

# Notes to the Financial Statements (continued)

Year ended 31 March 2014

## 18. FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The Group's debt facilities require 60% of total drawn debt to be fixed. The Group has complied with this during the year.

With the exception of derivative instruments which are classified as a financial liability at fair value through the profit and loss ("FVTPL"), financial liabilities are categorised under amortised cost. All financial assets are categorised as loans and receivables.

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to manage exposure to fluctuations in interest rates, but are not employed for speculative purposes.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

### A. Balance sheet management

The Group's Board reviews the capital structure on an ongoing basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group seeks to have a conservative gearing ratio (the proportion of net debt to equity). The Board considers at each review the appropriateness of the current ratio in light of the above. The Board is currently satisfied with the Group's gearing ratio.

The gearing ratio at the year end is as follows:

	2014 £000	2013 £000
Debt	(229,368)	(238,306)
Cash and cash equivalents	3,301	7,850
Net debt	(226,067)	(230,456)
Balance sheet equity	594,064	552,628
Net debt to equity ratio	38.1%	41.7%

Debt is defined as long term and short term borrowings, as detailed in note 19, excluding finance leases and debt issue costs. Equity includes all capital and reserves of the Group attributable to equity holders of the Company. Net debt is defined as gross bank borrowings less cash and cash equivalents.

### B. Debt management

The Group borrows through a senior term loan, secured on 40 self storage assets and sites, and through a 15 year loan with Aviva Commercial Finance Limited secured on a portfolio of 15 self storage assets. Borrowings are arranged to ensure an appropriate maturity profile and to maintain short term liquidity. Funding is arranged in the Group and in Big Yellow Limited Partnership through banks and financial institutions with whom the Group has a strong working relationship.

### C. Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

At 31 March 2014 the Group had one interest rate derivative in place; £70 million fixed at 2.80% (excluding the margin on the underlying debt instrument) until September 2016.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The interest rate swaps settle on a monthly basis. The floating rate on the interest rate swaps is one month LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

The Group does not hedge account for its interest rate swaps and states them at fair value, with changes in fair value included in the statement of comprehensive income. The gain in the statement of comprehensive income for the year on the fair value of interest rate derivatives was £2,681,000 (2013: loss of £223,000).

The fair value of the above derivatives at 31 March 2014 was a liability of £2,813,000 (2013: liability of £5,494,000).

## 18. FINANCIAL INSTRUMENTS (continued)

### D. Interest rate sensitivity analysis

In managing interest rate risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings, without jeopardising its flexibility. Over the longer term, permanent changes in interest rates may have an impact on consolidated earnings.

At 31 March 2014, it is estimated that an increase of 0.5 percentage points in interest rates would have reduced the Group's adjusted profit before tax by £315,000 (2013: reduced adjusted profit before tax by £350,000) and a decrease of 0.5 percentage points in interest rates would have increased the Group's adjusted profit before tax by £315,000 (2013: increased adjusted profit before tax by £350,000). There would have been no effect on amounts recognised directly in equity. The sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swaps, at the year end.

The Group's sensitivity to interest rates has decreased during the year, following the repayment of floating rate debt from cash resources. The Board monitors closely the exposure to the floating rate element of our debt.

### E. Cash management and liquidity

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 19 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Short term money market deposits are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk.

### F. Foreign currency management

The Group does not have any foreign currency exposure.

### G. Credit risk

The credit risk management policies of the Group with respect to trade receivables are discussed in note 16. The Group has no significant concentration of credit risk, with exposure spread over 42,000 customers in our stores.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### H. Financial maturity analysis

In respect of interest-bearing financial liabilities, the following table provides a maturity analysis for individual elements.

2014 Maturity	Total £000	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000
<i>Debt</i>					
Aviva mortgage	96,368	2,034	2,136	7,073	85,125
Bank loan payable at variable rate	63,000	–	–	63,000	–
Debt fixed by interest rate derivatives	70,000	–	–	70,000	–
<b>Total</b>	<b>229,368</b>	<b>2,034</b>	<b>2,136</b>	<b>140,073</b>	<b>85,125</b>
<i>2013 Maturity</i>					
	Total £000	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000
<i>Debt</i>					
Aviva mortgage	98,306	1,937	2,034	6,735	87,600
Bank loan payable at variable rate	70,000	–	–	70,000	–
Debt fixed by interest rate derivatives	70,000	–	–	70,000	–
<b>Total</b>	<b>238,306</b>	<b>1,937</b>	<b>2,034</b>	<b>146,735</b>	<b>87,600</b>

## Notes to the Financial Statements (continued)

Year ended 31 March 2014

### 18. FINANCIAL INSTRUMENTS (continued)

#### I. Fair values of financial instruments

The fair values of the Group's cash and short term deposits and those of other financial assets equate to their book values. Details of the Group's receivables at amortised cost are set out in note 16. The amounts are presented net of provisions for doubtful receivables, and allowances for impairment are made where appropriate. Trade and other payables, including bank borrowings, are carried at amortised cost. Finance lease liabilities are included at the fair value of their minimum lease payments. Derivatives are carried at fair value.

For those financial instruments held at valuation, the Group has categorised them into a three level fair value hierarchy based on the priority of the inputs to the valuation technique in accordance with IFRS 7. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. The fair value of the Group's outstanding interest rate derivative, as detailed in note 18C, has been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 7. There are no financial instruments which have been categorised as Level 1 or Level 3.

