

Big Yellow Group PLC

Half Year Report **2017**

The UK's brand leader in

Self Storage



Get some space in your life.™



STRONG PERFORMANCE DRIVEN BY OCCUPANCY GROWTH

FINANCIAL HIGHLIGHTS

Financial metrics	Six months ended 30 September 2017	Six months ended 30 September 2016	%
Revenue	£58.1 million	£54.8 million	6
Like-for-like Revenue ⁽¹⁾	£57.1 million	£54.0 million	6
Store EBITDA ⁽²⁾	£39.7 million	£36.9 million	8
Adjusted profit before tax ⁽³⁾	£30.6 million	£27.0 million	13
Adjusted EPRA diluted earnings per share ⁽⁴⁾	19.1 pence	16.9 pence	13
Interim dividend per share	15.3 pence	13.5 pence	13
Cash flow from operating activities (after finance costs) ⁽⁵⁾	£32.5 million	£28.9 million	12
Store metrics			
Occupancy growth (sq ft) ⁽²⁾	265,000	134,000	98
Closing occupancy (% of MLA)	83.8%	78.5%	5.3 pts
Average achieved net rent per sq ft ⁽²⁾	£26.02	£26.05	–
Statutory metrics			
Profit before tax	£78.7 million	£57.7 million	36
Basic earnings per share	50.0 pence	36.7 pence	36

¹ Like-for-like revenue exclude Nine Elms and Twickenham 2, which were acquired in April 2016; ² see Portfolio Summary (page 13); ³ see note 6; ⁴ see note 8; ⁵ Cash flow from operating activities (after finance costs) excludes working capital movements – see reconciliation in Business and Financial Review on page 9



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FIRST HALF HIGHLIGHTS

- Strong occupancy performance driving 6% revenue growth
- Average rate flat period on period; closing net rent up 1% from 31 March 2017
- Continued growth in EBITDA, adjusted earnings and dividend
- Cash flow from operating activities (after finance costs and before working capital movements) increased by 12% to £32.5 million
- Adjusted profit before tax up 13% to £30.6 million
- 13% increase in interim dividend to 15.3 pence per share
- Acquisition of new development sites in Wapping (London), Bracknell and Slough taking pipeline to 575,000 sq ft (13% of current MLA)
- Planning consent obtained at Manchester for a landmark city centre store of 60,000 sq ft
- Refinancing extending the term of the Group's debt and reducing the average cost



IN OUR VIEW, IT MAKES NO SENSE TO HAVE SIGNIFICANT UNUTILISED CAPACITY, AND CONSEQUENTLY WE HAVE FOCUSED ON OCCUPANCY AND WILL CONTINUE TO DO SO FOR THE TIME BEING.

Targeting

90% occupancy

Big Yellow Group PLC, the UK's brand leader in self storage, is pleased to announce its results for the six months ended 30 September 2017. In this seasonally stronger six month trading period, the Group has delivered a good performance with like-for-like revenue growth of 6% compared to the same period last year. In May, along with our year end results, we set out our ambition to see material growth in occupancy towards our long held target of 85%. We are therefore pleased to be reporting significant progress in occupancy with these results, albeit, there has been no rate growth period on period. That said, we have seen a 1.6% increase in net achieved rent per sq ft to the date of these results since 31 March 2017.

Closing Group occupancy is up 5.8 percentage points to 83.8% compared to 78.0% at 31 March 2017 (up 5.3 percentage points from 78.5% at 30 September 2016). Occupancy growth over the six month period was 265,000 sq ft (2016: 134,000 sq ft, excluding 76,000 sq ft of occupancy acquired in the Nine Elms and Twickenham 2 stores).

The Group's central overhead and operating expense is largely embedded in the business. The growth in revenue and resultant improved operating margin, together with the period on period savings on interest costs, has led to a 13% increase in adjusted earnings per share.

Financial results

Revenue for the period was £58.1 million (2016: £54.8 million), an increase of 6%. Cash inflows from operating activities (after finance costs and excluding working capital movements) increased by 12% to £32.5 million for the period (2016: £28.9 million).

The Group made an adjusted profit before tax in the period of £30.6 million, up 13% from £27.0 million for the same period last year (see note 6). Adjusted diluted EPRA earnings per share were 19.1 pence (2016: 16.9 pence), an increase of 13%. The Group's statutory profit before tax for the period was £78.7 million, an increase of 36% from £57.7 million for the same period last year, due to the increase in operating profit and a higher revaluation gain in the period.

The Group's interest cover for the period (expressed as the ratio of cash generated from operations pre-working capital movements against interest paid) was 7.6 times (2016: 6.1 times). This is comfortably ahead of our internal minimum interest cover requirement of five times.

Investment in new capacity

We are pleased to report the acquisition of three development sites since March, increasing our pipeline to eight new stores and two extensions, with a total capacity (subject to planning) of approximately 575,000 sq ft (13% of current MLA). The acquisitions in Wapping (just east of Tower Bridge), Bath Road in Slough, and Bracknell are all in London and the South East, and we believe when developed will be quality additions to the portfolio.

We continue to look for land and existing storage centres in large urban conurbations, with a focus on London and the South East, and should the current uncertainties throw up new opportunities, we will pursue them aggressively. That said, developing stores in these areas remains challenging given the competition for land and the pressure to produce more housing.

Our 56,000 sq ft Guildford Central store on Woodbridge Meadows is due to open in March 2018 and the 25,000 sq ft extension to our Wandsworth store is due to complete in April 2018. We are pleased to report that we have obtained planning consent for a landmark Manchester city centre store of 60,000 sq ft on Water Street, with a scheduled opening in Spring 2019. After lengthy consultations, we have made good progress on our planning consultations at Kings Cross, Battersea and Camberwell and anticipate submitting applications on all three schemes in 2018, but as always, the process is subject to the vagaries of the planning system.

At 30 September, the future cost of the current pipeline of ten development sites and extensions, seven of which are subject to planning, is estimated to be £90 million.

Dividends

The Group's dividend policy is to distribute 80% of adjusted earnings per share. The interim dividend declared is 15.3 pence per share. This has all been declared as Property Income Dividend ("PID"). The interim dividend declared represents an increase of 13% from 13.5 pence per share for the same period last year.



Outlook

In our view, it makes no sense to have significant unutilised capacity, and consequently we have focussed on occupancy and will continue to do so for the time being. Our pricing model is largely automated and higher levels of occupancy deliver more traction on pricing. We know this because we can see the performance of stores with elevated occupancy.

We are now in our seasonally weakest quarter, in which for the last couple of years we have lost 3 ppts of occupancy and then rebuilt occupancy in the final quarter to March. Given closing occupancy of 83.8% at 30 September, we would expect to comfortably pass the 85% mark next summer providing there are no significant external shocks. We are therefore adjusting our occupancy target for the business as a whole to 90%.

Over the long term, we are confident that the existing platform will continue to deliver attractive returns. That said, adding more capacity will improve those returns. The expeditious way of doing that would be to acquire existing freehold self storage assets in London and other large conurbations in the UK. However, there are few self storage centres that meet our quality criteria and for those that do exist, they are generally not for sale. Furthermore, as stated previously, we have no interest in expanding abroad.

We will therefore continue to develop the Big Yellow platform organically, site by site. This does involve risk and requires patience, but it will allow us to expand and improve our unique and irreplaceable portfolio.

Nicholas Vetch
Executive Chairman

20 November 2017



COMPETITOR STORE OPENINGS REMAIN CONSTRAINED, PARTICULARLY IN LONDON AND OUR OTHER CORE AREAS OF OPERATION.

