

## Strategic Report

# Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency, or liquidity. The Group maintains a low appetite to risk, in line with our strategic objectives of providing a low volatility, high distribution business.

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
<p><b>Self storage market risk</b></p> <p>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.</p>	<p>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, and awareness has increased during the past two years of the pandemic.</p> <p>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 in London and other large metropolitan cities within the sector have slowed significantly over the past few years.</p> <p>Our performance during the past two years of the pandemic has been strong. We believe that this performance is due to a combination of factors including:</p> <ul style="list-style-type: none"> <li>▪ a prime portfolio of freehold properties;</li> <li>▪ a focus on London and the South East and other large metropolitan cities, where the drivers in the self storage market are at their strongest and the barriers to competition are at their highest;</li> <li>▪ the strength of operational and sales management;</li> <li>▪ continuing innovation to deliver the highest levels of customer service;</li> <li>▪ delivering on our strong ESG commitments;</li> <li>▪ the UK's leading self storage brand, with high and growing public awareness and online strength; and</li> <li>▪ strong cash flow generation and high operating margins, from a secure capital structure.</li> </ul> <p>We have a large current storage customer base occupying approximately 73,000 rooms spread across the portfolio of stores and hundreds of thousands more who have used our stores 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, with the seasonally weaker period being the winter months.</p>	<p>The UK economy rebounded in 2021 following the pandemic-induced economic contraction in 2020.</p> <p>The lifting of restrictions and the roll-out of vaccines led to more normal economic conditions, however risks around new variants remain. Governments around the world have taken on significant additional debt to fund the policy responses to the pandemic, and this may result in higher taxation rates in the future.</p> <p>The Russian invasion of Ukraine has caused significant global uncertainty and the impact this will have on economic growth is unclear. The invasion has also added more weight to inflationary pressures from the reopening of the economy and rising energy prices, which may impact consumer spending.</p>

Risk and impact	Mitigation	Change during the year and outlook
<p><b>Property risk</b></p> <p>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.</p> <p>Changing climate and resulting likely changes to planning restrictions will narrow choice of available sites further.</p> <p>The Group is also subject to the risk of failing to obtain planning consents on its development sites, and the risk of a rising cost of development.</p> <p>Planning approval is increasingly dependent on Social or Environmental enhanced features (e.g. social enterprise at Battersea, BREEM standards, local planners demands for green spaces) – adding cost and complexity.</p>	<p>Our management has significant experience in the property industry generated over many years and in particular 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.</p> <p>Our in-house development team and our professional advisers have significant experience in obtaining planning consents for self storage centres.</p> <p>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 three years ago, which had satisfactory results. We have recently commissioned a new benchmarking exercise on our construction costs and will report on the results next year.</p>	<p>The Group has acquired eight sites over the past three years, taking its total pipeline to 12 sites which, when opened, would expand the Group's current MLA by 16%.</p> <p>The planning process remains difficult and to achieve a planning consent can take anything from eighteen months to three years. Local planning policy is favouring residential development over other uses, and we don't expect this to change given the shortage of housing in the UK.</p> <p>We currently have planning consent on seven of the 12 development sites.</p>
<p><b>Valuation risk</b></p> <p>The valuation of the Group's investment properties may fall due to external pressures or the impact of performance.</p> <p>Lack of transactional evidence in the self storage sector leads to more subjective valuations.</p>	<p>The valuations are carried out by independent, qualified external valuers who have significant experience in the UK self storage industry.</p> <p>The portfolio is diverse with approximately 73,000 rooms currently occupied in our stores for a wide variety of reasons.</p> <p>There is significant headroom on our loan to value banking covenants.</p>	<p>The revaluation surplus on the Group's open store investment properties was £530 million in the year (an uplift of 29%), due to an improvement in underlying cash flows used in the valuations, coupled with cap rate improvement.</p> <p>There have been a number of larger portfolio transactions across Europe over the past two years, and there is a weight of institutional money looking to invest in self storage. This has led to the reduction in cap rates across the sector.</p>

