Financial Review

Financial Results

Revenue for the year was £58.5 million, up 3% from £56.9 million for 2008. Other sales (included within the above), comprising the selling of packaging materials, insurance and storage related charges represented 17% of storage income for the year (2008: 17%) and generated revenue of £8.0 million for the year, up 1% from £7.9 million in 2008.

The EBITDA margin remained consistent at 65% for the 32 same stores (see the Portfolio Summary on page 24). There was a reduction in revenue of 4% for the 32 same stores, but the effect of this on the margin was offset by a reduction in same store operating costs of 4%.

The Group made a loss before tax in the year of £71.5 million, down from a profit of £102.6 million in the prior year. The main difference is due to the revaluation of the open store portfolio being a deficit of £52.8 million against a £92.8 million surplus last year. This has principally been caused by unfavourable yield shifts.

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 £13.8 million, down 8% from £15.0 million in 2008. This was principally caused by higher interest costs in the year.

(Loss)/profit before tax analysis	2009 £m	2008 £m
(Loss)/profit before tax	**(71.5)**	102.6
Loss/(gain) on revaluation of investment properties	**52.8**	(92.8)
Movement in fair value on interest rate derivatives*	**18.0**	3.4
Net losses on non-current assets	**11.6**	0.5
Prior year non-recurring costs	**–**	1.1
Refinancing costs	**1.3**	–
Share of non-recurring costs in associate	**1.6**	0.2
Adjusted profit before tax	**13.8**	15.0

* included within the £18.0 million is £14.9 million in respect of derivative positions that were closed out in the year.

The basic loss per share for the year was 62.86p (2008 earnings per share: 89.88p) and the fully diluted loss per share was 62.34p (2008 earnings per share: 89.20p). The reversal is principally due to the revaluation deficits as described above. Adjusted earnings per share based on adjusted profit after tax was 11.89p (2008: 11.72p) (see note 12).

Administrative Expenses were lower at £5.8 million compared to £6.7 million in 2008, which after adjusting for exceptional items incurred in the year ended 31 March 2008 of £0.75 million, represents a fall of £0.15 million on the prior year, or 3%. This is as a result of tight cost control in the Group. Salaries for all staff have been frozen for the year ended 31 March 2010, no Directors' bonus has been paid for the year and we have sought to reduce cost in the Group where possible.

From 1 April 2008, in accordance with changes to International Accounting Standards, we have capitalised interest against our development pipeline. This necessitated a restatement of the prior year comparatives of the Group, please see note 2 for further details. In the year ended 31 March 2009 interest capitalised amounted to £1.9 million (2008: £1.7 million).

Interest Expense on Bank Borrowings net of capitalised interest for the year increased to £16.2 million up from £14.2 million in 2008 reflecting the increase in net borrowing over the period. The average cost of borrowing during the year was 5.9% against 6.3% in the prior year.

Interest payable has increased in the income statement from £15.7 million to £17.5 million because of the increase in interest costs as above, offset by a lower interest cost on finance leases, due to the purchase of two store freeholds in the prior year.

The costs of refinancing the core debt during the year amounted to £1.3 million. This included the break costs of the previous facility and the costs to novate the existing financial instruments to the new facility. These have been expensed in the year, and are added back in arriving at the adjusted profit before tax figure.

In March of this year the Group settled outstanding derivative positions at a cost of £14.9 million. This cost is included in the income statement, but is added back to the adjusted profit before tax calculation.

REIT Status

The Group converted to a Real Estate Investment Trust ("REIT") on 15 January 2007. Since then we have benefited from a zero tax rate on our qualifying self storage earnings. We only pay tax on the profits attributable to our residual business, comprising primarily of the sale of packing materials and insurance, and fees earned from Big Yellow Limited Partnership, from the management of the Armadillo portfolio and franchise fees earned.

REIT status gives the Group exemption from UK corporation tax on profits and gains from its qualifying portfolio of UK stores. Future revaluation gains on these 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 to the Board on compliance with these criteria is carried out. To date, the Group has complied with all REIT regulations, including forward looking tests.

Taxation

The current year tax charge for the Group of £1.2 million arises principally from the release of a deferred tax asset arising in respect of the negative fair value adjustment from our derivatives which relates to the residual business (2008: credit of £0.8 million, arising principally from the recognition of a deferred tax asset). This has been released in the year as following the close out of the Group's interest rate derivatives in March, the payment made gives us taxable losses available which can be offset over the next four years within the residual business.