Delivering results

Trading performance

We are pleased to report a solid trading performance for the six months with an increase in occupancy of 5.8 ppts from March 2017. Like-for-like revenue growth in the first quarter was 5.0%. This improved to 6.6% in the second quarter, with the average for the half year of 5.7%.

As we have often said, the biggest risk to this business is around competition and new supply in our areas of operation. Competitor store openings remain constrained, particularly in London and our other core areas of operation, due to the scarcity of land and competition from other land users. In the market as a whole, new capacity is increasing at around 1 to 2% per annum. We are aware of only five store openings in London in this financial year, but also three store closures, resulting in a very limited increase in supply.

Customer demand

Demand for self storage is largely driven by need, with security, convenience, quality of product, service and location being key drivers. Awareness remains relatively low compared to commoditised products, such as hotel rooms or airline seats, albeit it is increasing slowly year on year with increased supply, marketing spend and customer use.

We are confident that Big Yellow benefits disproportionately from this improving market for our product, due to our market-leading brand and operating platform with our focus on London, the South East and large metropolitan cities. Our digital platform now accounts for 88% of our prospects, of which over half come through our mobile site.



Customers renting storage space whilst moving within the rental or owner occupied sectors represent 41% of move-ins during the period. 10% of our customers who moved in took storage space as a spare room for decluttering. 38% 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 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 11% of our customer demand during the period came from businesses. These demand segments are broadly in line with the same period last year.

There is a growing trend towards self-employment and smaller business start-ups in the UK, dynamics that are positive for self storage.

Additionally, businesses in the UK are increasingly seeking flexible office and storage space as a means of operation, shying away from longer inflexible leases. The deindustrialisation of big cities with the conversion of commercial space into residential and other uses, is also a driver for demand from the SME market seeking flexible warehouse space.

Of our occupied space today, customers who are longer stay lifestyle users, decluttering into small rooms as an extension to their accommodation, occupy 10% to 15%; 50% to 55% are using it for less than 12 months largely event driven, which could be inheritance, moving, carrying out building work, and the balance of 35% are businesses, typically SMEs.

Store occupancy

Prospects for the six months were broadly in line with the same period last year, but we converted a higher proportion of those prospects into move-ins, with move-ins up 4% on the prior period.

The table below shows the monthly move-in and move-out activity over the half year:

	Move-ins period ended 30 September 2017	Move-ins period ended 30 September 2016	%	Move-outs period ended 30 September 2017	Move-outs period ended 30 September 2016	%
April	5,530	5,409	2	5,082	5,463	(7)
May	6,470	6,189	5	5,168	5,110	1
June	8,322	7,911	5	4,862	5,052	(4)
July	7,562	7,352	3	6,679	6,559	2
August	6,969	6,848	2	6,622	6,609	-
September	6,932	6,502	7	9,651	9,071	6
Total	41,785	40,211	4	38,064	37,864	1
October	5,989	5,762	4	6,978	7,046	(1)

During the period, we saw improved move-in activity month-on-month. This reflects the occupancy focus over the period, with continued innovation and investment in our digital platform and operations. Move-outs were lower in the first quarter following quieter trading earlier in the year. The increase in move outs in September was largely due to higher levels of student move-ins over the summer.

Occupancy growth over the six month period was 265,000 sq ft (2016: 134,000 sq ft, excluding 76,000 sq ft of occupancy acquired in the Nine Elms and Twickenham 2 stores).

	Net sq ft period ended 30 September 2017	Net sq ft period ended 30 September 2016	Net move-ins period ended 30 September 2017	Net move-ins period ended 30 September 2016
April	30,000	(12,000)	448	(54)
May	48,000	42,000	1,302	1,079
June	105,000	80,000	3,460	2,859
July	78,000	48,000	883	793
August	36,000	6,000	347	239
September	(32,000)	(30,000)	(2,719)	(2,569)
Total	265,000	134,000	3,721	2,347
October	(46,000)	(64,000)	(989)	(1,284)



Our third quarter is historically the weakest trading quarter and in recent years, we have typically lost two to three percentage points of occupancy before a return to growth in the new year. Since the end of September we have lost 86,000 sq ft (1.9% of maximum lettable area “MLA”), compared to 84,000 sq ft (1.8% of MLA) lost at this stage last year. We do expect to return to occupancy growth in our seasonally stronger March quarter.

The 67 mature stores are 84.3% occupied compared to 79.6% at the same time last year. The four established stores have grown in occupancy from 77.9% to 84.1%. The two developing stores added 30,000 sq ft of occupancy in the past 12 months to reach closing occupancy of 69.1%. Overall store occupancy has increased over the 12 months from 78.5% to 83.8%, and by 5.8 ppts from 1 April 2017.

	Occupancy at 30 September 2017 %	Occupancy growth from 31 March 2017 000 sq ft	30 September 2017 000 sq ft	31 March 2017 000 sq ft	30 September 2016 000 sq ft
67 mature stores	84.3%	232	3,503	3,271	3,307
4 established stores	84.1%	15	228	213	211
2 developing stores	69.1%	18	85	67	55
Total – all 73 stores	83.8%	265	3,816	3,551	3,573

All 73 stores open at the period end are trading profitably at the Store EBITDA level.

Pricing and rental yield

Our core proposition remains a high quality product, competitively priced, with excellent customer service, providing value for money to our customers. We offer a headline opening promotion of 50% off for up to the first 8 weeks, and we continue to manage pricing dynamically, taking account of room availability, customer demand and local competition.

Over the past year we have been more aggressive with our promotions to drive occupancy growth, which led to a reduction in net achieved rent per sq ft in the second half of the prior financial year. Following this fall in the period to March, and hence a lower starting point in this financial year, the average rate achieved in the six months to 30 September 2017 was in line with the same period last year. These more aggressive promotions are now embedded in our business, and with the portfolio at a higher occupancy level over the six months to 30 September 2017, net achieved rent per sq ft grew by 1.0% from 31 March 2017, and has grown by 1.6% to the date of these results.

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 net achieved rents. The table below illustrates this, showing the growth in net rent per sq ft for the portfolio over the period (on a non-weighted basis).

Average occupancy in the six months	Number of stores	Net rent per sq ft growth from 1 April to 30 September 2017
0 to 75%	12	(0.3%)
75 to 80%	18	0.8%
80 to 85%	27	2.1%
Above 85%	16	2.2%

The rental growth for the stores with an average occupancy above 85% would equate to 4.4% annualised were it to be replicated in the second half of the year.

Security of income

Our principal financial aims remain to grow cash flow, earnings and dividend. We believe that self storage income is essentially evergreen income with highly defensive characteristics driven from buildings with very low obsolescence risk. Although our contract with our customers is in theory as short as a week, we do not need to rely on contracts for our income security. At 30 September 2017 the average length of stay for existing customers was 24 months. For all customers, including those who have moved out of the business, the average length of stay has remained at 8 months. 30% of our customers by occupied space have been storing with us for over two years, and a further 17% of customers have been in the business for between one and two years.

The location of our stores, brand, security, and most importantly customer service, together with the diversity of our 56,000 customers, serve better than any contract in providing income security.

Revenue

Total revenue for the period was £58.1 million, an increase of £3.3 million (6%) from £54.8 million in the prior period. Like-for-like revenue for the six month period was £57.1 million, an increase of 6% from the prior period. Like-for-like revenue excludes Nine Elms and Twickenham 2 in both periods, which were acquired from Lock and Leave in April 2016.