## Strategic Report

## Principal risks and uncertainties (continued)

Risk and impact	Mitigation	Change during the year and outlook
<p><b>Treasury risk</b></p> <p>The Group may face increased costs from adverse interest rate movements.</p>	<p>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.</p> <p>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.</p> <p>We have a fixed rate loan in place from Aviva Commercial Finance Limited, with 6 and half years remaining. This loan was increased by £50 million in September 2021. Our on-site solar generation plans helped us in securing a lower margin on this tranche of debt.</p> <p>The Group has a £120 million loan from M&amp;G Investments, which is repayable in 2023. The Group intends to refinance this loan with M&amp;G during Summer 2022. 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 40% of our total borrowings fixed, with the balance floating. At 31 March 2022 53% of the Group's total drawn 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.</p> <p>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.</p>	<p>The Bank of England base rate has been increased four times in recent months, with it currently at 100bps, up from 10bps. The long-term forecast is for rates to rise from these levels, with rising inflation. 47% of the Group's drawn debt is floating, and hence the Group has experienced additional cost from these recent increases in the base rate.</p> <p>Debt providers currently remain supportive to companies with a strong capital structure, as evidenced by the Group adding additional debt from Aviva and M&amp;G over the year. That said, the current environment has put pressure on banks' margins, with a potential future increase in cost to the Group.</p> <p>The Group's interest cover ratio for the year ended 31 March 2022 was 10.5 times, comfortably ahead of our internal target of 5 times and ahead of our banking covenants, as disclosed in note 19.</p>
<p><b>Tax and regulatory risk</b></p> <p>The Group is exposed to changes in the tax regime affecting the cost of corporation tax, property rates, VAT, Stamp Duty and Stamp Duty Land Tax ("SDLT"), for example the imposition of VAT on self storage from 1 October 2012.</p> <p>The Group is exposed to potential tax penalties or loss of its REIT status by failing to comply with the REIT legislation.</p>	<p>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.</p> <p>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 advisers.</p> <p>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.</p>	<p>The Group experienced an increase in cost in 2017 following the Government's review of business rates, and the next rating review due in 2023 is likely to bring additional cost to the Group, given the rise in industrial rents over the past few years.</p> <p>The corporation tax rate was increased in the March 2021 budget, to take effect from April 2023, and there is a risk that tax rates will rise further in the medium-term to fund the increased government deficits that have arisen from the policy response to the pandemic.</p>

Risk and impact	Mitigation	Change during the year and outlook
<p><b>Human resources risk</b></p> <p>Our people are key to our success and as such we are exposed to a risk of high staff turnover, and a risk of the loss of key personnel.</p>	<p>We have developed a professional, lively, and enjoyable working environment and believe our success stems from attracting and retaining the 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, to contribute to the performance of the Group.</p>	<p>The Group carried out an engagement survey of its employees during the year, which showed very pleasing results of the level of engagement of our teams.</p> <p>We have listened to the feedback from our employees raised during our engagement survey and made a number of changes to the Group's operations, including two days a week working from home for our head office team, reducing our store opening hours and the payment of a lone trading bonus for store staff.</p>
<p><b>Brand and reputation risk</b></p> <p>The Group is exposed to the risk of a single serious incident materially affecting our customers, people, financial performance and hence our brand and reputation, including the risk of a data breach.</p>	<p>We have always aimed to run this business in a professional way, which has involved strict adherence with all regulations that affect our business, such as health and safety legislation, building regulations in relation to the construction of our buildings, anti-slavery, anti-bribery, and data regulations.</p> <p>We also invest in cyber security (discussed below), and make an ongoing investment in staff training, facilities management, and the maintenance of our stores.</p> <p>To ensure consistency of service and to understand the needs of our customers, we send surveys to every customer who moves in and moves out of the business. The results of the surveys and mystery shops are reviewed to continuously improve and deliver consistent performance throughout the business.</p> <p>We maintain regular communication with our key stakeholders, customers, employees, shareholders, and debt providers.</p>	<p>During 2018, we developed a crisis response plan with external consultants to ensure the Group is well placed to effectively deal with a major incident.</p> <p>As mentioned previously, we experienced a fire caused by arson at our Armadillo Cheadle store in February 2022. Our crisis response team worked effectively in managing the incident.</p>
<p><b>Security risk</b></p> <p>The Group is exposed to the risk of the damage or loss of a store due to vandalism, fire, or natural incidents such as flooding. This may also cause reputational damage.</p>	<p>The safety and security of our customers, their belongings, stores, and our staff 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 Big Yellow store individually alarmed.</p> <p>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.</p>	<p>We have continued to run courses for all our staff to enhance the awareness and effectiveness of our procedures in relation to security.</p> <p>We have further invested in security improvements in our stores during the year.</p> <p>We regularly review and implement improvements to our security processes and procedures.</p>

