

Business Review

Introduction

This has been a challenging year for the Group, as the financial crisis which started in August 2007 has turned into a deep economic downturn. Nevertheless, our performance has been relatively resilient, although not immune. We believe that resilience is owing to a combination of factors including:

- > a prime portfolio of freehold self storage properties
- > successful acquisition and development of new stores
- > the strength of operational management
- > the UK's leading self storage brand, with high public awareness
- > strong cash flow generation and high operating margins
- > flexible and conservative financing, with a senior debt facility in place until 2013, and partial hedging in place to 2015

Business Objectives

In recent years, Big Yellow has established itself as the leading self storage brand in the UK (YouGov Survey, September 2008), a key objective set at flotation. The Group continues to invest in developing quality assets at the premium end of the self storage market and to build on our brand leadership nationally. We intend to measure our progress by commissioning quantitative research each year. We opened our first store outside our core area, in Leeds in 2005 and have opened sites this year in Birmingham, Liverpool and Sheffield. We have further sites under development in Manchester, Stockport, Nottingham, Edinburgh and a second site in Sheffield.

The main elements of our strategy remain:

- > the selective build out of freehold stores in major urban conurbations throughout the UK
- > retaining a focus on London and the South East in the core Group
- > financing using flexible bank borrowings secured against a prime freehold portfolio, and more recently the Partnership with Pramerica
- > locating stores in visible, convenient and accessible locations
- > an unwavering focus on customer service
- > excellent operational and financial management generating strong cash-flow growth
- > innovative and creative marketing
- > an entrepreneurial and passionate culture, with accessible senior management encouraging innovation and dialogue throughout the business
- > recruiting and retaining quality people into the business

Financing Objectives

Big Yellow's financing policy is to fund its current needs through a mix of debt and equity in building out the existing portfolio and achieving our strategic growth objectives, which we believe will 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.

The level of bank debt in the business is closely monitored against the Board's policy guidelines, which currently require that the ratio of net debt to gross property assets is no greater than 50% and interest cover not less than 2 times based on net operating income, comfortably ahead of its banking covenants. However, it is acknowledged that there may be limited periods where income cover temporarily falls slightly below 2 as a result of known factors, for example a number of new store openings, as new freehold stores typically make a loss for the first three to six months before breaking even at the net operating income level.

Risk Management

The management of risk is a fundamental part of how we have controlled the development of Big Yellow since its formation in September 1998, and the opening of our first purpose built store in Richmond, London in May 1999.

Self Storage Market Risk

We noted last year that the credit crunch which started in August 2007 impacted the availability of mortgages to home owners which in turn has caused a significant reduction in housing market activity. We have now entered a deep recessive cycle in the global economy. Demand for self storage has slowed since the start of the credit crunch, however we believe that the structural need for self storage remains, and we are pleased at the relative resilience that has been shown to date by the sector. We have increased storage rents to customers by on average 4.25% from May 2009. Over the last six years average net storage rental growth has been 4.5% per annum.

BIG YELLOW ONLY INVESTS IN PRIME LOCATIONS, DEVELOPING HIGH QUALITY SELF STORAGE CENTRES IN THE LARGE URBAN CONURBATIONS WHERE THE DRIVERS IN THE SELF STORAGE MARKET ARE AT THEIR STRONGEST.

Of the customers moving into the business in the last year, our surveys indicate approximately 54% is in some way linked to the housing market of which 26% are customers renting storage space whilst moving within the rental sector, and the balance moving within the owner occupied sector. We have seen an increase in demand from customers within the rental sector during the year, in part caused by the decline in the housing market and availability of credit. Customers within the rental sector will typically stay longer in the stores than the shorter demand profile of house move customers. 12% of our customers who moved in during the year rent storage space as a spare room for lifestyle purposes and approximately 20% of 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 furniture, are getting married or divorced, are students who need storage during the holidays, or homeowners developing into their lofts or basements. The balance of 14% of our customers are businesses ranging from start ups and market traders to retailers and larger multinationals storing stock, documents, equipment, or promotional materials all requiring a convenient flexible solution to their storage, either to get started or to free up more expensive space. The demand from business customers, who typically occupy larger rooms, has been relatively robust, as they seek a cost effective, flexible solution to their storage requirements, preferring self storage to the commitment of a long lease.