Other sales (included within the above), comprising the selling of packing materials, insurance and storage related charges, represented 17.4% of storage income for the period (2016: 17.0%) and generated revenue of £8.4 million for the period, up 8% from £7.8 million in 2016 (see Portfolio Summary).

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



Operating costs

Cost of sales comprises principally of 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 period is shown in the table below (see Portfolio Summary):

Category	Period ended 30 September 2017 £000	Period ended 30 September 2016 £000	% change	% of store operating costs in period
Cost of sales (insurance and packing materials)	1,341	1,237	8	8
Staff costs	4,510	4,434	2	28
General & admin	570	558	2	4
Utilities	679	752	(10)	4
Property rates	5,172	5,044	3	32
Marketing	2,178	2,062	6	13
Repairs and maintenance	1,296	1,272	2	8
Insurance	404	384	5	2
Computer costs	229	221	4	1
Irrecoverable VAT	8	7	14	–
Total per portfolio summary	16,387	15,971	3	

Store operating costs have increased by £0.4 million (3%) compared to the same period last year.

Following the recent rating review, we calculated that the impact on the Group's rates bill for the year ending 31 March 2018 would be an increase of 9%, (£0.9 million). This increase has in part been mitigated in the current period by rates rebates received at two of our stores in respect of the previous rating period to March 2017.

The cost of insurance and packing materials varies with sales and has increased in a similar proportion to revenue. We continue to invest in marketing to maintain the Group's online market share and enquiry levels. Our investment in LED lighting has contributed to a reduction in our utility expenditure. The other increases in store operating costs are inflationary.

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

	Period ended 30 September 2017 £000	Period ended 30 September 2016 £000
Direct store operating costs per portfolio summary (excluding rent)	16,387	15,971
Rent included in cost of sales (total rent payable is included in portfolio summary)	509	557
Depreciation charged to cost of sales	226	202
Prior period VAT recovery	–	(278)
Head office operational management costs charged to cost of sales	392	432
Other (e.g. void costs of development sites)	74	139
Cost of sales per income statement	17,588	17,023

Store EBITDA

Store EBITDA for the period was £39.7 million, an increase of £2.8 million (8%) from £36.9 million for the period ended 30 September 2016 (see Portfolio Summary). The overall EBITDA margin for all Big Yellow stores during the period was 69.6% an improvement from 68.5% in 2016.

Administrative expenses

Administrative expenses in the income statement have decreased by £0.1 million. The prior period contained an exceptional cost of £0.3 million in relation to acquisition costs of Lock and Leave, hence the like for like increase is £0.2 million. The increase is due to national insurance payable on the vesting of LTIPs, coupled with inflationary increases. The non-cash share based payments charge represents £1.1 million of the overall £5.1 million expense.

Interest

The interest on bank borrowings during the period was £5.0 million, £0.8 million lower than the same period last year. Average debt levels were broadly in line with the prior period, but the Group benefited from a lower average cost of borrowing compared to the same period last year following the fall in base rates, lower margins post refinancing and the cancellation of interest rate swaps and associated re-hedging.

Interest capitalised in the period amounted to £0.2 million (2016: no capitalised interest), principally arising on the construction of our Guildford Central store and the construction of the extension of our Wandsworth store.



Results

The Group's statutory profit before tax for the period was £78.7 million, an increase of 36% from £57.7 million for the same period last year. The increase is due to the higher revaluation surplus in the period, coupled with the increase in adjusted profit before tax (as explained below).

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 period of £30.6 million, up 13% from £27.0 million in 2016.

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
Profit before tax analysis		
Profit before tax	78.7	57.7
Gain on revaluation of investment properties	(47.5)	(31.6)
Gain on part disposal of investment property	(0.6)	–
Change in fair value of interest rate derivatives	(0.8)	1.0
Acquisition costs written off	–	0.3
Prior period VAT recovery	–	(0.3)
Refinancing costs	1.5	–
Share of non-recurring gains in associates	(0.7)	(0.1)
Adjusted profit before tax	30.6	27.0
Tax	(0.3)	(0.3)
Adjusted profit after tax	30.3	26.7

During the period, the Group sold land at its Richmond store to an adjoining landowner for £650,000. The valuation of the store was not impacted by this disposal, hence the full proceeds have been recorded as profit on part disposal of investment property and is an adjusting item above.

The movement in the adjusted profit before tax from the prior year is shown in the table below, with the majority of the increase being driven by the improvement in gross profit:

Movement in adjusted profit before tax	£m
Adjusted profit before tax for the six months to 30 September 2016	27.0
Increase in gross profit	3.0
Increase in administrative expenses	(0.2)
Reduction in net interest payable	0.7
Decrease in share of associates' recurring profit	(0.1)
Increase in capitalised interest	0.2
Adjusted profit before tax for the six months to 30 September 2017	30.6

The Group's share of associates' profit before tax increased by £0.1 million compared to the same period last year, however following a prior year tax adjustment and an increase in the corporation tax charge in both companies, the share of profit after tax reduced by £0.1 million.

Diluted EPRA earnings per share was 19.1 pence (2016: 16.9 pence), an increase of 13% from the same period last year.

Cash flow

Cash flows from operating activities (after net finance costs and pre working capital movements) have increased by 12% to £32.5 million for the period (2016: £28.9 million), in line with the growth in store EBITDA. These operating cash flows are after the ongoing maintenance costs of the stores, which are on average £35,000 per store per annum. The Group's net debt has increased over the period to £305.3 million (March 2017: £298.0 million).

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m
Cash generated from operations pre working capital	37.4	34.6
Finance costs (net)	(4.9)	(5.7)
Free cash flow pre working capital	32.5	28.9
Working capital movements	(2.4)	(4.4)
Tax	(0.2)	–
Disposal of assets	0.7	0.3
Capital expenditure	(15.7)	(17.1)
Receipt from Capital Goods Scheme	2.3	1.6
Dividend received from associates	0.2	0.2
Cash flow after investing activities	17.4	9.5
Dividends	(22.1)	(20.0)
Payment to cancel interest rate derivatives	(3.4)	–
Issue of share capital	0.9	0.3
Increase/(decrease) in borrowings	5.8	(1.1)
Net cash outflow	(1.4)	(11.3)

The Group's interest cover for the period (expressed as the ratio of cash generated from operations pre-working capital movements against interest paid) was 7.6 times (2016: 6.1 times).

The capital expenditure in the period principally relates to the acquisition of Wapping, and construction costs on our new store at Guildford Central and the extension of our existing Wandsworth store. The prior period capital expenditure was principally to acquire the stores in Nine Elms and Twickenham from Lock and Leave.

Taxation

The Group is a Real Estate Investment Trust ("REIT"). We benefit from a zero tax rate on our qualifying self storage earnings. We only pay corporation tax on the profits attributable to our residual business, comprising primarily of the sale of packing materials and insurance, and management fees earned by the Group.

There is a £0.3 million tax charge in the residual business for the period ended 30 September 2017 (six months to 30 September 2016: £0.3 million).

Dividends

REIT regulatory requirements determine the level of Property Income Dividend ("PID") payable by the Group. A PID of 15.3 pence per share is proposed as the total interim dividend, an increase of 13% from 13.5 pence per share PID for the same period last year.

The interim dividend will be paid on 5 January 2018. The ex-div date is 7 December 2017 and the record date is 8 December 2017.



Financing and treasury

During the period, the Group further reduced its average cost of debt, whilst increasing the available facilities and extending the average term of its debt.

