit Trust are excluded from both net assets and the number of shares. Adjusted net assets per share include the effect of those shares issuable under employee share option schemes and the effect of alternative valuation methodology assumptions (see note 14).

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

13. NON-CURRENT ASSETS

a) Investment property, investment property under construction and interests in leasehold property

	Investment property £000	Investment property under construction £000	Interests in leasehold property £000	Total £000
At 31 March 2015	1,007,110	15,681	20,829	1,043,620
Additions	3,668	41,695	-	45,363
Reclassification	19,437	(19,437)	-	-
Adjustment to present value	-	-	303	303
Revaluation (see note 14)	61,995	(3,994)	-	58,001
Depreciation	-	-	(967)	(967)
At 31 March 2016	1,092,210	33,945	20,165	1,146,320
Additions	17,817	2,827	1,871	22,515
Adjustment to present value	-	-	2,761	2,761
Revaluation (see note 14)	44,363	(657)	-	43,706
Depreciation	-	-	(1,196)	(1,196)
At 31 March 2017	1,154,390	36,115	23,601	1,214,106

Additions to the interests in leasehold properties relate to the lease at Twickenham 2, acquired from Lock and Leave during the year.

The income from self storage accommodation earned by the Group from its investment property is disclosed in note 3. Direct operating expenses, which are all applied to generating rental income, arising on the investment property in the year are disclosed in the Portfolio Summary. Included within additions is £0.1 million of capitalised interest (2016: £0.2 million), calculated at the Group's average borrowing cost for the year of 3.3%. 55 of the Group's investment properties are pledged as security for loans, with a total external value of £951.8 million.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

13. NON-CURRENT ASSETS (CONTINUED)

a) Investment property, investment property under construction and interests in leasehold property (continued)

Acquisition of Lock and Leave

On 28 April 2016 the Group acquired the entire share capital and control of three companies from the Lock and Leave Group – Lock and Leave Limited, Kator Storage Limited and Lock and Leave (Twickenham) Limited (“the Companies”), for a consideration of £14.6 million. The net consideration is shown below. The Companies owned two self storage centres in London.

To determine the assets and liabilities acquired at the date of completion of the Companies, the Group has used the balance sheet at the date of acquisition. The following provides a breakdown of the fair value of the assets and liabilities acquired. The investment property was carried at cost in the companies’ balance sheets, and hence the fair value adjustment shown below is to increase the carrying amount to open market valuation.

	Book value	Adjustments	Fair value
	£000	£000	£000
Non-current assets	5,792	8,808	14,600
Current assets	950	-	950
Current liabilities	(697)	-	(697)
Non-current liabilities	(176)	-	(176)
Net assets (100%)	<u>5,869</u>	<u>8,808</u>	<u>14,677</u>
			£000
Purchase consideration			14,677
Purchase consideration paid			14,677
Cash held in Companies acquired			(438)
Cash outflow on acquisition			<u>14,239</u>

From the date of acquisition of the Companies on 28 April 2016 to 31 March 2017, the revenue of the Companies was £1.8 million, and the statutory profit before tax was £4.4 million. The costs of acquisition amounted to £0.3 million. These are included in administrative expenses in the income statement.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

13. NON-CURRENT ASSETS (CONTINUED)

b) Plant, equipment and owner occupied property

	Freehold property £000	Leasehold improve- ments £000	Plant and machinery £000	Motor vehicles £000	Fixtures, fittings & office equipment £000	Total £000
Cost						
At 31 March 2015	1,885	53	544	25	1,416	3,923
Retirement of fully depreciated assets	-	-	(103)	-	(439)	(542)
Additions	298	48	151	-	521	1,018
At 31 March 2016	2,183	101	592	25	1,498	4,399
Retirement of fully depreciated assets	-	(4)	(34)	-	(489)	(527)
Additions	6	-	91	30	422	549
Disposals	-	-	-	(23)	-	(23)
At 31 March 2017	2,189	97	649	32	1,431	4,398
Depreciation						
At 31 March 2015	(328)	(50)	(219)	(25)	(251)	(873)
Retirement of fully depreciated assets	-	-	103	-	439	542
Charge for the year	(39)	(2)	(81)	-	(541)	(663)
At 31 March 2016	(367)	(52)	(197)	(25)	(353)	(994)
Retirement of fully depreciated assets	-	4	34	-	489	527
Charge for the year	(42)	(2)	(102)	(5)	(587)	(738)
Disposals	-	-	-	23	-	23
At 31 March 2017	(409)	(50)	(265)	(7)	(451)	(1,182)
Net book value						
At 31 March 2017	1,780	47	384	25	980	3,216
At 31 March 2016	1,816	49	395	-	1,145	3,405

c) Goodwill

The goodwill relates to the purchase of Big Yellow Self Storage Company Limited in 1999. The asset is tested bi-annually for impairment. The carrying value remains unchanged from the prior year as there is considered to be no impairment in the value of the asset.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

13. NON-CURRENT ASSETS (CONTINUED)

d) Investment in associates

Armadillo

The Group has a 20% interest in Armadillo Storage Holding Company Limited (“Armadillo 1”) and a 20% interest in Armadillo Storage Holding Company 2 Limited (“Armadillo 2”). Both interests are accounted for as associates, using the equity method of accounting.