Self storage is an immature market in the UK compared to other markets such as the United States and Australia, and we believe has further opportunity for growth. Awareness of self storage and how it can be used by domestic and business customers is relatively low throughout the UK, although higher in London. The rate of growth in branded self storage on main roads in good locations has historically been limited by the difficulty of acquiring sites at affordable prices and obtaining planning consent. The lack of availability of credit within the economy has further reduced this rate of growth in recent months.

Big Yellow only invests in prime locations, developing high quality self storage centres in the large urban conurbations where the drivers in the self storage market are at their strongest and the barriers to competition exist.

◆◆◆ Liz Bangs

Location: Brighton

"I have used Big Yellow twice. The first time was when I moved house a few years ago. I left quite a big house in Devon for a much smaller one in Brighton, and we kept most of our things in storage for about four months and slowly moved bits in. It made the move much easier, less sudden and traumatic. The staff were amazing; in fact, I would go as far as to say that they were the most helpful I have ever encountered. It was an extremely stressful time, but they were so reassuring. Storage spaces can be a big impersonal box but the staff made it a very personal experience.

The second time was when we had our loft converted. We were able to create space for the builders whilst the work was carried out."

82%

**Brand awareness now 82% in London,
an increase of over 30% year-on-year**

❖ John Sturgess
Owner of Snowfit Ltd

Location: Norwich

"At Snowfit, we sell skiing and snowboarding equipment, and have been using Big Yellow for over 8 years. Our stores, one on the outskirts and one in the centre of Norwich, have very little storage space, so we use Big Yellow as a flexible stock room. This has enabled us to carry a wider product range than some of the bigger nationwide chains.

We were initially most impressed by the cleanliness and safe feel of the store and the staff have always made us feel very welcome. In winter, when we are busiest, we'll visit our rooms every day to collect stock. This helps us to ensure that our products are always available."

+59%

Traffic to our website +59% year-on-year

Business Review continued

We have a large current storage customer base of approximately 28,500 spread across the portfolio of open stores and many thousands more have used Big Yellow over the years. In any month, customers move in and out at the margin resulting in changes in occupancy. Despite the current environment, this has remained a seasonal business and typically one sees growth over the spring and the summer months, with the seasonally weaker periods being the winter months. The performance in terms of occupancy, revenue and EBITDA of our stores can be seen from the Portfolio Summary on page 24.

The average length of stay in Big Yellow's stores is increasing. At 31 March 2009 the average length of stay for existing customers was 18.0 months; a marked increase on 15.6 months in the prior year. For all customers, including those who have moved out of the business, the average length of stay has increased from 8.0 months to 8.4 months. This translates into a loyal customer base. In our 32 same store portfolio, 36% of our customers have been storing with us for over three years. A further 19% in these stores have been in the business for between one and three years.

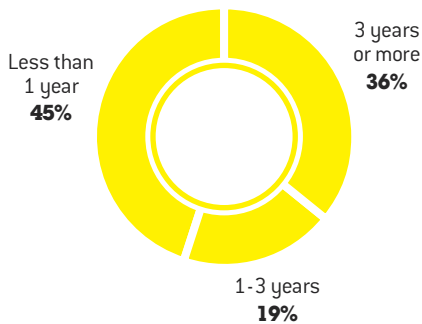
Property Risk

We have slowed down our real estate acquisition programme; focussing during the year on building out selected sites within our development pipeline, and conserving available facilities within the business. We believe the current difficulties in the banking and capital markets make access to capital required to fund growth more difficult and will slow down the growth in self storage store openings in the market generally. We believe that we are in a relatively strong position with our freehold property assets, with the proven ability to access more funding when the opportunity presents itself.