The Group extended its £70 million loan with M&G by a year, pushing its expiry out to June 2023. All other terms and conditions of the loan remained the same, hence it was not a material modification of the loan under IAS 39. At the same time, the Group cancelled the existing interest rate derivative that was in place over half of the M&G loan (2.64% expiring in June 2022) at a cost of £3.4 million and replaced it with a new derivative until June 2023 at a pre margin rate of 0.76%.

The Group also amended the terms of its existing £190 million bank facility, which was treated as an extinguishment of the loan under IAS 39.

The £85 million term loan, which attracted a margin of 150bps, was converted to revolving loan at a lower margin of 125 bps. The term of the loan was extended to October 2022 with an option in place to extend the loan by a further two years. The Group also has an option to increase the amount of revolving loan by a further £80 million during the course of the loan's term.

The refinancing costs of £1.5 million shown in the income statement relate to the unamortised loan arrangement costs of the previous bank facility, and the write-off of the costs of the new bank facility in accordance with IAS 39. This has been eliminated from the Group's adjusted profit for the period.

The table below summarises the Group's debt facilities at 30 September 2017. The average cost of debt is adjusted for the 25 bps increase in the base rate announced in November 2017. The average cost has reduced to 2.9% from 3.2% at 31 March 2017:

Debt	Expiry	Facility	Drawn	Average interest cost
Aviva Loan	April 2027	£88.8 million	£88.8 million	4.9%
M&G loan	June 2023	£70 million	£70 million	2.8%
Bank loan (Lloyds & HSBC)	October 2022	£190 million	£152 million	1.9%
Total	Average term 6.1 years	£348.8 million	£310.8 million	2.9%

The Group was comfortably in compliance with its banking covenants at 30 September 2017.

Our financing policy is to fund our current needs through a mix of debt, equity and cash flow to allow us to build out our development pipeline and achieve our strategic growth objectives, which we believe improve 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. 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 net debt to gross property assets ratio is 24% (2016: 26%) and the net debt to adjusted net assets ratio (see net asset value section below) is 30% (2016: 32%).

Property

Investment property

The Group's investment properties are carried at the half year at Directors' valuation. They are valued externally by Cushman and Wakefield LLP ("C&W") at the year end. The Directors' valuations reflect the latest cash flows derived from each of the stores at the end of September.

In performing the valuations, the Directors consulted with C&W on the capitalisation rates used in the valuations in light of a number of self storage transactions that had taken place in the market in the past six months. The Directors consider that capitalisation rates for London and South East freehold self storage centres have reduced by 15 bps since the start of the financial year. C&W support this view. This cap rate reduction has therefore been applied to the September valuation for the applicable stores.

The Directors consider that the other core assumptions underpinning the valuations including the stabilised occupancy assumptions used, rental growth, and discount rates used by C&W in the March 2017 valuations, are still appropriate at the September valuation date [see the Group's annual report for the year ended 31 March 2017 for the full detail of the valuation methodology].

At 30 September 2017 the total value of the Group's properties is shown in the table below:

Analysis of property portfolio	Value at 30 September 2017 £m	Revaluation movement in the period £m
Investment property	1,204.7	48.0
Investment property under construction	49.1	(0.5)
Investment property total	1,253.8	47.5

The revaluation surplus for the open stores in the period was £48.0 million, as the growth in cash flows feed through to the valuation, coupled with the cap rate reduction discussed above. There is a small deficit on the investment property under construction, due to an increase in anticipated costs on one scheme following feedback from the planning authorities on our initial proposals.

The initial yield on the portfolio before administration expenses and assuming no rental growth, is 6.7% rising to a stabilised yield of 7.0% (31 March 2017: 6.7% rising to 7.2%).


Development pipeline

The Group has acquired three development sites since March, in Wapping (London), Slough and Bracknell. This takes the total pipeline to approximately 575,000 sq ft, representing 13% of current MLA, with an estimated future cost to complete of £90 million. 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 £2.9 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 £3.6 million.	Additional 25,000 sq ft
Manchester	Prime location on Water Street, central Manchester	Planning consent granted in September 2017. Store construction to start March 2018, with a view to opening in Spring 2019, cost to complete of £7.0 million.	60,000 sq ft
Camberwell, London	Prominent location on Southampton Way	Initial planning application refused and subsequent appeal dismissed. A revised planning application will be submitted in February 2018.	70,000 to 75,000 sq ft
Kings Cross, London	Prominent location on York Way	Planning application currently being prepared to be submitted in early 2018.	110,000 to 115,000 sq ft
Bracknell	Prime location on Ellesfield Avenue	Contracts recently exchanged with completion due in December. Application to be submitted in early 2018 to incorporate self storage and other occupiers.	60,000 to 65,000 sq ft
Slough	Prominent location on Bath Road	Site recently acquired. Planning application to be submitted in early 2018.	45,000 to 50,000 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 residential led scheme. Ongoing detailed planning discussions with the Borough Council with the aim of submitting an application in May 2018.	Up to an additional 40,000 sq ft
Wapping, London	Prominent location on The Highway	Site acquired in May 2017. 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 to 75,000 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

The capital expenditure committed for the remainder of the financial year is approximately £17.5 million, which relates to the completion of the purchases of Bracknell and Slough and construction costs incurred on Manchester, Guildford Central and the extension of our Wandsworth store.

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.

Capital Goods Scheme receivable

At 30 September 2017 we had a receivable of £4.6 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. To date, we have received payments under the Capital Goods Scheme of £9.1 million, receiving £2.3 million during the period and £0.4 million subsequent to the period end.


Net asset value

The adjusted net asset value is 640.8 pence per share (see note 13), up 5% from 607.6 pence per share at 31 March 2017. The table below reconciles the movement from 31 March 2017:

Movement in adjusted net asset value	Equity shareholders' funds £m	EPRA adjusted NAV pence per share
1 April 2017	963.4	607.6
Adjusted profit after tax	30.3	19.0
Equity dividends paid	(22.1)	(13.9)
Cancellation of interest rate derivative	(3.4)	(2.1)
Revaluation movements (including share of associate)	48.2	30.2
Movement in purchaser's cost adjustment	3.7	2.3
Other movements (e.g. share schemes)	1.4	(2.3)
30 September 2017	1,021.5	640.8

Armadillo Self Storage

In 2014 we set up a joint venture with a consortium of Australian investors with the aim of acquiring existing self storage facilities as a consolidator in the secondary market. 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.

In April 2017 a further three stores were acquired into the Armadillo platform in Exeter, Plymouth and Torquay, for £4.75 million. This takes the Armadillo platform to 19 stores and 829,000 sq ft of MLA. As with the other existing store acquisitions, the intention is to upgrade and reconfigure the stores through additional investment to drive cash flow growth.

The occupancy of the portfolios is 649,000 sq ft, against a total capacity of 829,000 sq ft representing occupancy at 30 September 2017 of 78.3% [31 March 2017: 74.7%]. The revenue of the portfolio increased by 21% to £6.3 million for the six months to 30 September 2017 [2016: £5.2 million], on a like-for-like basis, the increase was 9%.

The Armadillo Partnerships made a combined operating profit of £3.0 million in the period, of which Big Yellow's share is £0.6 million. After net interest costs, the revaluation of investment properties, deferred tax on the revaluation surplus and interest rate derivatives, the profit for the period was £4.7 million, of which the Group's share was £0.9 million.