The Group's actual cash tax liability for the year is £nil. We have submitted a claim for £146,000 for land remediation relief following work we carried out at our sites at Bromley, Sheen and Barking. This receivable is recorded as a debtor, with the credit applied to the taxation line of the income statement.

Dividends

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, no PID is payable due to the level of shadow capital allowances available to the Group (31 March 2008: PID of 0.15 pence per share).

The Board recommended suspension of the discretionary interim dividend in November 2008. The reason for the suspension was to allow the Group to retain operating cash surpluses to build out its existing pipeline of London stores without increasing debt levels. The Board has therefore not proposed a final discretionary dividend.

The dividend policy will be reviewed and the discretionary ordinary dividend reinstated when that objective has been met and the Board feels it is prudent to do so.

Balance Sheet

The Group's 50 wholly owned stores at 31 March 2009, which are classified as investment properties, have been revalued by Cushman & Wakefield ("C&W") and this has resulted in a property asset value of £808.7 million, comprising £679.3 million (84%) for the 43 freehold (including one long leasehold) open stores, £55.8 million (7%) for the seven short leasehold open stores and £73.6 million (9%) for development properties. The properties held for development have not been externally valued and have been included in the balance sheet at historical cost less provision for impairment. We have provided a total of £12.4 million against the development sites in the year, principally against land that we are seeking to sell, and sites where there is a concern that planning consent for self storage may not be obtained.

As in the prior year, 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 2009 of £767.2 million (£32.7 million higher (including £0.5 million for the share of the uplift in Big Yellow Limited Partnership) than the value recorded in the financial statements or 27.5 pence per share).

The revised valuation translates into an adjusted net asset value per share of 457.0 pence (2008: 522.0 pence) after the dilutive effect of outstanding share options (see table below).

Analysis of Net Asset Value	2009	2008
Basic net asset value (£m)	**502.3**	580.9
Exercise of share options (£m)	**2.6**	2.7
Diluted net asset value (£m)	**504.9**	583.6
Basic net assets per share (pence)	**437.6**	506.4
Diluted net assets per share (pence)	**424.3**	492.4
Diluted shares used for calculation (million)	**119.0**	118.5
Diluted net asset value (as above) (£m)	**504.9**	583.6
Fair value of derivatives and deferred tax (see note 12)	**6.3**	1.4
EPRA net assets (£m)	**511.2**	585.0
EPRA net asset value per share (pence)	**429.5**	493.6
Valuation methodology assumption (see note 14) (£m)	**32.7**	33.6
Adjusted net asset value (£m)	**543.8**	618.6
Adjusted net assets per share (pence)	**457.0**	522.0

Valuation

The value of the investment property portfolio at 31 March 2009 was £735.1 million, down £15.8 million from £750.9 million at 31 March 2008. The investment property valuation of the 47 stores open at 31 March 2008 fell by £58.9 million, a fall of 8%. This is offset by the increase to the portfolio of £43.1 million as a result of two new stores opening and Sheen reopening, after redevelopment. The 32 same store portfolio fell in value over the year by 8.5%.

The £52.8 million net revaluation deficit recorded in the income statement was principally caused by an increase in implied stabilised post administration yields which have moved from 7.67% to 8.64%. The stabilised yield on a pre administration basis is 9.09%.

In their report to us, our valuers, Cushman & Wakefield, have drawn attention to valuation uncertainty resulting from exceptional volatility in the financial markets and a lack of transactions in the property investment market. Please see note 14 for further details.

Financial Review
continued

Financing and Treasury

The Group is strongly cash generative operationally and draws down from its longer term committed facilities as required to meet obligations.

A summary of the cash flow for the year is set out in the table below:

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
Cash flow from operations	**33,301**	30,752
Finance costs (net)*	**(21,871)**	(16,364)
Free cash flow pre non-recurring items within finance costs	**11,430**	14,388
Non-recurring items paid within finance costs	**(16,239)**	–
Free cash flow	**(4,809)**	14,388
Capital expenditure	**(35,780)**	(110,886)
Asset sales	**26,603**	30,827
Investment in associate	**(5,429)**	(5,703)
Ordinary dividends	**(6,309)**	(10,860)
REIT conversion charge paid	**(90)**	(11,997)
Issue of share capital	**26**	876
Purchase of own shares	**–**	(1,084)
Increase in borrowings (net)	**27,339**	94,000
Net cash inflow/(outflow)	**1,551**	(439)
Opening cash and cash equivalents	**1,671**	2,110
Closing cash and cash equivalents	**3,222**	1,671

* included in finance costs paid in the current year is £2.4 million in respect of the arrangement of our new banking facilities during the year.