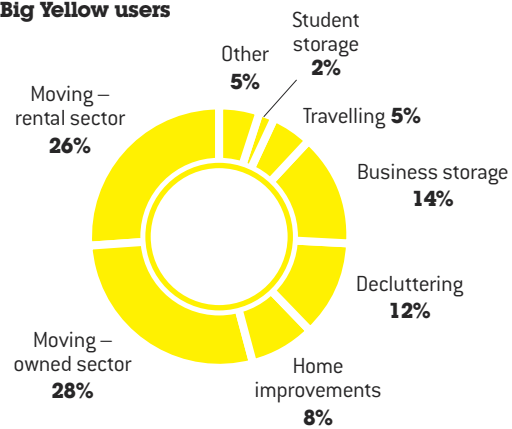
The planning process remains difficult with some planning consents taking in excess of twelve months to achieve. We do take planning risk where necessary, although the more distressed property market will in our view provide more opportunity to buy sites on a conditional basis.

Big Yellow's 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.

Proportion of current customers – Same stores by length of stay in the business



Big Yellow users



In the year under review we acquired just one site, in Stockport, within Big Yellow Limited Partnership. We now have a portfolio of 70 stores and sites of which 54 are currently open and a further 13 have planning consents. We have surplus land of £25 million which we are seeking to sell in the next 18 months.

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 advisors and sub-contractors who have worked with us for many years to our Big Yellow specification.

We achieved two significant sustainability milestones during the year. Our Sheen store achieved the highest 'Excellent' rating on the Building Research Establishment's Environmental Assessment Methodology (BREEAM), in the industrial buildings category, and our new store at Twickenham achieved an A+ rating on carbon emissions, indicating that it has net zero CO₂ emissions.

Treasury Risk

The Group borrows in sterling at floating rates of interest and uses swaps to hedge its interest rate exposure. The Group has derivatives in place to ensure at least 50% of our bank borrowings are hedged, the balance is left floating paying margin over LIBOR. At 31 March 2009, we had hedging instruments in place over 61% of our outstanding bank borrowings, including hedging of at least 70% of the investment tranche of our senior debt facility, as required by our loan documentation. The Group does not hedge account its interest rate derivatives; all movements in fair value are taken through the income statement.

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.

Our portfolio is relatively high yielding and we believe a flexible approach to our hedging is appropriate for our strategic aims, given our conservative balance sheet.

Interest Cover and Balance Sheet Risk

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 occupancy in the stores on gearing and interest cover.

Credit Risk

Our customers are required to pay a deposit when they start to rent a self storage unit and are also required to pay in advance for their four-weekly storage charges. The Group is therefore not exposed to a significant credit risk. 70% of our customers pay by direct debit. Since the commencement of the credit and liquidity issues in August 2007, we have not seen an increase in the levels of bad debts and arrears.

Taxation Risk

The Group is exposed to changes in the tax regime affecting the cost of corporation tax, VAT and Stamp Duty Land Tax ("SDLT"). We regularly monitor proposed and actual changes in legislation with the help of our professional advisors and through trade bodies to understand and, if possible, mitigate or benefit from their impact.

Real Estate Investment Trust ("REIT") Risk

The Group converted to a REIT with effect from 15 January 2007. The Group is therefore exposed to potential tax penalties or loss of its REIT status by failing to comply with the REIT legislation. The Group has internal monitoring procedures in place to ensure that the appropriate rules and legislation are complied with. To date all REIT regulations have been complied with.

Human Resources Risk

At Big Yellow 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.

Reputational Risk

Big Yellow's reputation with all its stakeholders is something we value highly and will always look to protect and enhance. We aim to communicate clearly with our customers, suppliers, local authorities and communities, employees and shareholders and to listen to and take account of their views. Big Yellow's Intranet and Website (bigyellow.co.uk) are important avenues of communication for both employees and shareholders.