	Armadillo 1		Armadillo 2	
	31 March	31 March	31 March	31 March
	2017	2016	2017	2016
	£000	£000	£000	£000
At the beginning of the year	4,173	3,638	2,233	1,934
Share of results (see below)	1,093	718	349	386
Dividends	(218)	(183)	(178)	(87)
Share of net assets	5,048	4,173	2,404	2,233

The Group’s total subscription for partnership capital and advances in Armadillo 1 is £1,920,000 and £1,789,000 in Armadillo 2.

The investment properties owned by Armadillo 1 and Armadillo 2 have been valued at 31 March 2017 by Jones Lang LaSalle.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

13. NON-CURRENT ASSETS (CONTINUED)

d) Investment in associates (continued)

The figures below show the trading results of the Armadillo Partnerships, and the Group's share of the results and the net assets of the Armadillo Partnerships.

	Armadillo 1		Armadillo 2	
	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Income statement (100%)				
Revenue	6,324	4,829	4,159	4,139
Cost of sales	(3,270)	(2,560)	(1,763)	(1,954)
Administrative expenses	(207)	(77)	(88)	(97)
Operating profit	2,847	2,192	2,308	2,088
Gain on the revaluation of investment properties	3,725	2,340	322	1,111
Net interest payable	(718)	(514)	(729)	(688)
Acquisition costs written off	(316)	-	-	-
Fair value movement of interest rate derivatives	8	(9)	(49)	(104)
Deferred and current tax	(78)	(421)	(109)	(478)
Profit attributable to shareholders	5,468	3,588	1,743	1,929
Dividends paid	(1,091)	(916)	(890)	(434)
Retained profit	4,377	2,672	853	1,495
Balance sheet (100%)				
Investment property	43,375	32,825	25,900	24,825
Interest in leasehold properties	-	-	3,526	3,809
Other non-current assets	1,125	1,015	1,487	1,490
Current assets	1,177	888	867	845
Current liabilities	(1,895)	(1,193)	(1,821)	(1,840)
Derivative financial instruments	(199)	(207)	(188)	(139)
Non-current liabilities	(18,341)	(12,463)	(17,753)	(17,825)
Net assets (100%)	25,242	20,865	12,018	11,165
Group share				
Operating profit	569	439	462	418
Gain on the revaluation of investment properties	745	468	64	222
Net interest payable	(144)	(103)	(146)	(138)
Acquisition costs written off	(63)	-	-	-
Fair value movement of interest rate derivatives	2	(2)	(10)	(21)
Deferred and current tax	(16)	(84)	(21)	(95)
Profit attributable to shareholders	1,093	718	349	386
Dividends paid	(218)	(183)	(178)	(87)
Retained profit	875	535	171	299
Associates' net assets	5,048	4,173	2,404	2,233

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

14. VALUATION OF INVESTMENT PROPERTY

	Deemed cost £000	Revaluation on deemed cost £000	Valuation £000
Freehold stores			
At 31 March 2016	566,913	483,367	1,050,280
Movement in year	16,384	44,246	60,630
At 31 March 2017	<u>583,297</u>	<u>527,613</u>	<u>1,110,910</u>
Leasehold stores			
At 31 March 2016	14,777	27,153	41,930
Movement in year	1,433	117	1,550
At 31 March 2017	<u>16,210</u>	<u>27,270</u>	<u>43,480</u>
Total of open stores			
At 31 March 2016	581,690	510,520	1,092,210
Movement in year	17,817	44,363	62,180
At 31 March 2017	<u>599,507</u>	<u>554,883</u>	<u>1,154,390</u>
Investment property under construction			
At 31 March 2016	42,650	(8,705)	33,945
Movement in year	2,827	(657)	2,170
At 31 March 2017	<u>45,477</u>	<u>(9,362)</u>	<u>36,115</u>
Valuation of all investment property			
At 31 March 2016	624,340	501,815	1,126,155
Movement in year	20,644	43,706	64,350
At 31 March 2017	<u>644,984</u>	<u>545,521</u>	<u>1,190,505</u>

The Group has classified the fair value investment property and the investment property under construction within Level 3 of the fair value hierarchy. There has been no transfer to or from Level 3 in the year.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

14. VALUATION OF INVESTMENT PROPERTY (CONTINUED)

The wholly owned freehold and leasehold investment properties have been valued at 31 March 2017 by external valuers, Cushman & Wakefield LLP (“C&W”). The valuation has been carried out in accordance with the RICS Valuation – Professional Standards, published by The Royal Institution of Chartered Surveyors (“the Red Book”). The valuation of each of the investment properties and the investment properties under construction has been prepared on the basis of either Fair Value or Fair Value as a fully equipped operational entity, having regard to trading potential, as appropriate.