## Strategic Report

## Principal risks and uncertainties (continued)

Risk and impact	Mitigation	Change during the year and outlook
<p><b>Cyber risk</b></p> <p>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, fines, or customer compensation, causing a loss of market share and income.</p>	<p>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.</p> <p>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.</p>	<p>We don't consider the risk to have increased more for the Group than any other business; however, we consider that the threats in the entire digital landscape do continue to increase and evolve. As such we have continued to invest in cyber security upgrading or replacing components as required.</p>
<p><b>Climate change related risk</b></p> <p>The Group is exposed to climate-change related transition and physical risks. Physical risks may affect the Group's stores and may result in higher maintenance and repair costs. Failing to transition to a low carbon economy may cause an increase in taxation, decrease in access to loan facilities and reputational damage</p>	<p>The good working order of our stores is of critical importance to our business model.</p> <p>We visually inspect each of our stores at least once per annum and planned and unplanned work is discussed immediately.</p> <p>Maintenance requirements are discussed at budget reviews; proposals are made to raise climate change related issues to the Board, who may request more holistic adaptation work to be carried out.</p> <p>The key mitigation strategy to address transitional risks is the delivery of our Net Renewable Energy Positive Strategy and the Net Zero Scope 1 and Scope 2 Emissions Strategy. Our investment to decarbonise our business over the next eight years is expected to mitigate fully against taxation (carbon tax) risk and reputational risks (both investors and customers).</p>	<p>Our Sustainability Committee, chaired by a Non-Executive Director, last year delivered an ambitious strategic plan to 2030.</p> <p>We appreciate that both physical and transition risks are expected to materialise to lesser or greater extents over the coming years and costs may go up gradually, hidden within what may be perceived as 'natural variations'. Our focus and strong governance will allow us to continue to mitigate the effects.</p>

## Internal audit

The Group employs a Head of Store Compliance responsible for reviewing store operational and financial controls. He reports to the Chief Financial Officer, and also meets with the Audit Committee at least once a year. This role is supported by three other team members, enabling additional work and support to be carried out across the Group's store portfolio. The Store Compliance team will visit each operational store twice per year to carry out a detailed store audit. These audits are unannounced, and the Store Compliance team carry out detailed tests on financial management, administrative standards, and operational standards within the stores. Part of the store staff's bonus is based on the scores they achieve in these audits. The results of each audit are reviewed by the Chief Financial Officer, the Financial Controller, and the Head of Store Operations. This is the equivalent of an internal audit function for the Group's store operations.

For the key business cycles conducted at the Group's head office, external consultants are used to review the Group's controls on a rotational basis. The consultants produce a report with recommendations which is discussed with management and reviewed by the Audit Committee. The cycles covered by this activity include construction expenditure, treasury, taxation, and facilities management.

With the combination of the store internal audit process and the external assessment of the key business cycles, the Audit Committee considers that this provides a robust internal audit assessment for the Group.

## 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 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 this Report and in the notes to the financial statements.

At 31 March 2022 the Group had available liquidity of approximately £163 million, from a combination of cash and undrawn bank debt facilities. The Group is cash generative and for the year ended 31 March 2022, had operational cash flow of £107.1 million, with capital commitments at the balance sheet date of £20.9 million.

The Directors have prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements, taking into account the Group's operating plan and budget for the year ending 31 March 2023 and projections contained in the longer-term business plan which cover the period to March 2026. After reviewing these projected cash flows together with the Group's and Company's cash balances, borrowing facilities and covenant requirements, and potential property valuation movements over that period, the Directors believe that, taking account of severe but plausible downsides, the Group and Company will have sufficient funds to meet their liabilities as they fall due for that period.