Business Review

continued

Customer average length of stay – 31 March 2009

Age of store		Stores (No. of Months)				Portfolio	31 March 2008
		< 1 Year	1-2 Years	2-5 Years	>5 Years		
No. of Stores		6	6	13	29	54	
Domestic	Existing	4.0	5.8	12.0	20.2	17.6	15.1
	Vacated	2.1	2.9	4.6	6.5	6.2	5.9
	Total	3.0	4.2	6.2	8.2	7.8	7.5
Business	Existing	5.1	5.6	14.9	21.5	19.4	17.2
	Vacated	1.7	3.9	6.7	9.6	9.3	8.5
	Total	4.3	5.0	10.0	13.1	12.5	11.7
All	Existing	4.2	5.8	12.5	20.6	18.0	15.6
	Vacated	2.1	3.0	4.8	6.8	6.5	6.2
	Total	3.2	4.3	6.6	8.8	8.4	8.0

Stores

During the year we opened six stores, three wholly owned stores in London (at Kennington, Sheen and Bromley), and three within Big Yellow Limited Partnership at Sheffield, Birmingham and Liverpool. These store openings bring the number now trading in the Group and the Partnership to 54. The available net lettable space increased by 380,000 sq ft over the year to 3.4 million sq ft with the opening of these six stores.

The maturity profile across the 50 wholly owned stores open at the end of the year is set out in the Portfolio Summary on page 24 and shows a blended occupancy for the portfolio of 55% (1.7 million sq ft occupied), with the same stores at an average occupancy of 75% (2008: 82%). The fall in average occupancy reflects the more difficult trading conditions experienced through the year, and is primarily as a result of weakness in our mid-range room sizes typically used by owner-occupiers staying relatively short periods and moving within the housing market. Our ability to manage rental yields through price increases has meant that despite the impact of a 9% occupancy fall on the same store portfolio, the reduction in revenue year on year was limited to 4%.

There are a further 16 freehold sites (including nine sites within Big Yellow Limited Partnership). These sites are at various stages of planning and construction which, when fully developed, will increase the total capacity of the portfolio to 4.5 million sq ft.

6 of the 16 sites in the development pipeline are located in Greater London, including Twickenham which opened in May, which we believe will continue to improve the quality of our store portfolio. There are five sites currently under construction in the Partnership and the trading results from recently opened stores in the north are encouraging.

We continue to work on obtaining planning consents for all future stores. We expect to open six stores in the current financial year, one within the core Group, and five within the Partnership.

During the year we moved in over 34,000 customers taking 2.1 million sq ft compared to 40,000 customers taking 2.4 million sq ft last year.

This resulted in the wholly owned stores reducing in occupancy by 85,000 sq ft (37,000 sq ft increase last year). Of the 50 wholly owned stores open at the year end 47 are now trading profitably with the other 3 being recent openings.

The Big Yellow store model is now well established. The “typical” store contains 60,000 sq ft and takes some 3 to 4 years to achieve 85% occupancy. The average room size is 60 sq ft and the average net rental achieved last year across the 50 wholly owned stores was £26.53 per sq ft per annum (the average rent in London is higher at £28.75 per sq ft per annum). The stores in lease-up achieved a higher average rental (£27.00 per sq ft) than the mature stores (£26.42 per sq ft), reflecting the greater London weighting of the lease-up stores.

The store is initially run by three staff – adding a part time member of staff once the store occupancy justifies the need for the extra administrative and sales workload. Given that the operating costs of these assets are relatively fixed, larger stores in bigger urban conurbations, particularly London, drive higher revenues and higher operating margins.

The drive to improve store operating standards and consistency across the portfolio remains a key focus for the Group. Excellent customer service is at the heart of our business objectives, as a satisfied customer is our best marketing tool. We measure customer service standards through a programme of mystery shoppers and ex-customer surveys. We have in place a team of Area Managers who have on average been with Big Yellow for six years. They develop and support the stores to drive the growth of the business. Adrian Lee, Operations Director, is the Board member responsible for dealing with all customer issues.

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

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. The total construction spend in the year was £36 million. We currently have six new stores on site, all of which will open in the financial year 2009/10.

We believe that as a customer facing real estate business it is paramount to maintain the quality of our estate and customer offering. We therefore continue to invest in a rolling programme of store makeovers, preventative maintenance, store cleaning and the repair and replacement of essential equipment, such as lifts and gates.