The valuation has been provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the Red Book, C&W have confirmed that:

- one of the members of the RICS who has been a signatory to the valuations provided to the Group for the same purposes as this valuation, has done so since September 2004. This is the second occasion on which the other member has been a signatory;
- C&W have been carrying out this annual valuation for the same purposes as this valuation on behalf of the Group since September 2004;
- C&W do not provide other significant professional or agency services to the Group;
- in relation to the preceding financial year of C&W, the proportion of the total fees payable by the Group to the total fee income of the firm is less than 5%; and
- the fee payable to C&W is a fixed amount per store, and is not contingent on the appraised value.

Market uncertainty

C&W’s valuation report comments on valuation uncertainty resulting from low liquidity in the market for self storage property. C&W note that in the UK since Q1 2013 there have only been nine transactions involving multiple assets and 13 single asset transactions. C&W state that due to the lack of comparable market information in the self storage sector, there is greater uncertainty attached to their opinion of value than would be anticipated during more active market conditions.

Portfolio Premium

C&W’s valuation report further confirms that the properties have been valued individually but that if the portfolio was to be sold as a single lot or in selected groups of properties, the total value could differ significantly. C&W state that in current market conditions they are of the view that there could be a material portfolio premium.

Valuation methodology

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

Freehold and long leasehold

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

Assumptions

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

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

14. VALUATION OF INVESTMENT PROPERTY (CONTINUED)

- B. The net operating income in future years is calculated assuming either straight-line absorption from day one actual occupancy or variable absorption over years one to four of the cash flow period, to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 73 trading stores (both freeholds and leaseholds) open at 31 March 2017 averages 82.8% (31 March 2016: 81.9%). The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth. The average time assumed for the 73 stores to trade at their maturity levels is 22 months (31 March 2016: 20 months).
- C. The capitalisation rates applied to existing and future net cash flow have been estimated by reference to underlying yields for industrial and retail warehouse property, yields for other trading property types such as student housing and hotels, bank base rates, ten year money rates, inflation and the available evidence of transactions in the sector. The valuation included in the accounts assumes rental growth in future periods. If an assumption of no rental growth is applied to the external valuation, the net initial yield pre-administration expenses for the 73 stores is 6.5% (31 March 2016: 6.5%) rising to a stabilised net yield pre-administration expenses of 7.2% (31 March 2016: 7.2%).
- D. The future net cash flow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 9.7% (31 March 2016: 9.9%).
- E. Purchaser's costs in the range of 6.1% to circa 6.8% (see below) have been assumed initially, reflecting the progressive SLDT rates brought into force in March 2016 and sale plus purchaser's costs totalling circa 7.1% to 7.8% are assumed on the notional sales in the tenth year in relation to the freehold stores.

Short leasehold

The same methodology has been used as for freeholds, except that no sale of the assets in the tenth year is assumed but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's seven short leasehold properties is 15.0 years (31 March 2016: 15.5 years unexpired).

Sensitivities

Self storage valuations are complex, derived from data which is not widely publicly available and involve a degree of judgement. For these reasons we have classified the valuations of our property portfolio as Level 3 as defined by IFRS 13. Inputs to the valuations, some of which are 'unobservable' as defined by IFRS 13, include capitalisation yields, stable occupancy rates, and rental growth rates. The existence of an increase of more than one unobservable input would augment the impact on valuation. The impact on the valuation would be mitigated by the interrelationship between unobservable inputs moving in opposite directions. For example, an increase in stable occupancy may be offset by an increase in yield, resulting in no net impact on the valuation. A sensitivity analysis showing the impact on valuations of changes in yields and stable occupancy is shown below.

		Impact of a change in capitalisation rates		Impact of a change in stabilised occupancy assumption	
		25 bps decrease (£m)	25 bps increase (£m)	1% increase (£m)	1% decrease (£m)
Reported group	£1,154.4m	£43.3m	(£40.1m)	£16.7m	(£17.2m)

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

14. VALUATION OF INVESTMENT PROPERTY (CONTINUED)

Investment properties under construction

C&W have valued the stores in development adopting the same methodology as set out above but on the basis of the cash flow projection expected for the store at opening and after allowing for the outstanding costs to take each scheme from its current state to completion and full fit-out. C&W have allowed for holding costs and construction contingency, as appropriate. Four schemes do not yet have planning consent and C&W have reflected the planning risk in their valuation.

Immature stores: value uncertainty

C&W have assessed the value of each property individually. However, one of the Group's stores is relatively immature and has low initial cash flows. C&W have endeavoured to reflect the nature of the cash flow profile for this property in their valuation, and the higher associated risks relating to the as yet unproven future cash flows, by adjustment to the capitalisation rates and discount rates adopted. However, immature low cash flow stores of this nature are rarely, if ever, traded individually in the market, unless as part of a distressed sale or similar situation. Although, there is more evidence of immature low cash flow stores being traded as part of a group or portfolio transaction. Please note C&W's comments in relation to market uncertainty in the self storage sector due to the lack of comparable market transactions and information. The degree of uncertainty relating to the immature store is greater than in relation to the balance of the properties due to there being even less market evidence that might be available for more mature properties and portfolios. C&W state that in practice, if an actual sale of the properties were to be contemplated then any immature low cash flow stores would normally be presented to the market for sale lotted or grouped with other more mature assets owned by the same entity, in order to alleviate the issue of negative or low short term cash flow. This approach would enhance the marketability of the group of assets and assist in achieving the best price available in the market by diluting the cash flow risk.

