

Delivering Results

**LIKE-FOR-LIKE REVENUE
FOR THE YEAR WAS
£107.3 MILLION,
AN INCREASE OF
6% FROM THE
PRIOR YEAR.**

Financial results

Revenue

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

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

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

Operating costs

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

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

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

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

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

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

Financial Review (continued)

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

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

Store EBITDA

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

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

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

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

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

Administrative expenses

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

Interest expense on bank borrowings

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

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

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

Profit before tax

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

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

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

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

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

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

REIT status

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

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

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

Taxation

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

Dividends

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

REIT regulatory requirements determine the level of Property Income Dividend (“PID”) payable by the Group. On the basis of the full year distributable reserves for PID purposes, a PID of 24.0 pence per share is payable (31 March 2016: 18.1 pence). The balance of the total annual dividend represents an ordinary dividend declared at the discretion of the Board, in line with our policy to distribute 80% of our adjusted earnings per share in each reporting period. The PID for the year to 31 March 2017 accounts for 87% of the total dividend, up from 73% in the prior year.

The table below summarises the declared dividend for the year:

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

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

Financial Review (continued)

Cash flow growth

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

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

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

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

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

Balance sheet

Property

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

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

Investment property

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

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

The valuation is based on an average occupancy over the 10 year cash flow period of 82.1% across the whole portfolio. The table below provides further analysis of the valuations:

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

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

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

Investment property under construction

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

Purchaser's cost adjustment

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

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

Surplus land

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

Receivables

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

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

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

Movement in adjusted NAV

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

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

Financial Review (continued)

Borrowings

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

Our financing policy is to fund our current needs through a mix of debt, equity and cash flow to allow us to selectively build out our development pipeline and achieve our strategic growth objectives, which we believe improves returns for shareholders. We aim to ensure that there are sufficient medium-term facilities in place to finance our committed development programme, secured against the freehold portfolio, with debt serviced by our strong operational cash flows. Treasury continues to be closely monitored and its policy approved by the Board. We maintain a keen watch on medium and long-term rates and the Group's policy in respect of interest rates is to maintain a balance between flexibility and hedging of interest rate risk. The table below summarises the Group's debt facilities at 31 March 2017.

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

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

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

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

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

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

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

Share capital

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

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

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

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

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

Investment in Armadillo

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

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

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

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

Principal risks and uncertainties

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

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

Risk and impact	Mitigation	Change during the year and outlook
<p>Self storage market risk</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. The sector have slowed significantly over the past few years.</p> <p>Our performance during the downturn was relatively resilient, although not immune. We believe that the resilience of our performance is due to a combination of factors including:</p> <ul style="list-style-type: none"> > a prime portfolio of freehold properties; > a focus on London and the South East and other large metropolitan cities, which have proved more resilient during the downturn and where the drivers in the self storage market are at their strongest and the barriers to competition are at their highest; > the strength of operational and sales management; > continuing innovation to deliver the highest levels of customer service; > the UK's leading self storage brand, with high public awareness and online strength; and > strong cash flow generation and high operating margins, from a secure capital structure. <p>We have a large current storage customer base of approximately 52,500 spread across the portfolio of stores and many thousands more who have used Big Yellow over the years. In any month, customers move in and out at the margin resulting in changes in occupancy. This is a seasonal business and typically we see growth over the spring and the summer months, with the seasonally weaker periods being the winter months.</p>	<p>The UK economy is projected to grow at approximately 1.6% in 2017, and is ahead of the level of output last achieved in 2007 before the global financial crisis. Self storage proved relatively resilient through the crisis, with our revenue and earnings increasing over the last seven years. As the economy has recovered in the past few years, the market risk has fallen in line with increasing occupancy.</p> <p>There is increased macroeconomic uncertainty associated with the UK's future exit from the EU, and this has resulted in a broad range of opinions on the UK's future economic performance.</p> <p>The Group's like-for-like occupancy has increased by 2.8 percentage points in the year from 75.3% to 78.1%.</p>
<p>Property risk</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>Our management has significant experience in the property industry generated over many years and in particular in acquiring property on main roads in high profile locations and obtaining planning consents. We do take planning risk where necessary, although the availability of land, and competition for it makes acquiring new sites challenging.</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 in the prior year, which had satisfactory results.</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 increasingly favouring residential development over other uses, and we don't expect this to change given the shortage of housing in the UK.</p>
<p>Valuation risk</p> <p>The valuations 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 value a significant proportion of the UK self storage industry.</p> <p>The portfolio is diverse with approximately 52,500 customers currently using 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 stores investment properties was £44.4 million in the year (an uplift of 4%).</p> <p>There has been an increase in transactional evidence in the year, with the Group's acquisition of Lock and Leave, and the acquisition of the Big Box portfolio by Storage Mart.</p>