During the year we were pleased to sign a management agreement with a subsidiary of HSBC Bank plc to manage a portfolio of ten freehold stores, branded as Armadillo Self Storage. We have been operating the stores for two months. Our initial activity has consisted of moving the staff onto our centralised systems and training the staff on our way of working. We are currently working on rebranding all the stores with a new Armadillo Self Storage livery. The portfolio will shortly be integrated on our website and we look forward to working with HSBC to maximise value over the five year term of our management contract.

Sales and Marketing

This year we have reinforced our position as the clear brand leader in the UK self storage industry.

We are at the forefront of online innovation, and in February 2009 we launched our new website, building on our unique online reservation and real-time pricing system. The website is structured around educating browsers and communicating our best quality facilities and value for money. As a result of this, our conversion rate of online enquiries has doubled. Traffic to the website has grown by 59% year-on-year, and all our advertising budget is now dedicated to online activity. During 2008, we invested in new tools to help us measure and continually optimise our online marketing. We are constantly looking to improve our e-commerce proposition and we will continue to lead the industry in this area.

We commission annual awareness surveys and our Brand continues to grow strongly. Highlights from this year's survey include:

- > Brand awareness across the UK has grown by 30% this year
- > We have achieved Brand awareness of 82% in London, an increase of 30% over the previous year
- > Our Brand awareness is still three times the level of our nearest competitor
- > 80% of our customer base continues to fall within the top three ACORN customer categories
- > Big Yellow leads the industry in terms of Brand preference, with more potential customers expecting to use Big Yellow than any other Brand

Source: YouGov, September 2008

A thorough understanding of self storage (ie a full awareness of the service provided and its benefits) grew more rapidly this year, with 50% of the UK population having at least a reasonable knowledge of the product. In spite of this growth, educating the public about our top quality service and facilities continues to be at the core of our marketing programme.

◆◆◆ Mike Jones

Location: Hounslow

"I work as an Interim Turnaround Director in large corporations. I use Big Yellow to store my children's possessions, who have now left home. When I first visited Big Yellow I was struck with the security of the store, the flexibility of the product and the high quality of service offered. I use Big Yellow for long term storage so I don't need regular access, but it's very re-assuring to know that my possessions are in such safe hands."

65 stores

We now operate 65 stores across the UK

◆◆ Colin Patterson-Smith

Location: Wandsworth

"I use Big Yellow to store promotional literature and display materials used for road shows events. I chose them because of their convenient location and competitive price, and I visit my room regularly depending on frequency of events. Because of my work I often need to access my goods outside of normal working hours, and the extended hours facility gives me extra flexibility and helps me to manage my workload."

x2

**Since the launch of our new website,
the conversion rate of online enquiries
has doubled**

Business Review continued

We continually monitor local market conditions and review our promotions regularly. Our strategy is to offer targeted promotions to ensure we are offering the best value available to our customers, whilst ensuring that we achieve our rental yield objectives.

Local marketing, selling standards and customer service at store level are also critical to building the brand and achieving customer loyalty and recommendations. We invest significantly in training and have a reward structure and performance monitoring systems which focus specifically on achieving sales and customer service objectives.

During the year the Group spent approximately £2.6 million (4.5% of our revenue) on marketing, in line with the previous year. It is our intention to continue to invest 4.25% to 4.5% of our revenue to increase awareness of Big Yellow in existing and new markets, particularly as we expand into new cities across the country.

Security

The safety and security of our customers 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 out of our trading hours.

We have implemented customer security procedures in line with advice from the Metropolitan 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 we have continued to run courses to enhance the awareness and effectiveness of our procedures in relation to security, entitled "You and Your Customer".

People

At Big Yellow we aim to provide a lively, fun and enjoyable working environment, without losing our commitment to delivering the very best standards of customer service.