C&W have not adjusted their opinion of Fair Value to reflect such a grouping of the immature asset with other properties in the portfolio and all stores have been valued individually. However, they highlight the matter to alert the Group to the manner in which the properties might be grouped or lotted in order to maximise their attractiveness to the market place. C&W consider this approach to be a valuation assumption but not a Special Assumption, the latter being an assumption that assumes facts that differ from the actual facts existing at the valuation date and which, if not adopted, could produce a material difference in value. As noted above, C&W have not assumed that the entire portfolio of properties owned by the entity would be sold as a single lot and the value for the whole portfolio in the context of a sale as a single lot may differ significantly from the aggregate of the individual values for each property in the portfolio, reflecting the lotting assumption described above.

Valuation assumption for purchaser's costs

The Group's investment property assets have been valued for the purposes of the financial statements after deducting notional purchaser's cost of circa 6.1% to 6.8% of gross value, as if they were sold directly as property assets. The valuation is an asset valuation which is entirely linked to the operating performance of the business. The assets would have to be sold with the benefit of operational contracts, employment contracts and customer contracts, which would be very difficult to achieve except in a corporate structure. This approach follows the logic of the valuation methodology in that the valuation is based on a capitalisation of the net operating income after allowing a deduction for operational cost and an allowance for central administration costs. Sale in a corporate structure would result in a reduction in the assumed Stamp Duty Land Tax but an increase in other transaction costs reflecting additional due diligence resulting in a reduced notional purchaser's cost of 2.75% of gross value. All the significant sized transactions that have been concluded in the UK in recent years were completed in a corporate structure. The Group therefore instructed C&W to carry out a Red Book valuation on the above basis, and this results in a higher property valuation at 31 March 2017 of £1,258.5 million (£68.0 million higher than the value recorded in the financial statements). The total valuations in the two Armadillo Partnerships performed by Jones Lang LaSalle are £2.5 million higher than the value recorded in the financial statements, of which the Group's share is £0.5 million. The sum of these is £68.5 million and translates to 43.2 pence per share. We have included this revised valuation in the adjusted diluted net asset calculation (see note 14).

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

15. SURPLUS LAND

	£000
At 31 March 2016	300
Disposal	(300)
At 31 March 2017	-

During the year the remaining surplus land was sold at book value. During the prior year a gain of £4,754,000 arose on the disposal of surplus land at one site during the year (including the release of a prior year impairment).

16. TRADE AND OTHER RECEIVABLES

	31 March 2017 £000	31 March 2016 £000
Current		
Trade receivables	3,174	3,050
Capital Goods Scheme receivable	2,725	2,866
Other receivables	266	241
Prepayments and accrued income	11,877	10,065
	<u>18,042</u>	<u>16,222</u>
Non-current		
Capital Goods Scheme receivable	<u>4,091</u>	<u>6,561</u>

Trade receivables are net of a bad debt provision of £7,000 (2016: £11,000). The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Financial Review contains commentary on the Capital Goods Scheme receivable.

Trade receivables

The Group does not typically offer credit terms to its customers, requiring them to pay in advance of their storage period and hence the Group is not exposed to significant credit risk. A late charge of 10% is applied to a customer's account if they are greater than 10 days overdue in their payment. The Group provides for receivables on a specific basis. There is a right of lien over the customers' goods, so if they have not paid within a certain time frame, we have the right to sell the items they store to recoup the debt owed. Trade receivables that are overdue are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

For individual storage customers, the Group does not perform credit checks, however this is mitigated by the fact that these customers are required to pay in advance, and also to pay a deposit ranging from between one week to 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.

Included in the Group's trade receivable balance are debtors with a carrying amount of £250,000 (2016: £353,000) 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 average age of these receivables is 19 days past due (2016: 19 days past due).

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of past due but not impaired receivables

	2017	2016
	£000	£000
1 - 30 days	214	285
30 - 60 days	23	45
60 + days	13	23
Total	<u>250</u>	<u>353</u>

Movement in the allowance for doubtful debts

	2017	2016
	£000	£000
Balance at the beginning of the year	11	19
Amounts provided in year	63	76
Amounts written off as uncollectible	(67)	(84)
Balance at the end of the year	<u>7</u>	<u>11</u>

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 credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables

	2017	2016
	£000	£000
1 - 30 days	-	-
30 - 60 days	2	4
60 + days	5	7
Total	<u>7</u>	<u>11</u>

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

17. TRADE AND OTHER PAYABLES

	31 March 2017 £000	31 March 2016 £000
Current		
Trade payables	13,279	10,453
Other payables	8,352	10,592
Accruals and deferred income	15,304	15,077
	<hr/> 36,935	<hr/> 36,122

The Group has financial risk management policies in place to ensure that all payables are paid within the credit terms. The Directors consider the carrying amount of trade and other payables and accruals and deferred income approximates fair value.

18. FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Group's debt facilities require 45% of total drawn debt to be fixed. The Group has complied with this during the year.