Big Yellow has a responsibility for operating the assets and receives a management fee from the Partnerships, which for the period to 30 September 2017 amounted to £0.5 million.

The Group's share of the interim dividend declared for the period is £0.24 million, representing a 6.3% yield on our original equity investment for the six months.

James Gibson
Chief Executive Officer
20 November 2017

John Trotman
Chief Financial Officer

Portfolio Summary – Big Yellow Stores



	2017				2016			
	Mature ⁽¹⁾	Established	Developing	Total	Mature	Established	Developing	Total
Number of stores	67	4	2	73	67	4	2	73
At 30 September:								
Total capacity (sq ft)	4,157,000	271,000	123,000	4,551,000	4,157,000	271,000	123,000	4,551,000
Occupied space (sq ft)	3,503,000	228,000	85,000	3,816,000	3,307,000	211,000	55,000	3,573,000
Percentage occupied	84.3%	84.1%	69.1%	83.8%	79.6%	77.9%	44.7%	78.5%
Net rent per sq ft	£26.46	£25.92	£19.32	£26.29	£26.45	£25.27	£18.15	£26.26
For the period:								
REVPAF ⁽²⁾	£25.38	£24.50	£14.23	£25.03	£24.34	£22.09	£8.11	£23.77
Average occupancy	82.2%	81.2%	61.0%	81.5%	78.8%	74.9%	35.0%	77.4%
Average annual rent psf	£26.20	£25.69	£18.95	£26.02	£26.21	£24.93	£18.67	£26.05
	£000	£000	£000	£000	£000	£000	£000	£000
Self storage income	44,861	2,834	713	48,408	42,917	2,537	402	45,856
Other storage related income ⁽³⁾	7,809	470	164	8,443	7,282	423	95	7,800
Ancillary store rental income	236	25	1	262	220	33	2	255
Total store revenue	52,906	3,329	878	57,113	50,419	2,993	499	53,911
Direct store operating costs (excluding depreciation)	(15,026)	(966)	(395)	(16,387)	(14,652)	(942)	(377)	(15,971)
Short and long leasehold rent ⁽⁴⁾	(1,002)	–	–	(1,002)	(1,027)	–	–	(1,027)
Store EBITDA ⁽⁵⁾	36,878	2,363	483	39,724	34,740	2,051	122	36,913
Store EBITDA margin	69.7%	71.0%	55.0%	69.6%	68.9%	68.5%	24.4%	68.5%
Deemed cost	£m	£m	£m	£m				
To 30 September 2017	517.8	55.2	21.0	594.0				
Capex to complete	–	–	0.1	0.1				
Total	517.8	55.2	21.1	594.1				

⁽¹⁾ The mature stores have been open for more than six years at 1 April 2017. The established stores have been open for between three and six years at 1 April 2017 and the developing stores have been open for fewer than three years at 1 April 2017.

⁽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 mature store with a capacity of 64,000 sq ft. The EBITDA margin for the 60 freehold mature stores is 71.5%, and 52.0% for the seven leasehold mature stores.

⁽⁵⁾ Store earnings before interest, tax, depreciation and amortisation. The table below reconciles Store EBITDA to gross profit in the income statement.

	Period ended 30 September 2017 £000			Period ended 30 September 2016 £000		
	Store EBITDA	Reconciling items	Gross profit per income statement	Store EBITDA	Reconciling items	Gross profit per income statement
Store revenue/Revenue ⁽¹⁾	57,113	962	58,075	53,911	882	54,793
Cost of sales ⁽²⁾	(16,387)	(1,201)	(17,588)	(15,971)	(1,052)	(17,023)
Rent ⁽³⁾	(1,002)	1,002	–	(1,027)	1,027	–
	39,724	763	40,487	36,913	857	37,770

⁽¹⁾ See note 2 of the interim statement, reconciling items are management fees and non-storage income.

⁽²⁾ See reconciliation in cost of sales section in Business and Financial Review on page 8.

⁽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.

Portfolio Summary – Armadillo Stores



	2017	2016
Number of stores ⁽¹⁾	19	16
At 30 September:		
Total capacity (sq ft)	829,000	736,000
Occupied space (sq ft)	649,000	536,000
Percentage occupied	78.3%	72.8%
Net rent per sq ft	£16.51	£16.59
For the period:		
REVPAF	£15.11	£14.30
Average occupancy	77.0%	73.8%
Average annual rent psf	£16.35	£16.14
	£000	£000
Self storage income	5,237	4,333
Other storage related income	1,022	834
Ancillary store rental income	23	20
Total store revenue	6,282	5,187
Direct store operating costs (excluding depreciation)	(2,397)	(2,042)
Short leasehold rent	(247)	(206)
Store EBITDA	3,638	2,939
Store EBITDA margin	57.9%	56.7%
Cumulative capital expenditure		
	£m	
To 30 September 2017	56.3	
To complete	0.4	
Total capital expenditure	56.7	

⁽¹⁾ Armadillo acquired three stores in April 2017 from Quickstore in Exeter, Torquay and Plymouth.

Responsibility Statement



We confirm to the best of our knowledge:

1. the condensed set of Interim Financial Statements has been prepared in accordance with IAS 34 “Interim Financial Reporting”;
2. the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year);
3. the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties’ transactions and changes therein); and
4. the Condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R.

By order of the Board

James Gibson

Director

20 November 2017

John Trotman

Director

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 September 2017



	Note	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Revenue	2	58,075	54,793	109,070
Cost of sales		(17,588)	(17,023)	(34,075)
Gross profit		40,487	37,770	74,995
Administrative expenses		(5,076)	(5,178)	(9,679)
Operating profit before gains and losses on property assets		35,411	32,592	65,316
Gain on the revaluation of investment properties	9a	47,464	31,577	43,706
Gain on part disposal of investment property	9a	650	–	–
Operating profit		83,525	64,169	109,022
Share of profit of associates	9d	946	557	1,442
Investment income – interest receivable	3	149	213	356
– fair value movement of derivatives	3	842	–	719
Finance costs – interest payable	4	(6,799)	(6,220)	(11,756)
– fair value movement of derivatives	4	–	(971)	–
Profit before taxation		78,663	57,748	99,783
Taxation	5	(302)	(325)	(272)
Profit for the period (attributable to equity shareholders)		78,361	57,423	99,511
Total comprehensive income for the period attributable to equity shareholders		78,361	57,423	99,511
Basic earnings per share	8	50.0p	36.7p	63.6p
Diluted earnings per share	8	49.5p	36.5p	63.1p

Adjusted profit before taxation is shown in note 6 and EPRA earnings per share is shown in note 8.

All items in the income statement relate to continuing operations.