Borrowings

We focus on improving our cash flows and we currently have healthy interest cover of three times, based on existing interest costs, with a relatively conservative debt structure secured principally against the freehold estate.

During the year, the Group completed a refinancing of its core debt facilities, replacing the existing £325 million loan provided by a syndicate led by Royal Bank of Scotland plc, with a new £325 million facility provided by HSH Nordbank AG. The bank loan is secured on 47 of the Group's properties. The loan is due to expire on 15 September 2013.

The new facility is divided into two tranches, Tranche A, up to a maximum of £50 million is used to finance non-stabilised properties within the Group and carries a margin of 150 bps. Tranche B is used to finance stabilised Group properties, and carries a margin of between 112.5 bps and 150 bps dependent on the Tranche B income cover. The Group is currently paying a margin of 112.5 bps on this Tranche. As the properties within Tranche A stabilise, they can be transferred to Tranche B, reducing the margin payable.

The facility's principal covenant is an income cover covenant that requires Tranche B EBITDA to be greater than 1.25 times the interest cost in Tranche B. There are no loan to value covenants. The Group is also required to retain consolidated net assets of £350 million, and a ratio of net bank borrowings to consolidated net assets of not more than 100%.

The Group was in compliance with its bank covenants at 31 March 2009, and we forecast to be in compliance with our banking covenants in the foreseeable future.

At the end of the year, the Group had net debt of £308.1 million, an increase of £25.8 million over last year following £41.2 million of capital expenditure, £21.9 million of net interest paid (including finance lease costs), £16.2 million of refinancing costs, including the close out of interest rate derivatives, dividend payments of £6.3 million and a REIT conversion charge paid of £0.1 million, offset by operating cash flow of £33.3 million, and land disposal proceeds of £26.6 million.

The Group has £16.9 million of available facilities with over £125 million of unsecured assets and relatively conservative levels of gearing. The Group currently has a net debt to gross property assets ratio of 38%, and a net debt to total equity ratio of 61%.

£190 million is hedged at maturities expiring between 2013 and 2015. £120 million of this relates to a swap fixed at 2.99% (plus margin) with a maturity of September 2015. The remaining £70 million is fixed at 3.93% (excluding margin) until September 2013. We currently have floating rate debt of £121.3 million, on which we are currently paying one month LIBOR plus margin. The interest rate profile of the Group's debt is shown in the table below.

Amount of debt	2009	Weighted average interest cost at 31 March 2009	Weighted average interest cost at 31 March 2008
Fixed rate debt	**£190.0 million**	4.5%	6.1%
Variable rate debt	**£121.3 million**	2.3%	6.4%
Total debt	**£311.3 million**	3.7%	6.2%

At 31 March 2009, the fair value on the Group's interest rate derivatives was a liability of £5.6 million. 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 Group does not hedge account its interest rate derivatives. Therefore movements in the fair value are taken to the income statement, but as recommended by EPRA (European Public Real Estate Association), these are eliminated from adjusted profit before tax, adjusted earnings per share, and adjusted net assets per share.

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

Share Capital

The share capital of the Company totalled £11.6 million at 31 March 2009 (2008: £11.6 million), consisting of 115,592,541 ordinary shares of 10p each (2008: 115,514,119 shares).

Shares issued for the exercise of options during the period amounted to 78,422 at an average exercise price of 297p.

The Group holds 100,000 of its shares in treasury and a further 715,000 within an Employee Benefit Trust ("EBT"). These shares are shown as a debit in reserves and are not included in calculating earnings and net asset value per share.

	2009 No.	2008 No.
Opening shares	**115,514,119**	114,559,534
Shares issued for the exercise of options	**78,422**	954,585
Closing shares in issue	**115,592,541**	115,514,119
Shares held in EBT and Treasury	**(815,000)**	(815,000)
Closing shares for NAV purposes	**114,777,541**	114,699,119

128,892,785 shares were traded in the market during the year ended 31 March 2009 (2008: 201,144,905). The average mid market price of shares traded during the year was 285.4p with a high of 448.5p and a low of 158p.