With the exception of derivative instruments which are classified as a financial liability at fair value through the profit and loss ("FVTPL"), financial liabilities are categorised under amortised cost. All financial assets are categorised as loans and receivables.

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to manage exposure to fluctuations in interest rates, but are not employed for speculative purposes.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

18. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

A. Balance sheet management

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

The gearing ratio at the year end is as follows:

	2017 £000	2016 £000
Debt	(304,955)	(312,198)
Cash and cash equivalents	6,906	17,207
Net debt	(298,049)	(294,991)
Balance sheet equity	890,350	829,387
Net debt to equity ratio	33.5%	35.6%

Debt is defined as long-term and short-term borrowings, as detailed in note 19, excluding finance leases and debt issue costs. Equity includes all capital and reserves of the Group attributable to equity holders of the Company. Net debt is defined as gross bank borrowings less cash and cash equivalents.

B. Debt management

The Group currently borrows through a senior term loan, secured on 25 self storage assets and sites, a 15 year loan with Aviva Commercial Finance Limited secured on a portfolio of 15 self storage assets, and a £70 million seven year loan from M&G Investments Limited secured on a portfolio of 15 self storage assets. Borrowings are arranged to ensure an appropriate maturity profile and to maintain short term liquidity. Funding is arranged through banks and financial institutions with whom the Group has a strong working relationship.

C. Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

At 31 March 2017 the Group had two interest rate derivatives in place; £30 million fixed at 0.4% (excluding the margin on the underlying debt instrument) until October 2021, and £35 million fixed at 2.635% (excluding the margin on the underlying debt instrument) until June 2022.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

18. FINANCIAL INSTRUMENTS (CONTINUED)

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The £30 million interest rate swap settles on a monthly basis. The floating rate on the interest rate swap is one month LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

The £35 million interest rate swap settles on a three-monthly basis. The floating rate on the interest rate swap is three month LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

The Group does not hedge account for its interest rate swaps and states them at fair value, with changes in fair value included in the statement of comprehensive income. The gain in the statement of comprehensive income for the year on the fair value of interest rate derivatives was £719,000 (2016: loss of £4,000).

The fair value of the above derivatives at 31 March 2017 was a liability of £2,964,000 (2016: liability of £3,683,000).

D. Interest rate sensitivity analysis

In managing interest rate risks 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 March 2017, it is estimated that an increase of 0.25 percentage points in interest rates would have reduced the Group's adjusted profit before tax and net equity by £375,000 (2016: reduced adjusted profit before tax by £388,000) and a decrease of 0.25 percentage points in interest rates would have increased the Group's adjusted profit before tax and net equity by £375,000 (2016: increased adjusted profit before tax by £388,000). The sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swaps, at the year end.

The Group's sensitivity to interest rates has decreased during the year, with a slight reduction in the amount of floating rate debt. The Board monitors closely the exposure to the floating rate element of our debt.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

18. FINANCIAL INSTRUMENTS (CONTINUED)

E. Cash management and liquidity

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 19 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 does not have any foreign currency exposure.

G. Credit risk

The credit risk management policies of the Group with respect to trade receivables are discussed in note 16. The Group has no significant concentration of credit risk, with exposure spread over 52,500 customers in our stores.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

H. Financial maturity analysis

In respect of interest-bearing financial liabilities, the following table provides a maturity analysis for individual elements.

2017 Maturity

	Total £000	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000
<i>Debt</i>					
Aviva loan	89,955	2,356	2,474	8,190	76,935
M&G loan payable at variable rate	35,000	-	-	-	35,000
M&G loan fixed by interest rate derivatives	35,000	-	-	-	35,000
Bank loan payable at variable rate	115,000	-	-	115,000	-
Debt fixed by interest rate derivatives	30,000	-	-	30,000	-
Total	304,955	2,356	2,474	153,190	146,935

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

18. FINANCIAL INSTRUMENTS (CONTINUED)

2016 Maturity

	Total £000	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000
<i>Debt</i>					
Aviva loan	92,198	2,243	2,356	7,799	79,800
M&G loan payable at variable rate	35,000	-	-	-	35,000
M&G loan fixed by interest rate derivatives	35,000	-	-	-	35,000
Bank loan payable at variable rate	120,000	-	-	120,000	-
Debt fixed by interest rate derivatives	30,000	-	-	30,000	-
Total	312,198	2,243	2,356	157,799	149,800

I. Fair values of financial instruments

The fair values of the Group's cash and short term deposits and those of other financial assets equate to their book values. Details of the Group's receivables at amortised cost are set out in note 16. The amounts are presented net of provisions for doubtful receivables, and allowances for impairment are made where appropriate. Trade and other payables, including bank borrowings, are carried at amortised cost. Finance lease liabilities are included at the fair value of their minimum lease payments. Derivatives are carried at fair value.

For those financial instruments held at valuation, the Group has categorised them into a three level fair value hierarchy based on the priority of the inputs to the valuation technique in accordance with IFRS 7. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. The fair value of the Group's outstanding interest rate derivative, as detailed in note 18C, has been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 7. There are no financial instruments which have been categorised as Level 1 or Level 3.