Condensed Consolidated Balance Sheet

30 September 2017



	Note	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
Non-current assets				
Investment property	9a	1,204,710	1,139,786	1,154,390
Investment property under construction	9a	49,099	34,107	36,115
Interest in leasehold properties	9a	23,074	22,034	23,601
Plant, equipment and owner-occupied property	9b	3,135	3,484	3,216
Goodwill	9c	1,433	1,433	1,433
Investment in associates	9d	8,187	6,772	7,452
Capital Goods Scheme receivable	10	2,809	4,006	4,091
Derivative financial instruments		1,252	–	–
		1,293,699	1,211,622	1,230,298
Current assets				
Inventories		272	280	283
Trade and other receivables	10	13,907	14,368	18,042
Cash and cash equivalents		5,484	5,862	6,906
		19,663	20,510	25,231
Total assets		1,313,362	1,232,132	1,255,529
Current liabilities				
Trade and other payables	11	(32,648)	(29,382)	(36,935)
Obligations under finance leases		(2,038)	(1,866)	(2,005)
Borrowings	12	(2,414)	(2,299)	(2,356)
		(37,100)	(33,547)	(41,296)
Non-current liabilities				
Derivative financial instruments		–	(4,654)	(2,964)
Borrowings	12	(306,597)	(305,514)	(299,323)
Obligations under finance leases		(21,036)	(20,168)	(21,596)
		(327,633)	(330,336)	(323,883)
Total liabilities		(364,733)	(363,883)	(365,179)
Net assets		948,629	868,249	890,350
Equity				
Called up share capital		15,848	15,777	15,788
Share premium account		46,298	45,480	45,462
Reserves		886,483	806,992	829,100
Equity shareholders' funds		948,629	868,249	890,350

Consolidated Statement of Changes in Equity



Six months ended 30 September 2017 (unaudited)

	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 2017	15,788	45,462	74,950	1,795	753,374	(1,019)	890,350
Total comprehensive income for the period	–	–	–	–	78,361	–	78,361
Issue of share capital	60	836	–	–	–	–	896
Credit to equity for equity-settled share based payments	–	–	–	–	1,129	–	1,129
Dividends	–	–	–	–	(22,107)	–	(22,107)
At 30 September 2017	15,848	46,298	74,950	1,795	810,757	(1,019)	948,629

Six months ended 30 September 2016 (unaudited)

	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 income for the period	–	–	–	–	57,423	–	57,423
Issue of share capital	40	253	–	–	–	–	293
Credit to equity for equity-settled share based payments	–	–	–	–	1,149	–	1,149
Dividends	–	–	–	–	(20,003)	–	(20,003)
At 30 September 2016	15,777	45,480	74,950	1,795	731,266	(1,019)	868,249

Year ended 31 March 2017 (audited)

	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 income for the year	–	–	–	–	99,511	–	99,511
Issue of share capital	51	235	–	–	–	–	286
Credit to equity for equity-settled share based payments	–	–	–	–	2,324	–	2,324
Dividends	–	–	–	–	(41,158)	–	(41,158)
At 31 March 2017	15,788	45,462	74,950	1,795	753,374	(1,019)	890,350

Consolidated Cash Flow Statement

Six months ended 30 September 2017



	Note	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Operating profit		83,525	64,169	109,022
Gain on the revaluation of investment properties		(47,464)	(31,577)	(43,706)
Gain on part disposal of investment property		(650)	–	–
Depreciation	9b	363	367	738
Depreciation of finance lease obligations	9a	509	557	1,196
Employee share options		1,129	1,149	2,324
Cash generated from operations (pre-working capital)		37,412	34,665	69,574
Decrease/(increase) in inventories		11	(14)	(17)
Decrease/(increase) in receivables		3,229	3,475	(1,456)
Decrease in payables		(5,630)	(7,817)	(892)
Cash generated from operations		35,022	30,309	67,209
Interest paid		(4,943)	(5,740)	(10,980)
Interest received		5	13	16
Tax paid		(221)	–	(271)
Cash flows from operating activities		29,863	24,582	55,974
Investing activities				
Sale of surplus land		–	300	300
Acquisition of Lock and Leave (net of cash acquired)		–	(14,239)	(14,239)
Purchase of non-current assets		(15,220)	(2,409)	(6,338)
Proceeds on part disposal of investment property		650	–	–
Receipt from Capital Goods Scheme		2,332	1,605	2,917
Dividend received from associates	9d	211	191	396
Cash flows from investing activities		(12,027)	(14,552)	(16,964)
Financing activities				
Issue of share capital		896	293	286
Payment of finance lease liabilities		(509)	(557)	(1,196)
Payment to cancel interest rate derivative		(3,374)	–	–
Equity dividends paid		(22,107)	(20,003)	(41,158)
Increase/(decrease) in borrowings		5,836	(1,108)	(7,243)
Cash flows from financing activities		(19,258)	(21,375)	(49,311)
Net decrease in cash and cash equivalents	A	(1,422)	(11,345)	(10,301)
Opening cash and cash equivalents		6,906	17,207	17,207
Closing cash and cash equivalents		5,484	5,862	6,906

A. Reconciliation of net cash flow to movement in net debt

Six months ended 30 September 2017



	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Net decrease in cash and cash equivalents	(1,422)	(11,345)	(10,301)
Cash flow from movement in debt financing	(5,836)	1,108	7,243
Change in net debt resulting from cash flows	(7,258)	(10,237)	(3,058)
Movement in net debt in the period	(7,258)	(10,237)	(3,058)
Net debt at start of period	(298,049)	(294,991)	(294,991)
Net debt at end of period	(305,307)	(305,228)	(298,049)

Net debt is gross bank borrowings less cash and cash equivalents, and excluding finance leases.



1. ACCOUNTING POLICIES

Basis of preparation

The results for the period ended 30 September 2017 are unaudited and were approved by the Board on 20 November 2017. The financial information contained in this report in respect of the year ended 31 March 2017 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The annual financial statements of Big Yellow Group PLC are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting", as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

Valuation of assets and liabilities held at fair value

For those financial instruments held at fair value, 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 13. 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 derivatives 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 13. Investment Property and Investment Property under Construction have been classified as Level 3. This is discussed further in note 14.

Going concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Chairman's Statement and the Business and Financial Review. 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 interim statement. 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 within the Group's Annual Report for the year ended 31 March 2017.

The Directors have considered carefully the Group's trading performance and cash flows in the context of the uncertain global economic environment, Brexit and the other principal risks to the Group's performance. After reviewing Group and Company cash balances, projected cash flows, and the borrowing facilities available to the Group, 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 carefully considered the Group's operating plan and budget and projections contained in the detailed longer term business plan. For this reason, they continue to adopt the going concern basis in preparing the half year report.



2. SEGMENTAL INFORMATION

Revenue represents amounts derived from the provision of self storage accommodation 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 accommodation and related services. These all arise in the United Kingdom.

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Open stores			
Self storage income	48,408	45,856	91,600
Other storage related income	8,443	7,800	15,189
Ancillary store rental income	262	255	526
	57,113	53,911	107,315
Other revenue			
Non-storage income	456	448	885
Management fees	506	434	870
Total revenue	58,075	54,793	109,070

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

Further analysis of the Group's operating revenue and costs are in the Portfolio Summary and the Business and Financial Review.

The seasonality of the business is discussed in note 17.

3. INVESTMENT INCOME

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Bank interest receivable	5	13	16
Unwinding of discount on Capital Goods Scheme receivable	144	200	340
Total interest receivable	149	213	356
Fair value movement on derivatives	842	–	719
Total investment income	991	213	1,075

4. FINANCE COSTS

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Interest on bank borrowings	4,951	5,750	10,953
Capitalised interest	(170)	–	(128)
Interest on finance lease obligations	492	470	931
Total interest payable	5,273	6,220	11,756
Refinancing costs	1,526	–	–
Change in fair value of interest rate derivatives	–	971	–
Total finance costs	6,799	7,191	11,756

The refinancing costs relate to the unamortised loan arrangement costs of the previous bank facility which was extinguished, and the write-off of the costs of the new bank facility in accordance with IAS 39.



5. 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 if 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.