The Group has total facilities of £52.7 million secured on the Armadillo portfolios with Lloyds Bank plc. These facilities expire in April 2023. The Group has received credit approval from a new insurance debt provider to refinance these loans and provide additional headroom on our facilities with longer duration fixed debt; this is currently being documented.

The Group has a £120 million loan with M&G Investments Limited, with a bullet repayment in June 2023. The Group intends to refinance this loan with M&G this summer.

In making their assessment, the Directors have carefully considered the outlook for the Group's trading performance and cash flows as a result of the current economic environment, taking into account the trading performance of the Group from the onset of the Covid-19 pandemic to the date of these financial statements. The Directors have also taken into account the performance of the business during the Global Financial Crisis. The Directors modelled a number of different scenarios, including material reductions in the Group's occupancy rates and property valuations, and assessed the impact of these scenarios against the Group's liquidity and the Group's banking covenants. The scenarios considered did not lead to breaching any of the banking covenants, and the Group retained sufficient liquidity to meet its financial obligations as they fall due.

Consequently, the Directors continue to adopt the going concern basis in preparing the financial statements.

### Viability statement

The Directors have assessed the Group's viability over a four-year period to March 2026. This period is selected based on the Group's long-term strategic plan to give greater certainty over the forecasting assumptions used. As in the assessment of going concern, the Directors have modelled a number of different scenarios on the Group's future prospects.

In making their assessment, the Directors took account of the Group's current financial position, including committed capital expenditure. The Directors carried out a robust assessment of the principal risks and uncertainties facing the business, their potential financial impact on the Group's cash flows, REIT compliance and financial covenants and the likely effectiveness of the mitigating options detailed. The Directors have assumed that funding for the business in the form of equity, bank and insurance company debt will be available in all reasonably plausible market conditions. Whilst the eventual impact of the current economic environment on the Group is uncertain, and may not be known for some time, the Group has a highly cash generative business, good liquidity and has proved resilient in its trading since the onset of the pandemic.

Based on this assessment the Directors have a reasonable expectation that the Company and the Group will be able to continue operating and meeting all their liabilities as they fall due to March 2026.

## Climate change risks and opportunities

### TCFD compliance statement

The Board is pleased to confirm that, for the year ended 31 March 2022, Big Yellow's climate related risks and opportunities disclosures are reported in a TCFD framework. We have started the journey to net zero last year with the launch of our Net Renewable Energy Positive ("NREP") and Net Zero Strategy. With the support of our external partner, Atos, we have published science-based near- and mid-term targets, which we will submit to the SBTi in July 2022.

We have made good progress on our strategy to decarbonise our business by removing gas boilers and have commenced our 3 year programme to retrofit solar panels on our existing stores.

We had conducted an assessment of risks and opportunities and their potential financial impacts; the output of this assessment informed our NREP and Net Zero strategies.

With the acquisition of the remaining interest in Armadillo on 1 July 2021 we refreshed our flood risk assessment for our combined estate. Moving forward, we will want to also refresh the temperature projections for our Armadillo stores to deliver a holistic view of the risks to our business. We also intend to work closely with our suppliers to better quantify and jointly tackle embodied emissions in our buildings. For specific actions on Scope 1 and 2 initiatives, please refer to our strategy document <https://corporate.bigyellow.co.uk/sustainability/strategy>. We also intend to evolve our reporting under the TCFD recommendations and recommended disclosures.

### Task Force on Climate-Related Financial Disclosure ("TCFD") – Risks and Opportunities

During the year, the Sustainability Committee met twice to review the Group's sustainability framework and strategy; to monitor its sustainability performance; and to provide guidance on emerging environmental issues, including environmental risks, and their impact on the Group's business.

Our Net Renewable Energy Positive Strategy and Net Zero Emissions Strategy aim to deliver the opportunities we have identified through the TCFD assessments and mitigate the risks, in particular our Transition Risks.

With the acquisition of Armadillo in July 2021 we are now integrating the Armadillo stores into the Big Yellow risk management framework and the NREP and Net Zero Emissions Strategy, and expect to complete that within the next 12 months. The Armadillo portfolio is being brought under the umbrella strategy, which has resulted in a re-baselining activity that we will report against in future years.