At 31 March 2009 there were 2,072,795 shares subject to share option awards to employees of the Group at a weighted average strike price of 106p. In addition there are 1,885,914 nil paid options, granted under the Group's LTIP scheme and 303,939 share options granted under the Group's SAYE scheme at a weighted average strike price of 162p.

Big Yellow Limited Partnership

In November 2007 we established Big Yellow Limited Partnership with Pramerica Real Estate Investors Limited ("Pramerica") to develop self storage centres in the Midlands, the North and Scotland. In the consolidated accounts of Big Yellow Group PLC, the Partnership is treated as an associate. We have adopted equity accounting for the Partnership, so that our share of the Partnership's results are disclosed in operating profit and our net investment is shown in the balance sheet within "Investment in Associate". We have provided in note 13e the balance sheet and income statement of the Partnership.

For clarity we have included a table below showing the split of stores and development sites between the Group and the Partnership.

	Big Yellow (wholly owned)	Big Yellow Limited Partnership	Total
At 31 March 2009			
No of stores trading	50	4	54
No of stores under development	7	9	16
Total number of stores and sites	57	13	70
Development sites with planning consent	6	7	13
Open store capacity (sq ft)	3.15m	0.25m	3.40m
Development site capacity (sq ft)	0.50m	0.55m	1.05m
Total planned capacity (sq ft)	3.65m	0.80m	4.45m

Structure

The Group has committed £25 million to the venture, and Pramerica £50 million, resulting in a one third, two thirds equity split respectively. The Board of the Partnership comprises two representatives of both Pramerica and Big Yellow. Pramerica have the casting vote over the approval of the Partnership's annual business plan.

During the year, the Group sold four development sites to the Partnership for £14.9 million. These development sites are in Camberley, High Wycombe, Poole and Reading and will provide additional self storage space for the Partnership of 235,000 sq ft. In January 2009, prior to signing an agreement with HSBC Bank plc to manage the Armadillo stores, it was mutually agreed between the Group and Pramerica that there would be no further restriction on the Group's ability to open and manage sites outside the M25.

In January, the Group also completed the transfer of the Birmingham store to the Partnership, resulting in a net receipt of £7.9 million to the Group.

We had previously reported that the Group had a conditional agreement with Crosby Homes (North West) Limited ("Crosby"), for the development of a significant sized mixed use scheme, at our site in Manchester, to include the shell of an 80,000 sq ft self storage centre to be developed at the expense of Crosby, with the store to be transferred to the Partnership at the then open market value. The Group's agreement with Crosby has lapsed, and we are therefore reconsidering the scheme to be developed on this site. The Partnership has a conditional agreement in place to acquire the completed store. This agreement has a long stop date of 31 December 2010.

To date the Group has reinvested £11.1 million into the Partnership. The balance required of the £25 million commitment equity will be contributed over the development life of the Partnership, although if only the sites currently owned by the Partnership are developed, it is unlikely the Group would have to contribute the full £25 million.

The Group earns certain property acquisition, planning, construction and operational fees from the Partnership. For the year to 31 March 2009, these fees amounted to £1.4 million (2008: £0.1 million).

Funding

A five year term development loan of £75 million has been secured from the Royal Bank of Scotland plc to further fund the Partnership. £30 million of this loan has been syndicated to HSBC Bank plc and HSH Nordbank AG. £36.6 million of this loan had been drawn at 31 March 2009.

The Partnership has decided to fix 50% of drawn amounts to 30 June 2013 (as required in its facility agreement), and to leave the balance benefiting from the currently low levels of short term interest rates. The weighted average interest cost of the facility at 31 March 2009 was 4.5% including margin.

Results

For the year ended 31 March 2009, the Partnership made a loss of £4.8 million (2008: loss of £0.7 million), of which Big Yellow's share was £1.6 million (2008: £0.2 million). After adjusting for non-recurring items (revaluation deficit of £2.7 million, and fair value movement on interest rate derivatives of £1.9 million), the Partnership made an adjusted loss of £0.2 million, of which the Group's share is £0.1 million.

The Partnership is tax transparent, so the limited partners are taxed on any profits.

Big Yellow has an option to purchase the assets contained within the Partnership or the interest in the Partnership which it does not own exercisable from 31 March 2013. On exit whether by way of exercise of the option or a sale to a third party, Big Yellow is entitled to certain promotes, which would result in Big Yellow sharing in the surplus created in the Partnership.