#### J. Maturity analysis of financial liabilities

The contractual maturities based on market conditions and expected yield curves prevailing at the year end date are as follows:

2014	Trade and other payables £000	Interest rate swaps £000	Borrowings and interest £000	Finance leases £000	Total £000
From five to twenty years	–	–	115,534	28,355	143,889
From two to five years	–	306	155,696	6,308	162,310
From one to two years	–	1,062	12,279	1,646	14,987
Due after more than one year	–	1,368	283,509	36,309	321,186
Due within one year	26,818	1,558	12,279	1,646	42,301
<b>Total</b>	<b>26,818</b>	<b>2,926</b>	<b>295,788</b>	<b>37,955</b>	<b>363,487</b>

2013	Trade and other payables £000	Interest rate swaps £000	Borrowings and interest £000	Finance leases £000	Total £000
From five to twenty years	–	–	122,377	23,489	145,866
From two to five years	–	2,216	168,561	5,965	176,742
From one to two years	12	1,649	12,472	1,989	16,122
Due after more than one year	12	3,865	303,410	31,443	338,730
Due within one year	24,421	1,641	12,472	1,989	40,523
<b>Total</b>	<b>24,433</b>	<b>5,506</b>	<b>315,882</b>	<b>33,432</b>	<b>379,253</b>

#### K. Reconciliation of maturity analyses

The maturity analysis in note 18J shows non-discounted cash flows for all financial liabilities including interest payments. The table below reconciles the borrowings column in note 19 with the borrowings and interest column in the maturity analysis presented in note 18J.

2014	Borrowings £000	Interest £000	Unamortised borrowing costs £000	Borrowings and interest £000
From five to twenty years	85,125	29,119	1,290	115,534
From two to five years	140,073	15,623	–	155,696
From one to two years	2,136	10,143	–	12,279
Due after more than one year	227,334	54,885	1,290	283,509
Due within one year	2,034	10,245	–	12,279
<b>Total</b>	<b>229,368</b>	<b>65,130</b>	<b>1,290</b>	<b>295,788</b>

## 18. FINANCIAL INSTRUMENTS (continued)

2013	Borrowings £000	Interest £000	Unamortised borrowing costs £000	Borrowings and interest £000
From five to twenty years	87,600	33,356	1,421	122,377
From two to five years	146,735	21,826	–	168,561
From one to two years	2,034	10,438	–	12,472
Due after more than one year	236,369	65,620	1,421	303,410
Due within one year	1,937	10,535	–	12,472
<b>Total</b>	<b>238,306</b>	<b>76,155</b>	<b>1,421</b>	<b>315,882</b>

## 19. BORROWINGS

	31 March 2014 £000	31 March 2013 £000
<b>Secured borrowings at amortised cost</b>		
<b>Current liabilities</b>		
Aviva mortgage	2,034	1,937
<b>Non-current liabilities</b>		
Bank borrowings	133,000	140,000
Aviva mortgage	94,334	96,369
Unamortised loan arrangement costs	(1,290)	(1,421)
<b>Total non-current borrowings</b>	<b>226,044</b>	<b>234,948</b>
<b>Total borrowings</b>	<b>228,078</b>	<b>236,885</b>

The weighted average interest rate paid on the borrowings during the year was 4.5% (2013: 4.2%).

The Group has £22,000,000 in undrawn committed borrowing facilities at 31 March 2014, which expire between two and three years (2013: £15,000,000 expiring between three and four years).

In April 2012, the Group completed a £100 million 15 year fixed rate loan with Aviva Commercial Finance Limited. The loan is secured over a portfolio of 15 freehold self storage centres which were valued at £242.1 million at 29 February 2012 for the purposes of the drawdown. The annual fixed interest rate on the loan is 4.90%.

The loan amortises to £60 million over the course of the 15 years, consistent with the Group's medium term debt reduction strategy. The debt service is payable monthly based on fixed annual amounts. The loan outstanding on the fifth anniversary will be £89.8 million; £76.7 million outstanding on the tenth anniversary, with £60 million remaining at expiry in April 2027.

The Group has a £155 million 4 year bank facility with Lloyds, HSBC and Santander, expiring in September 2016. £120 million of the facility is term loan with the balance of £35 million revolving. The facilities attract a ratcheted margin over LIBOR based on interest cover. The Group is currently paying a blended 2.4% margin, the lowest margin on the ratchet, which is effective for asset income cover of greater than 3 times.

The Group was comfortably in compliance with its banking covenants at 31 March 2014, as illustrated in the table below.

Covenant	Covenant level	At 31 March 2014
Consolidated EBITDA	Minimum 1.5x	<b>3.96x</b>
Consolidated net tangible assets (less goodwill)	Minimum £250m	<b>£592.6 m</b>
Bank loan income cover	Minimum 1.75x	<b>5.29x</b>
Aviva loan interest service cover ratio	Minimum 1.5x	<b>2.64x</b>
Aviva loan debt service cover ratio	Minimum 1.2x	<b>1.88x</b>

The bank and Aviva loan income cover ratios are calculated by dividing the net operating income earned from the respective charged asset pools by the interest charged on each loan over a rolling 12 month period. The Aviva debt service covenant additionally includes the capital repayment with the interest.