## Strategic Report

**Climate change risks and opportunities (continued)****Governance**

Our Chief Executive has overall responsibility for climate-related risks and opportunities. Ongoing oversight of climate-related issues is carried out by our Sustainability Committee, chaired by our Non-Executive Director for Sustainability, and attended by our Head of CSR and the Executive Leadership Team. The Sustainability Committee meets twice yearly. The Board is updated on relevant aspects of our sustainability strategy bi-monthly. In addition, climate-related risk has been defined as a principal risk and managed as part of our standard business risk process.

**Worth noting:**

- We are already at 1.0 degree warming.
- To minimise global warming to 1.5/2.0 degrees is likely to require policy and technical changes.
- Physical risks and transition risks are inversely related, meaning physical risks increase in significance if a transition to a low carbon economy does not occur and vice versa.
- Companies who have already undertaken scenario analyses have found it helpful to produce scenarios for (a) physical changes and (b) transition risks.



Our [Managing Climate Related Risks and Opportunities](https://corporate.bigyellow.co.uk/application/files/9616/5235/3338/Managing_Climate_Related_Risks_and_Opportunities_2022.pdf) document sets out our internal processes:



For more on governance, please see: <https://corporate.bigyellow.co.uk/application/files/4016/1522/7105/Big-Yellow-ESG-Governance-2021.pdf>

**Strategy**

As a real estate company, our business is exposed to both physical and transitional risks and opportunities from climate change in the UK. We're committed to assessing and mitigating physical and financial climate change adaptation risks that are material to our portfolio.

The Company considered the various potential impacts a changing climate has on our Business within the TCFD framework. The discussion was guided by a range of scenarios published by external agencies, such as the UK Met Office, the IPCC, International Energy Agency, and others – and looked at both physical and transitional risks under two climate warming scenarios; one within 1.5 to 2.0 degrees centigrade; and one up to 4.0 degrees centigrade. A scenario allows a company to plan for what it considers to be the material impacts of global warming and the likely outcomes – this is going to vary from business to business. Broadly, the Company agrees that we should expect some physical risks from global warming to have an impact on our business.

The impacts from localised flooding and from a rising UK temperature are deemed as material. We also agree that the transition to a low carbon economy might pose a risk; however, if we are able to position ourselves well, this may also pose an opportunity.

During the year, we have publicly committed to the 'Race to Zero' campaign, which commits to science-based targets that aim to limit global warming to 1.5°C.

We have established science-based targets and will seek to have these externally verified during 2022. The science-based targets are published here:



[https://corporate.bigyellow.co.uk/application/files/8316/5305/0098/BY\\_FY2021\\_22\\_Science\\_based\\_Targets.pdf](https://corporate.bigyellow.co.uk/application/files/8316/5305/0098/BY_FY2021_22_Science_based_Targets.pdf)

**Physical Risks**

Impacts from both flooding and rising temperatures will likely have a financial impact on us. It may also have a reputational impact if stored goods are affected and an indirect financial impact through rising insurance costs.

Assuming a 2°C increase scenario, 27 of our Big Yellow stores may experience both an increase in 'hottest summer day temperature' of 5% or more and at least a doubling in the number of summer days per month that exceed 25°C.

Assuming a 2°C increase scenario, 34 of our Big Yellow stores may experience both a reduction in the number of rainy summer days per month and an increase in mm of rainfall on the wettest summer day. 13 Big Yellow stores may experience both.

The financial impact of flooding could come from a range of impacts, such as damage to goods stored on the ground and basement floors, unblocking drains, clearing up after large scale flooding, more frequent maintenance of the building infrastructure that is exposed to a large amount of rain falling over shorter time frames, such as roofs, gutters, signage, etc.

The financial impact for longer periods of hot weather could come from a range of impacts, such as heat damage to goods being stored, increase in use of ventilation / cooling, potentially retro-fitting of temperature control systems, detrimental impact on immediate neighbourhoods through urban island heat effects and community pressure to address heat issues.