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Current tax:			
– Current year	315	325	417
– Prior year	(13)	–	(145)
	302	325	272

6. ADJUSTED PROFIT BEFORE TAX

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Profit before tax	78,663	57,748	99,783
Gain on revaluation of investment properties – Group	(47,464)	(31,577)	(43,706)
– associates (net of deferred tax)	(716)	(267)	(756)
Change in fair value of interest rate derivatives – Group	(842)	971	(719)
– associates	(36)	54	8
Gain on part disposal of investment property	(650)	–	–
Acquisition costs written off	–	296	296
Prior period VAT recovery	–	(328)	(328)
Share of associate acquisition costs written off	73	61	63
Refinancing costs	1,526	–	–
Adjusted profit before tax	30,554	26,958	54,641
Tax	(302)	(325)	(272)
Adjusted profit after tax (EPRA earnings)	30,252	26,633	54,369

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

7. DIVIDENDS

	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2017 of 14.1p (2016: 12.8p) per share	22,107	20,003
Proposed interim dividend for the year ending 31 March 2018 of 15.3p (2017: 13.5p) per share	24,076	21,155

The proposed interim dividend of 15.3 pence per ordinary share will be paid to shareholders on 5 January 2018. The ex-div date is 7 December 2017 and the record date is 8 December 2017. The interim dividend is all Property Income Dividend.



8. EARNINGS PER ORDINARY SHARE

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain per share information and these are included in the following table.

	Six months ended 30 September 2017 (unaudited)			Six months ended 30 September 2016 (unaudited)			Year ended 31 March 2017 (audited)		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic	78.4	156.9	50.0	57.4	156.3	36.7	99.5	156.5	63.6
Dilutive share options	–	1.4	(0.5)	–	1.1	(0.2)	–	1.2	(0.5)
Diluted	78.4	158.3	49.5	57.4	157.4	36.5	99.5	157.7	63.1
<i>Adjustments:</i>									
Gain on revaluation of investment properties	(47.5)	–	(30.0)	(31.6)	–	(20.1)	(43.7)	–	(27.7)
Gain on part disposal of investment property	(0.6)	–	(0.4)	–	–	–	–	–	–
Change in fair value of interest rate derivatives	(0.8)	–	(0.5)	1.0	–	0.6	(0.7)	–	(0.4)
Acquisition costs written off	–	–	–	0.3	–	0.2	0.3	–	0.2
Prior period VAT recovery	–	–	–	(0.3)	–	(0.2)	(0.3)	–	(0.2)
Refinancing costs	1.5	–	0.9	–	–	–	–	–	–
Share of associates' non-recurring gains and losses	(0.7)	–	(0.4)	(0.2)	–	(0.1)	(0.7)	–	(0.5)
EPRA – diluted	30.3	158.3	19.1	26.6	157.4	16.9	54.4	157.7	34.5
EPRA – basic	30.3	156.9	19.3	26.6	156.3	17.0	54.4	156.5	34.8

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

EPRA earnings per ordinary share, before the revaluation of investment properties, gains and losses on disposal of assets, the change in fair value of interest rate derivatives, one-off items of expenditure, and the Group's share of its associates' one-off items of expenditure, derivative and revaluation movements, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

9. NON-CURRENT ASSETS

a) Investment property

	Investment property £000	Investment property under construction £000	Interest in leasehold properties £000	Total £000
At 1 April 2017	1,154,390	36,115	23,601	1,214,106
Additions	2,313	13,527	–	15,840
Adjustment to present value	–	–	(18)	(18)
Revaluation	48,007	(543)	–	47,464
Depreciation	–	–	(509)	(509)
At 30 September 2017	1,204,710	49,099	23,074	1,276,883

Capital commitments at 30 September 2017 were £6.5 million (31 March 2017: £8.6 million).

During the period the Group sold land at its Richmond store to an adjoining landowner for £650,000. The valuation of the store was not impacted by this disposal, hence the full proceeds have been recorded as profit on part disposal of investment property. This has been eliminated from the Group's adjusted profit for the period.



9. NON-CURRENT ASSETS (continued)

b) Plant, equipment and owner-occupied property

	Freehold property £000	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Fixtures, fittings and office equipment £000	Total £000
Cost						
At 1 April 2017	2,189	97	649	32	1,431	4,398
Additions	–	7	65	–	210	282
Retirement of fully depreciated assets	–	(30)	(17)	–	(170)	(217)
At 30 September 2017	2,189	74	697	32	1,471	4,463
Accumulated depreciation						
At 1 April 2017	(409)	(50)	(265)	(7)	(451)	(1,182)
Charge for the period	(21)	(1)	(60)	(4)	(277)	(363)
Retirement of fully depreciated assets	–	30	17	–	170	217
At 30 September 2017	(430)	(21)	(308)	(11)	(558)	(1,328)
Net book value						
At 30 September 2017	1,759	53	389	21	913	3,135
At 31 March 2017	1,780	47	384	25	980	3,216

c) Goodwill

Goodwill relates to the purchase of Big Yellow Self Storage Company Limited in 1999. The asset is tested annually for impairment or more frequently if there are indicators of impairment. The carrying value of £1.4 million remains unchanged from the prior year as there is considered to be no indication of impairment in the value of the asset.

d) Investment in associates

Armadillo Partnerships

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		
	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
At the beginning of the period	5,048	4,173	4,173	2,404	2,233	2,233
Share of results (see below)	598	273	1,093	348	284	349
Dividends	(120)	(104)	(218)	(91)	(87)	(178)
At the end of the period	5,526	4,342	5,048	2,661	2,430	2,404

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

On 26 October 2017, Armadillo 1 declared an interim dividend of £675,000 and Armadillo 2 declared an interim dividend of £500,000, of which the Group's share is £135,000 and £100,000 respectively.



9. 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.

	Armadillo 1			Armadillo 2		
	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000	Six months ended 30 September 2017 (unaudited) £000	Six months ended 30 September 2016 (unaudited) £000	Year ended 31 March 2017 (audited) £000
Income statement (100%)						
Revenue	4,059	3,098	6,324	2,223	2,088	4,159
Cost of sales	(2,138)	(1,606)	(3,270)	(996)	(925)	(1,763)
Administrative expenses	(107)	(34)	(207)	(50)	(50)	(88)
Operating profit	1,814	1,458	2,847	1,177	1,113	2,308
Gain on the revaluation of investment properties	3,001	639	3,725	1,309	986	322
Net interest payable	(452)	(350)	(718)	(330)	(387)	(729)
Acquisition costs written off	(366)	(303)	(316)	–	–	–
Fair value movement of interest rate derivatives	89	(98)	8	91	(173)	(49)
Current and deferred tax	(1,100)	20	(78)	(503)	(120)	(109)
Profit attributable to shareholders	2,986	1,366	5,468	1,744	1,419	1,743
Dividends paid	(600)	(520)	(1,091)	(456)	(434)	(890)
Retained profit	2,386	846	4,377	1,288	985	853
Balance sheet (100%)						
Investment property	51,416	39,442	43,375	27,274	25,979	25,900
Interest in leasehold properties	1,421	–	–	3,381	3,668	3,526
Other non-current assets	1,156	1,552	1,125	1,503	1,487	1,487
Current assets	1,432	823	1,177	579	890	867
Current liabilities	(2,743)	(1,613)	(1,895)	(1,746)	(1,663)	(1,821)
Derivative financial instruments	(110)	(305)	(199)	(97)	(312)	(188)
Non-current liabilities	(24,944)	(18,188)	(18,341)	(17,588)	(17,899)	(17,753)
Net assets (100%)	27,628	21,711	25,242	13,306	12,150	12,018
Group share (20%)						
Operating profit	363	292	569	235	222	462
Gain on the revaluation of investment properties	600	128	745	262	197	64
Net interest payable	(90)	(70)	(144)	(66)	(77)	(146)
Acquisition costs written off	(73)	(61)	(63)	–	–	–
Fair value movement of interest rate derivatives	18	(20)	2	18	(34)	(10)
Current and deferred tax	(220)	4	(16)	(101)	(24)	(21)
Profit attributable to shareholders	598	273	1,093	348	284	349
Dividends paid	(120)	(104)	(218)	(91)	(87)	(178)
Retained profit	478	169	875	257	197	171
Associates' net assets	5,526	4,342	5,048	2,661	2,430	2,404