Financial Review (continued)

Risk and impact	Mitigation	Change during the year and outlook
<p>Treasury risk 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 10 years remaining. In the prior year, the Group drew down on a seven year £70 million loan from M&G Investments, which is 50% fixed and 50% floating. For our bank debt, we borrow at floating rates of interest and use swaps to hedge our interest rate exposure. Our policy is to have at least 45% of our total borrowings fixed, with the balance floating. At 31 March 2017 51% of the Group's total borrowings were fixed or subject to interest rate derivatives. The Group reviews its current and forecast projections of cash flow, borrowing and interest cover as part of its monthly management accounts. In addition, an analysis of the impact of significant transactions is carried out regularly, as well as a sensitivity analysis assuming movements in interest rates and store occupancy on gearing and interest cover. This sensitivity testing underpins the viability statement below.</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>Interest rates are forecast to remain low for the foreseeable future, although following the reduction in the sterling exchange rates following the Brexit referendum, UK inflation is forecast to increase in 2017.</p> <p>Debt providers currently remain supportive to companies with a strong capital structure. That said, a weaker macro-economic performance by the UK economy could adversely affect liquidity and pricing.</p> <p>The Group's interest cover ratio for the year to 31 March 2017 was 6.2 times, comfortably ahead of our internal target of 5 times.</p>
<p>Tax and regulatory risk The Group is exposed to changes in the tax regime affecting the cost of corporation tax, VAT and Stamp Duty Land Tax ("SDLT"), for example the imposition of VAT on self storage from 1 October 2012.</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 advisors.</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>In addition to the regulatory and tax uncertainty linked to the UK's future exit from the EU, the Group has experienced an increase in cost of £0.9 million for the year ending March 2018 following the Government's review of business rates.</p>
<p>The UK's future exit from the EU creates uncertainty over the future UK tax and regulatory environment.</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 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, so as to contribute to the performance of the Group.</p> <p>We were ranked 80th in the Sunday Times Best 100 Companies to Work For survey in February 2016.</p>	<p>During the year, an employee consultancy conducted an engagement survey of our employees. The survey results showed very high levels of employee engagement (90%), which was an increase from 86% from our previous survey in 2014.</p>
<p>Human resources risk 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>With unemployment falling, and a risk of higher staff turnover, difficulty in finding the right employees increases.</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, so as to contribute to the performance of the Group.</p> <p>We were ranked 80th in the Sunday Times Best 100 Companies to Work For survey in February 2016.</p>	<p>During the year, an employee consultancy conducted an engagement survey of our employees. The survey results showed very high levels of employee engagement (90%), which was an increase from 86% from our previous survey in 2014.</p>

Risk and impact	Mitigation	Change during the year and outlook
<p>Security risk</p> <p>The Group is exposed to the risk of the damage or loss of store due to vandalism, fire, or natural incidents such as flooding. This may also cause reputational damage.</p>	<p>The safety and security of our customers, their belongings, and stores remains a key priority. To achieve this we invest in state of the art access control systems, individual room alarms, digital CCTV systems, intruder and fire alarm systems and the remote monitoring of all our stores outside of our trading hours. We are the only major operator in the UK self storage industry that has every room in every store individually alarmed.</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 regularly review and implement improvements to our security processes and procedures.</p>
<p>Cyber risk</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, 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 also include defend, detect and response policies.</p> <p>We have also instigated a new working group for compliance with the new EU General Data Protection Regulation ("GDPR") which comes into effect on 25 May 2018.</p>	<p>We don't consider the risk to have increased any faster for the Group than anyone else; however we consider that the threats in the entire digital landscape do continue to increase.</p> <p>During the year we have continued to invest in digital security. Some of the changes include more frequent penetration testing of internet facing systems, adding components such as anti-ransomware as well as the maintenance replacement of components such as firewalls to the latest technology and specification.</p>

Internal audit

The Group does not have a formal internal audit function because the Board has concluded that the internal controls systems are sufficient for the Group at this time. However, the Group employs a Store Compliance Manager 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 an Assistant Store Compliance Manager, enabling additional work and support to be carried out across the Group's store portfolio. The Store Compliance team visit each operational store at least once a 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.

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 in 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.

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

VIABILITY STATEMENT

The Directors have assessed the Group's viability over a four year period to March 2021. This period is selected based on the Group's long term strategic plan to give greater certainty over the forecasting assumptions used.

In making their assessment, the Directors took account of the Group's current financial position, including committed capital expenditure. The Directors also assessed the potential financial impact of the various risks and uncertainties set out in the report above 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 debt will be available in all plausible market conditions.

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 2021.