We also have three Big Yellow stores that are in Flood Zone 3 and have an at least medium to high risk of surface water flooding – all contain measures to minimise impacts, such as flood defences. We anticipate that we will be monitoring the adequacies of these measures going forward.

With the acquisition of Armadillo in July 2021, we have investigated flooding risks for the 24 Armadillo stores currently operational: four stores are in Flood Zone 3; only two stores are at high risk of surface water flooding; all other water related risks are at a maximum of medium risk.

We will be assessing the risk of rising temperatures for Armadillo stores in the coming months.

### Transition Risks

There are a number of aspects of changing climate that the Sustainability Committee deem likely to occur:

- a focus on electrification and decarbonisation;
- an increase in carbon / emission taxation and fines (unlikely that there will be significant incentives);
- an increase in standards, especially for buildings;
- a significantly higher financial reporting burden, including Scope 3; and
- the introduction of a price of carbon.

The Environmental Committee has proposed, and the Sustainability Committee agrees, that decarbonising our business is important to allow us to:

- (a) avoid the risk of “stranded assets”;
- (b) maximise the opportunity to invest at the right time, optimising costs;
- (c) minimise carbon/emission taxation; and
- (d) become an even stronger consumer preference / offering real customer solutions, such as only using renewable energy at our stores and providing EV charging pods for our staff and customers.

The risk of ‘stranded assets’ is a concern from our investors, and so becomes a material concern to us.

Our Net Zero Emission strategy sets out how we intend to deliver a decarbonised business. Please note that the work to move away from gas is currently being undertaken for Armadillo and Big Yellow, with the majority of Armadillo stores due to be operated with electricity exclusively by 2023. Feasibility assessment for the eight Big Yellow stores where gas is still used (for office central heating systems) are currently underway.

### Internal Processes

Both physical and transition risks are expected to materialise to lesser or greater extents over the coming years and costs may go up gradually, hidden within what may be perceived as ‘natural variations’.

Our initial view was to establish a ‘trigger’ metric that will prompt the Company to review current measures taken and allow for strategic decision-making if thresholds are exceeded.

On discussing how this may work on an operational level, we felt that our current processes in place are sufficient to maintain a close watch on increasing costs driven by climate change.

We deem our current understanding of the inherent physical risks to our assets and the unique features of each of our stores to be more than enough to manage future changes.

### Process 1 - identifying emerging issues through visual inspection and half yearly budget reviews

The Directors (CEO, Operations Director and CFO) visually inspect each of our stores at least once per annum; they are usually accompanied by the Head of Estates and Facilities and planned and unplanned work is discussed immediately.

The budgeting process then allows the Operations Director and the Head of Estates and Facilities to prioritise both planned and unplanned maintenance. The budget review by the CFO and Financial Controller looks at planned costs compared to previous years and where costs are changing year on year. This is the point at which trends may be identified and proposals are made to raise climate change related issues to the Board, who may request a more holistic solution and who may charge the Environmental Committee to identify such a solution.

This is particularly useful for physical risks.

### Process 2 - identifying issues via our internal and external Sustainability community

The Head of CSR or the Environmental Committee or the Non-Executive Director for Sustainability may identify aspects that could pose a risk to the Group, and they may raise these either at the Environmental Committee or at the Sustainability Committee. Specific risks, such as connected to Planning, may be integrated into the standard Business Risk process.

Where we identify that a larger scale change needs to be considered, such as replacing gas heating with electric or renewable energy heating, depending on the budget implications this will be assessed either by the Environmental Committee or if significant extra budget is required, at the Board level Sustainability Committee.

This is particularly useful for transition risks.

### Work going forward

With the acquisition of Armadillo, the focus for the year was on the integration of the Armadillo stores into the operational Big Yellow framework; flood risk assessment for the 24 Armadillo stores have been conducted. The following next steps have been agreed:

- Using the 27 Big Yellow stores that may experience an increase in total number of “hot days” and a temperature increase of hottest day, model potential increase in energy costs for cooling.
- Understand better the suitability of external tools, such as CRREM tool methodology. Please note the CRREM tool at present only covers offices.
- External reporting – we agree that reporting transparently will help our investors to feel assured that we are taking appropriate steps to ensure our Company’s ability to thrive in a changing environment.