J. Maturity analysis of financial liabilities

The contractual maturities based on market conditions and expected yield curves prevailing at the year end date are as follows:

	Trade and other payables £000	Interest rate swaps £000	Borrowings and interest £000	Finance leases £000	Total £000
2017					
From five to twenty years	-	127	166,652	25,556	192,335
From two to five years	-	1,493	180,928	6,116	188,537
From one to two years	-	692	11,930	2,039	14,661
Due after more than one year	-	2,312	359,510	33,711	395,533
Due within one year	21,631	816	11,930	2,039	36,416
Total	21,631	3,128	371,440	35,750	431,949

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Notes to the financial statements Year ended 31 March 2017

18. FINANCIAL INSTRUMENTS (CONTINUED)

2016	Trade and other payables £000	Interest rate swaps £000	Borrowings and interest £000	Finance leases £000	Total £000
From five to twenty years	-	506	176,296	22,894	199,696
From two to five years	-	1,684	188,517	5,255	195,456
From one to two years	-	675	12,982	1,752	15,409
Due after more than one year	-	2,865	377,795	29,901	410,561
Due within one year	21,045	1,055	12,982	1,752	36,834
Total	21,045	3,920	390,777	31,653	447,395

K. Reconciliation of maturity analyses

The maturity analysis in note 18J shows non-discounted cash flows for all financial liabilities including interest payments. The table below reconciles the borrowings column in note 19 with the borrowings and interest column in the maturity analysis presented in note 18J.

2017	Borrowings £000	Interest £000	Unamortised borrowing costs £000	Borrowings and interest £000
From five to twenty years	146,935	17,806	1,911	166,652
From two to five years	153,190	26,373	1,365	180,928
From one to two years	2,474	9,456	-	11,930
Due after more than one year	302,599	53,635	3,276	359,510
Due within one year	2,356	9,574	-	11,930
Total	304,955	63,209	3,276	371,440

2016	Borrowings £000	Interest £000	Unamortised borrowing costs £000	Borrowings and interest £000
From five to twenty years	149,800	24,306	2,190	176,296
From two to five years	157,799	29,473	1,245	188,517
From one to two years	2,356	10,626	-	12,982
Due after more than one year	309,955	64,405	3,435	377,795
Due within one year	2,243	10,739	-	12,982
Total	312,198	75,144	3,435	390,777

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Notes to the financial statements Year ended 31 March 2017

19. BORROWINGS

	31 March 2017 £000	31 March 2016 £000
Secured borrowings at amortised cost		
Current liabilities		
Aviva loan	2,356	2,243
	<u>2,356</u>	<u>2,243</u>
Non-current liabilities		
Bank borrowings	145,000	150,000
Aviva loan	87,599	89,955
M&G loan	70,000	70,000
Unamortised loan arrangement costs	(3,276)	(3,435)
	<u>299,323</u>	<u>306,520</u>
Total non-current borrowings		
	<u>299,323</u>	<u>306,520</u>
Total borrowings	<u>301,679</u>	<u>308,763</u>

The weighted average interest rate paid on the borrowings during the year was 3.3% (2016: 3.6%).

The Group has £45,000,000 in undrawn committed bank borrowing facilities at 31 March 2017, which expire between four and five years (2016: £20,000,000 expiring between four and five years).

The Group has a £100 million 15 year fixed rate loan with Aviva Commercial Finance Limited. The loan is secured over a portfolio of 15 freehold self storage centres. The annual fixed interest rate on the loan is 4.9%. The loan amortises to £60 million over the course of the 15 years. The debt service is payable monthly based on fixed annual amounts. The loan outstanding on the fifth anniversary will be £89.8 million; £76.7 million outstanding on the tenth anniversary, with £60 million remaining at expiry in April 2027.

The Group has a £190 million five year bank facility with Lloyds and HSBC expiring in October 2021. £85 million of the facility is term loan with £105 million revolving. The blended margin on the facility when fully drawn is 1.36%. During the year, the Group exercised an option to extend this loan's term by a further year. The Group also has an option to increase the amount of the revolving loan facility by a further £60 million during the course of the loan's term.

The Group has a £70 million seven year loan with M&G Investments Limited, with a bullet repayment in June 2022. The loan is secured over a portfolio of 15 freehold self storage centres. Half of the loan is variable and half is subject to an interest rate derivative for the seven years.

The Group was in compliance with its banking covenants at 31 March 2017 and throughout the year. The main covenants are summarised in the table below:

Covenant	Covenant level	At 31 March 2017
Consolidated EBITDA	Minimum 1.5x	6.5x
Consolidated net tangible assets (less goodwill)	Minimum £250m	£888.9m
Bank loan income cover	Minimum 1.75x	10.8x
Aviva loan interest service cover ratio	Minimum 1.5x	3.8x
Aviva loan debt service cover ratio	Minimum 1.2x	2.5x
M&G income cover	Minimum 1.5x	5.9x

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Notes to the financial statements Year ended 31 March 2017

19. BANK BORROWINGS (CONTINUED)

Interest rate profile of financial liabilities

	Total £000	Floating rate £000	Fixed rate £000	Weighted average interest rate	Period for which the rate is fixed	Weighted average period until maturity
At 31 March 2017						
Gross financial liabilities	304,955	150,000	154,955	3.2%	7.0 years	5.9 years
At 31 March 2016						
Gross financial liabilities	312,198	155,000	157,198	3.5%	7.3 years	6.3 years

All monetary liabilities, including short term receivables and payables are denominated in sterling. The weighted average interest rate includes the effect of the Group's interest rate derivatives. The Directors have concluded that the carrying value of borrowings approximates to its fair value.