We encourage a culture of partnership within the business and believe in staff participating in corporate performance through bonus schemes and share incentives. Many employees benefit from an HMRC approved

Sharesave Scheme, which provides an opportunity to invest in the future success of Big Yellow at a discount to the prevailing share price at the date of each invitation. Our stakeholder pension scheme managed by Friends Provident, has been taken up by nearly 70% of employees eligible to join and a voucher awards scheme is used extensively across the business to recognise and reward our staff.

We aim to promote employee wellbeing through a range of flexible working options to include flexitime, staggered hours, home working and sabbaticals. We provide a comprehensive range of medical support and advice through our occupational health providers and have arranged corporate gym membership on a national basis.

We continue to recognise the importance of communication and consultation with an annual conference, regular formal and informal meetings and bi-monthly newsletters and operational updates. In addition, our Directors and senior management spend significant time in the stores and are accessible to employees at all levels. An annual Employee Attitude Survey provides management with key feedback and guidance as to where to focus its attention to further improve the working environment.

We had 273 full, part time and casual employees in the business at the year end (2008: 226 employees), and recruiting and retaining the right calibre people remains critical to the continued success of the Company.

We promote the individual development of staff through training and regular performance appraisals and delivered nearly 900 days training to employees in the last year, equating to an average of approximately 3.5 days training per employee. In the stores, nearly 60% of the managerial posts have been filled by internal promotions.

The Remuneration Committee has been conducting a benchmark review of the Executives' remuneration with a view to developing a long term share based bonus plan for next three to five years. Further details are included in the Remuneration Report and will be included in the Notice of the Annual General Meeting.

In March of this year, we were delighted to have been recognised as one of the Sunday Times 100 Best Companies To Work for 2009 and also to have achieved Two Star Status for the Best Companies Accreditation.

Corporate Social Responsibility

The Board appointed a Corporate Social Responsibility Manager last year. We remain committed to our formal corporate social responsibility ("CSR") policy. This is shown below.

Corporate Social Responsibility Policy

The Board recognises that high levels of corporate social responsibility ("CSR") linked to clear commercial objectives, will create a more sustainable business and increase shareholder and customer value. This Policy will cover all of Big Yellow's operations, as both a self storage developer and operator. Big Yellow is seeking to meet the demand for self storage from businesses and private individuals providing the storage space for their commercial and / or domestic needs, whilst aiding local employment creation and contributing to local community regeneration.

The Board commits itself to:

- > Complying with relevant social and environmental legislation
- > Establishing a formal integrated CSR management structure to implement "best practice"
- > Preventing pollution and the waste of resources to protect the environment
- > Consulting with stakeholders on social aspects to improve their services to the Group
- > Providing capital for sustainable development that is economically viable
- > Reporting annually on improving ethical, community and environmental performance

Operationally, Big Yellow commits to:

- > **Development** – to address relevant issues on local community and climate change aiming to achieve best practice on sustainability checklists and local planning guidance
- > **Design** – to minimise its carbon footprint as far as practicable through the application of passive building principles, viable renewable energy and other sustainability criteria
- > **Construction** – to aim for build site sustainable practices by raising environmental and health and safety standards through the Considerate Constructors Scheme
- > **Estates and Facilities** – to monitor energy, waste and water provider performance in order to identify areas for operational efficiency improvements
- > **Operations** – to keep store managers and customers informed of the ethical, safety, security, energy use and waste minimisation aspects of storage and packaging
- > **Sales, Marketing and Customer Care** – to facilitate external communication of sustainability and ethical market differentiation and improve customer satisfaction
- > **Human Resources** – to integrate the Group CSR policy within all training programmes, employee communications, and benefits initiatives, whilst continuing to promote charitable giving, employment creation and staff retention
- > **Office Management and Information Technology** – to facilitate internal communication of environmental performance and cost effectiveness of energy usage, waste paper reduction, recycled paper usage, and the recycling of waste paper

The CSR Manager will facilitate the Board and Group Operations to achieve these commitments by establishing more specific objectives within the existing management structure and implementing guidance to meet agreed continuous improvement targets. The CSR Manager is also responsible for recording key performance indicators for annual reporting and review by the Board.

A detailed review of our work in corporate social responsibility is included within the CSR Report on pages 32 to 38.