Strategic Report

**Climate change risks and opportunities (continued)**

Work done to date

- Flood Risk Assessments for each store; these now include Armadillo stores.
- Localised climate change projections – using the Met Office climate projection modelling; 2°C and a 4°C scenario for each store; Armadillo stores assessments to be done.
- Scope 3 footprint for combined Armadillo and Big Yellow. Published here:



[https://corporate.bigyellow.co.uk/download\\_file/1007/237](https://corporate.bigyellow.co.uk/download_file/1007/237)

- Setting science-based targets for the entire business. Published within our Benchmarking and Standards section of the full CSR Report 2022.

Please note, whatever we have not published is considered by us to be commercially sensitive information.

Metrics

We hope our TCFD related metrics will provide a snapshot for all interested readers.

We have been taking part in voluntary ‘Resilience’ modules as part of GRESB and have submitted more details to the CDP risk questions; the GRESB Resilience module has now been integrated into the overall list of questions, but unfortunately is not scored and therefore is likely to be only of limited use to external readers.

We aim to achieve a good balance between disclosing our risks and any mitigating actions we are taking and protecting commercially sensitive information. We trust this section achieves this balance; for any further questions, please contact [csr@bigyellow.co.uk](mailto:csr@bigyellow.co.uk).

Climate-related Risks and Opportunities

Climate-related Risks

Aspect	KPI	2020	2021	2022	Target
Regulation	No EPCs rated F or G	0	0	2 <sup>(1)</sup>	maintain
Extreme Weather	% of current lettable area (sq ft) located in Planning flood Zone 3 and at least medium to high risk of surface water flooding <sup>(2)</sup>	New for 2020/21	0.87	0.70	n/a
	% of at risk current lettable area protected by adaptive measures, such as raised floors or SUDs <sup>(3)</sup>	100%	100%	100%	100%

<sup>(1)</sup> Two of our acquired Armadillo stores have ‘F’ ratings

<sup>(2)</sup> Sq ft from ground and below ground level floors

<sup>(3)</sup> SUDs stands for Sustainable Urban Drainage

<sup>(4)</sup> Please note, this now includes Armadillo and Big Yellow

<sup>(5)</sup> Despite adding 28 stores to our portfolio and only adding 3 new solar installations the total percentage has increased. This target will be re-assessed due to the Armadillo acquisition.

<sup>(6)</sup> Removal of gas boilers. The retrofitting of solar installations has been slightly delayed due to supply chain issues, but are scheduled to be completed by September 2022

<sup>(7)</sup> 2019: Oxford only. 2020: Oxford and Manchester. 2021: Oxford, Manchester, Camberwell, Bracknell, and Battersea. 2022: additionally: Uxbridge, Hayes and Hove

Climate-related Opportunities

Aspect	KPI	2020	2021	2022	Target
Transitioning to a low carbon economy	% of electricity from renewable energy generation <sup>(4)</sup>	6.1%	7.1%	7.8% <sup>(5)</sup>	100% + by 2030
	Investment in retro-fitting activities to drive decarbonisation [approx.]	£100k	£600k	£15k <sup>(6)</sup>	£10.0m to 2025
	% of electricity purchased from renewable sources [market-based]	n/a	100%	100%	100%
	Greenhouse Gas (GHG) emissions intensity from building energy consumption (Scope 1 & 2) – tCO <sub>2</sub> e/CLA (m <sup>2</sup> )	5.5	4.8	4.7*	As per our NREP & Net Zero Strategy
Market opportunities	Deploy electric vehicle charging pods for customers and employees at each newly built store [total installed] <sup>(7)</sup>	2	5	8	All new stores

Targets

We have set out our full pathway for all Scope 1, 2 and 3 Emissions by 2032 in our Net Renewable Energy Positive (“NREP”) Strategy and Net Zero Emissions Strategy.

We have set science-based targets – please refer to our Benchmarks and Standards section in the full CSR Report.

Breakdown of EPCs

83% of EPCs for our combined store portfolio is in the ‘Green’ range, i.e. an A, B or C rating.

EPCs by CLA (sq m)