Narrative disclosures on the Group's policy for financial instruments are included within the Strategic Report and in note 18.

20. DEFERRED TAX

Deferred tax assets in respect of share based payments (£0.1 million), interest rate swaps (£0.5 million), corporation tax losses (£4.5 million), capital allowances in excess of depreciation (£0.3 million) and capital losses (£1.0 million) in respect of the non-REIT taxable business have not been recognised due to uncertainty over the projected tax liabilities arising in the short term within the non-REIT taxable business.

21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value minimum of lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts payable under finance leases:				
Within one year	2,039	1,752	2,005	1,722
Within two to five years inclusive	8,155	7,007	7,193	6,136
Greater than five years	25,556	22,894	14,403	12,307
	<u>35,750</u>	<u>31,653</u>	<u>23,601</u>	<u>20,165</u>
Less: future finance charges	(12,149)	(11,488)		
Present value of lease obligations	<u>23,601</u>	<u>20,165</u>		

All lease obligations are denominated in sterling. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The carrying amount of the Group's lease obligations approximates their fair value.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

22. SHARE CAPITAL

	Authorised		Called up, allotted and fully paid	
	2017 £000	2016 £000	2017 £000	2016 £000
Ordinary shares of 10 pence each	20,000	20,000	15,788	15,737
Movement in issued share capital				
Number of shares at 31 March 2015				158,055,735
Cancellation of treasury shares				(1,418,750)
Exercise of share options – Share option schemes				732,302
Number of shares at 31 March 2016				157,369,287
Exercise of share options – Share option schemes				513,580
Number of shares at 31 March 2017				157,882,867

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

At 31 March 2017 options in issue to Directors and employees were as follows:

Date option Granted	Option price per ordinary share	Date first exercisable	Date on which the exercise period expires	Number of ordinary shares 2017	Number of ordinary shares 2016
3 August 2009	nil p**	3 August 2012	2 August 2019	-	2,075
12 July 2010	nil p**	12 July 2013	11 July 2020	-	4,781
19 July 2011	nil p**	19 July 2013	19 July 2021	2,400	7,112
11 July 2012	nil p**	11 July 2015	10 July 2022	8,559	15,724
12 March 2013	305.5p*	1 April 2016	1 October 2016	-	31,365
19 July 2013	nil p**	19 July 2016	19 July 2023	78,469	511,821
25 February 2014	442.6p*	1 April 2017	1 October 2017	21,624	23,655
29 July 2014	nil p**	29 July 2017	29 July 2024	485,032	503,591
16 March 2015	494.6p*	1 April 2018	1 October 2018	95,016	101,014
21 July 2015	nil p**	21 July 2018	21 July 2025	379,293	399,117
14 March 2016	608.0p*	1 April 2019	1 October 2019	41,809	49,296
22 July 2016	nil p**	22 July 2019	21 July 2026	402,225	-
15 March 2017	580.0p	1 April 2020	1 October 2020	65,374	-
				1,579,801	1,649,551

* SAYE (see note 23) ** LTIP (see note 23)

OWN SHARES

The own shares reserve represents the cost of shares in Big Yellow Group PLC purchased in the market, and held by the Big Yellow Group PLC Employee Benefit Trust, along with shares issued directly to the Employee Benefit Trust. 1,122,907 shares are held in the Employee Benefit Trust (2016: 1,122,907), and no shares are held in treasury.

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Notes to the financial statements Year ended 31 March 2017

23. SHARE-BASED PAYMENTS

The Company has three equity share-based payment arrangements, namely an LTIP scheme (with approved and unapproved components), an Employee Share Save Scheme (“SAYE”) and a Long Term Bonus Performance Plan. The Group recognised a total expense in the year related to equity-settled share-based payment transactions of £2,324,000 (2016: £2,539,000).

Equity-settled share option plans

Since 2004 the Group has operated an Employee Share Save Scheme (“SAYE”) which allows any employee who has more than six months service to purchase shares at a 20% discount to the average quoted market price of the Group shares at the date of grant. The associated savings contracts are three years at which point the employee can exercise their option to purchase the shares or take the amount saved, including interest, in cash. The scheme is administered by Yorkshire Building Society.

On an annual basis since 2004 the Group awarded nil-paid options to senior management under the Group’s Long Term Incentive Plan (“LTIP”). The awards are conditional on the achievement of challenging performance targets. The awards granted in 2004, 2005 and 2006 vested in full. The awards granted in 2007 and 2009 lapsed, and the awards granted in 2008 and 2010 partially vested. The awards granted in 2011, 2012 and 2013 fully vested. The weighted average share price at the date of exercise for options exercised in the year was £7.38 (2016: £7.04).