**10. TRADE AND OTHER RECEIVABLES**

	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
Current			
Trade receivables	3,978	3,431	3,174
Capital Goods Scheme receivable	1,819	3,978	2,725
Other receivables	354	213	266
Prepayments and accrued income	7,756	6,746	11,877
	13,907	14,368	18,042
Non-current			
Capital Goods Scheme receivable	2,809	4,006	4,091

11. TRADE AND OTHER PAYABLES

	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
Current			
Trade payables	6,505	5,722	13,279
Other payables	9,331	8,503	8,352
Accruals and deferred income	16,812	15,157	15,304
	32,648	29,382	36,935

12. BORROWINGS

	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
Aviva loan	2,414	2,299	2,356
Current borrowings	2,414	2,299	2,356
Aviva loan	86,377	88,791	145,000
M&G loan	70,000	70,000	87,599
Bank borrowings	152,000	150,000	70,000
Unamortised debt arrangement costs	(1,780)	(3,277)	(3,276)
Non-current borrowings	306,597	305,514	299,323
Total borrowings	309,011	307,813	301,679

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 income statement. The gain in the income statement for the period of these interest rate swaps was £842,000 (2016: loss of £971,000). During the period, the Group cancelled an interest rate derivative at a cost of £3.4 million. At 30 September 2017 the Group and the Armadillo Partnerships were in compliance with all loan covenants.



13. ADJUSTED NET ASSETS PER SHARE

	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
Basic net asset value	948,629	868,249	890,350
Exercise of share options	1,105	884	820
EPRA NNNAV	949,734	869,133	891,170
Adjustments:			
Fair value of derivatives	(1,252)	4,654	2,964
Fair value of derivatives – share of associates	41	123	77
Share of deferred tax on revaluations in associates	772	631	626
EPRA NAV	949,295	874,541	894,837
Basic net assets per share (pence)	602.8	554.3	568.0
EPRA NNNAV per share (pence)	595.8	548.6	562.1
EPRA NAV per share (pence)	595.5	552.0	564.4
EPRA NAV (£000)	949,295	874,541	894,837
Valuation methodology assumption (£000) (see note 14)	72,181	66,674	68,530
Adjusted net asset value (£000)	1,021,476	941,215	963,367
Adjusted net assets per share (pence)	640.8	594.1	607.6
	No. of shares	No. of shares	No. of shares
Shares in issue	158,480,574	157,765,696	157,882,867
Own shares held in EBT	(1,122,907)	(1,122,907)	(1,122,907)
Basic shares in issue used for calculation	157,357,667	156,642,789	156,759,960
Exercise of share options	2,056,268	1,797,279	1,781,652
Diluted shares used for calculation	159,413,935	158,440,068	158,541,612

Basic net assets per share are shareholders' funds divided by the number of shares at the period end. Any 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).



14. VALUATIONS OF INVESTMENT PROPERTY

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 period.

The freehold and leasehold investment properties have been valued at 30 September 2017 by the Directors. The valuation has been carried out in accordance with the same methodology as the year end valuations prepared by Cushman & Wakefield LLP. Please see the accounts for the year ended 31 March 2017 for details of this methodology.

The Directors' valuations reflect the latest cash flows derived from each of the stores at the end of September. In performing the valuations, the Directors consulted with C&W on the capitalisation rates used in the valuations in light of a number of self storage transactions that had taken place in the market in the past six months. The Directors consider that capitalisation rates for London and South East freehold self storage centres have reduced by 15 bps since the start of the financial year. C&W support this view. This cap rate reduction has therefore been applied to the September valuation for the applicable stores.

The Directors consider that the other core assumptions underpinning the valuations including the stabilised occupancy assumptions used, rental growth, and discount rates used by C&W in the March 2017 valuations are still appropriate at the September valuation date.

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 that 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 for the deduction of operational costs 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 Directors have therefore carried out a valuation on the above basis, and this results in a higher property valuation at 30 September 2017 of £1,325.1 million (£71.3 million higher than the value recorded in the financial statements). The valuations in the Armadillo Partnerships are £4.5 million higher than the value recorded in the financial statements, of which the Group's share is £0.9 million. The sum of these is £72.2 million and translates to 45.3 pence per share. We have included this revised valuation in the adjusted diluted net asset calculation (see note 13).

15. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES

The table below sets out the categorisation of the financial instruments held by the Group at 30 September 2017. Where the financial instruments are held at fair value the valuation level indicates the priority of the inputs to the valuation technique. The fair value 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). Valuations categorised as Level 2 are obtained from third parties. 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.

		30 September 2017 (unaudited) £000
	Valuation level	
Interest rate derivatives	2	1,252



16. 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.

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 period AnyJunk Limited provided waste disposal services to the Group on normal commercial terms amounting to £14,000.

Transactions with Armadillo

As described in note 9d, the Group has a 20% interest in Armadillo Storage Holding Company Limited and a 20% interest in Armadillo Storage Holding Company 2 Limited, and entered into transactions with the Companies during the period on normal commercial terms as shown in the table below.

	30 September 2017 (unaudited) £000	30 September 2016 (unaudited) £000	31 March 2017 (audited) £000
Fees earned from Armadillo 1	374	306	574
Fees earned from Armadillo 2	132	128	253
Balance due from Armadillo 1	100	73	86
Balance due from Armadillo 2	15	20	48

17. RISKS AND UNCERTAINTIES

The operational risks facing the Group for the remaining six months of the financial year are consistent with those outlined in the Annual Report for the year ended 31 March 2017. The outlook for the housing market and the economy remains uncertain given the ongoing discussions on Brexit. The risk mitigating factors listed in the 2017 Annual Report are still appropriate.

The value of Big Yellow's property portfolio is affected by the conditions prevailing in the property investment market and the general economic environment. Accordingly, the Group's net asset value can rise and fall due to external factors beyond management's control. The uncertainties in the global economy look set to continue. We have a high quality prime portfolio of assets that should help to mitigate the impact of this on the Group.

Self storage is a seasonal business, and over the last five years we have seen losses in occupancy of c. 2-4 ppts in the December quarter. The New Year typically sees an increase in activity, occupancy and revenue growth. The visibility we have in the business is relatively limited at three to four weeks and is based on the net reservations we have in hand, which are currently in line with our expectations.

There is a risk that our customers may default on their rent payments, however we have not seen an increase in bad debts over the past ten years since the start of the Global Financial Crisis. We have 56,000 customers and this, coupled with the diversity of their reasons for using storage, mean the risk of individual tenant default to Big Yellow is low. Over 80% of our customers pay by direct debit and we take a deposit from all customers. Furthermore, we have a right of lien over customers' goods, so in the ultimate event of default, we are able to auction the goods to recover the debts.



Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

A handwritten signature in black ink that reads "Steve Masters".

Steve Masters

for and on behalf of KPMG LLP

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20 November 2017

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