	2017	2016
	No. of	No. of
	options	options
LTIP scheme		
Outstanding at beginning of year	1,444,221	1,662,358
Granted during the year	455,331	468,546
Lapsed during the year	(59,094)	(46,728)
Exercised during the year	(484,480)	(639,955)
Outstanding at the end of the year	<u>1,355,978</u>	<u>1,444,221</u>
Exercisable at the end of the year	<u>89,428</u>	<u>29,692</u>

The weighted average fair value of options granted during the year was £1,017,000 (2016: £976,000).

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Notes to the financial statements Year ended 31 March 2017

23. SHARE BASED PAYMENTS (CONTINUED)

	2017 No. of options	2017 Weighted average exercise price (£)	2016 No of options	2016 Weighted average exercise price (£)
Employee Share Save Scheme (“SAYE”)				
Outstanding at beginning of year	205,330	4.87	255,853	3.74
Granted during the year	65,374	6.08	49,296	6.08
Forfeited during the year	(17,781)	4.65	(7,472)	4.65
Exercised during the year	(29,100)	2.40	(92,347)	2.40
Outstanding at the end of the year	223,823	4.87	205,330	4.87
Exercisable at the end of the year	-	-	-	-

Options outstanding at 31 March 2017 had a weighted average contractual life of 2.1 years (2016: 2.2 years).

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

	LTIP	SAYE
Expected volatility	30%	26%
Expected life	3 years	3 years
Risk-free rate	0.1%	0.1%
Expected dividends	3.9%	3.9%

Expected volatility was determined by calculating the historical volatility of the Group’s share price over the year prior to grant.

Long Term bonus performance plan

The Executive Directors receive awards under the Long Term Bonus Performance Plan. This is accounted for as an equity instrument. The plan was set up in July 2015. The vesting criteria and scheme mechanics are set out in the Directors’ Remuneration Report. At 31 March 2017 the weighted average contractual life was 1.3 years.

24. CAPITAL COMMITMENTS

At 31 March 2017 the Group had £8.6 million of amounts contracted but not provided in respect of the Group’s properties (2016: £0.4 million of capital commitments).

25. EVENTS AFTER THE BALANCE SHEET DATE

On 19 May 2017, the Group acquired a property in Wapping, London for £10.75 million.

Big Yellow Group PLC

Notes to the financial statements Year ended 31 March 2017

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with Armadillo Storage Holding Company Limited

As described in note 13, the Group has a 20% interest in Armadillo Storage Holding Company Limited (“Armadillo 1”), and entered into transactions with Armadillo 1 during the period on normal commercial terms as shown in the table below.

Transactions with Armadillo Storage Holding Company 2 Limited

As described in note 13, the Group has a 20% interest in Armadillo Storage Holding Company 2 Limited (“Armadillo 2”), and entered into transactions with Armadillo 2 during the period on normal commercial terms as shown in the table below.

	31 March 2017	31 March 2016
	£000	£000
Fees earned from Armadillo 1	574	414
Fees earned from Armadillo 2	253	291
Balance due from Armadillo 1	86	103
Balance due from Armadillo 2	48	89

AnyJunk Limited

James Gibson is a Non-Executive Director and shareholder in AnyJunk Limited and Adrian Lee is a shareholder in AnyJunk Limited. During the year AnyJunk Limited provided waste disposal services to the Group on normal commercial terms, amounting to £36,000 (2016: £24,000).

No other related party transactions took place during the years ended 31 March 2017 and 31 March 2016.

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Notes to the financial statements Year ended 31 March 2017

Ten Year Summary

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Results										
Revenue	109,070	101,382	84,276	72,196	69,671	65,663	61,885	57,995	58,487	56,870
Operating profit before gains and losses on property assets	65,316	59,854	48,420	39,537	37,454	35,079	32,058	29,068	30,946	29,342
Cash flow from operating activities	55,974	55,467	42,397	32,752	30,186	27,388	23,534	19,063	10,203	14,388
Profit/(loss) before taxation	99,783	112,246	105,236	59,848	31,876	(35,551)	6,901	10,209	(71,489)	102,618
Adjusted profit before taxation	54,641	48,952	39,405	29,221	25,471	23,643	20,207	16,514	13,791	15,006
Net assets	890,350	829,387	750,914	594,064	552,628	494,500	544,949	547,285	502,317	580,886
EPRA earnings per share	34.5p	31.1p	27.1p	20.5p	19.3p	18.2p	15.5p	13.0p	11.9p	11.7p
Declared total dividend per share	27.6p	24.9p	21.7p	16.4p	11.0p	10.0p	9.0p	4.0p	0p	9.5p
Key statistics										
Number of stores open	73	71	69	66	66	65	62	60	54	48
Sq ft occupied (000)	3,551	3,363	3,178	2,832	2,632	2,458	2,130	1,915	1,775	1,850
Occupancy increase in year (000 sq ft)	188	185	346	200	174	328	215	140	(75)	15
Number of customers	52,500	50,000	47,250	41,800	38,500	36,300	32,800	30,500	28,500	30,500
Average number of employees during the year	329	318	300	289	286	279	273	252	239	218