Independent auditor's report to the members of Big Yellow Group PLC

Opinion on financial statements of Big Yellow Group PLC

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

The financial statements that we have audited comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Cash Flow Statements;
- the Consolidated and Parent Company Statements of Changes in Equity; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks
The key risk identified in the current year relates to the key assumptions implicit in the valuations of the investment property portfolio.

Materiality
The materiality that we used in the current year was £8.9m (2016: £7.9m) which was determined on the basis of 1% of net assets.

Scoping
We performed full scope audits on all components of the Group which account for 100% of the Group's revenue and net assets. We also performed specified procedures on the Group's associates.

Significant changes in our approach
There have been no material changes to the scope of our audit in the current year.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting and the Directors' statement on the longer-term viability of the Group on page 39.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 37 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 37 to 39 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence	We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.	**We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.**
Our assessment of risks of material misstatement	The assessed risk of material misstatement described below is the risk that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	

Investment property valuation

Risk description	As at 31 March 2017, the Group held wholly-owned investment properties and investment properties under construction valued at £1,190.5 million (2015: £1,126.2 million) all located within the United Kingdom. The Group also has minority investments in two associate entities (Armadillo Storage Holding Company Limited and Armadillo Storage Company 2 Limited"), together 'the Associates' for which equity accounting is applied. The Associates control a combined gross value of £69.3 million (2016: £57.7 million) in self storage assets, of which 20% is recognised by the Group. Investment properties are held at fair value on the Consolidated Balance Sheet. The net valuation gain in the year relating to Group held wholly-owned investment properties was £43.7 million (2016: £58.0 million), which was recognised through the Consolidated Income Statement. The net valuation gain, included within the share of profit of associates, relating to the properties held by the Associates was £4.0 million (2016: £3.5 million) on a gross basis and therefore £0.8 million (2016: £0.7 million) on a Group share basis. Fair values are calculated using actual and forecast inputs such as: occupancy, capitalisation rates, maximum lettable area, operating expenses and net rent per square foot by property as at 31 March 2017. In addition, external valuers apply professional judgement concerning market conditions and factors impacting individual properties. We consider investment property valuation to be a significant and key risk of material misstatement as the valuation process is subjective and inherently judgemental in nature. The investment market for prime self storage, in particular, is subject to market uncertainty due to the low volume of transactions. Refer to the accounting policies of the Group set out on page 101 and 103 for the Group's investment property valuation policy and the associated critical accounting judgement for determining fair value. See also note 14 to the financial statements, and the Audit Committee's Report on pages 85 to 87.
How the scope of our audit responded to the risk	> We assessed the design and implementation of the key internal controls around the property valuation process; > We tested the integrity of the information provided to the external valuers by management by agreeing key inputs such as actual occupancy and net rent per square foot to underlying records and source evidence; > We modelled ten years of valuations and key valuation inputs of the investment properties subject to audit, to understand the historical trends of key inputs and compared these against the key forecast assumptions included in the property valuation; > We met with the external valuers covering both the Group and Associate portfolios and assessed their independence, the scope of the work they were requested to perform by management, quality control procedures in place internally and the valuation methodology applied; > We challenged the external valuers on the key assumptions applied and focussed on properties we identified as having significant or unusual valuation movements (compared to market data or previous periods). Our challenge was informed by input from our internal valuation specialists, utilising their knowledge and expertise in the market at a macro level and the relevant geographies to challenge the key judgmental inputs. We also researched comparable transactions and understood trends in analogous industries and utilised this information in our audit challenge. We understood the rationale for outlying valuations or movements and obtained corroborative evidence. We also assessed the valuations for a sample of other properties; and > We visited a sample of properties to assess the condition of the buildings and validate a sample of occupancy data inputs.

Investment property valuation

Key observations	> We concluded that the underlying assumptions included in the valuation are reasonable; > At a property level, no exceptions were identified that required reporting to the Audit Committee; and > The valuation, as a whole, is a reasonable reflection of the fair value of the portfolio

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality

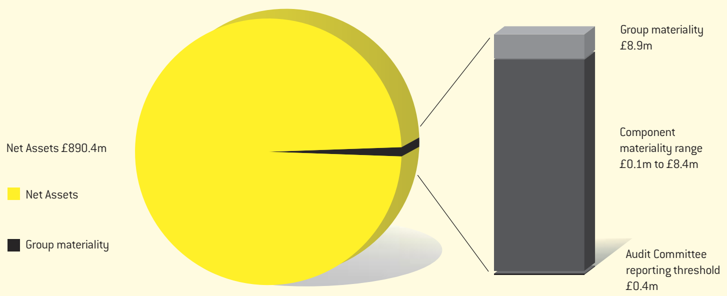
£8.9 million (2016: £7.9 million)

Basis for determining materiality

1% of Net Assets

Rationale for the benchmark applied

Net assets is the measure of principal interest of investors when measuring return on investment. Furthermore, the property valuation is the source of most subjectivity and judgment in the financial statements.



We applied a lower threshold of £2.7 million (2016: £2.3 million) for scoping the testing of all balances and classes of transactions impacting adjusted profit before tax. We consider adjusted profit before tax to be a critical financial performance measure for the Group on the basis that it is a key metric to analysts and investors and has substantial prominence in the Annual Report. Adjusted profit before tax is £54.6 million (2016: £49.0 million), which is reconciled to profit before tax of £99.8 million (2016: £112.3 million) in accordance with IFRS in note 10 of the financial statements. This lower threshold was based on 5% (2016: 5%) of adjusted profit before tax.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.4 million (2016: £0.4 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit	The Group is entirely UK based and wholly owned by Big Yellow Group PLC, with the exception of the 20% interests in the Associates. Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and assessing the risks of material misstatement. As in previous years, the audit team performed full scope audits at a materiality lower than Group materiality for all entities within the Group. The scope of our audit covered 100% of both consolidated profit before tax and consolidated net assets. Component materiality adopted for subsidiaries companies ranged from between £0.1 million and £8.4 million. The Group continues to hold 20% of the equity of the Associates and continues to manage these portfolios. The Group applies equity accounting for these interests and the equity interest in Armadillo Holdings 1 Limited and Armadillo Holdings 2 Limited amounts to £5.0 million and £2.4 million respectively. We have performed specified audit procedures on all balances and transactions material to these entities for the purposes of supporting the Group audit opinion. The Group audit team continued to follow a programme of planned site visits during March 2017. At each site visited we undertook an inventory count, performed design and implementation testing of key controls, verified a sample of fixed assets and occupancy data, agreed cash balances to bank reconciliations and held discussions with key store staff.	
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: > the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; > the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and > the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.	
Matters on which we are required to report by exception		
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: > we have not received all the information and explanations we require for our audit; or > adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or > the parent Company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report arising from these matters.**
Corporate Governance Statement	Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.	**We have nothing to report arising from our review.**
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: > materially inconsistent with the information in the audited financial statements; or > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or > otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.	**We confirm that we have not identified any such inconsistencies or misleading statements.**

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Darren Longley FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
22 May 2017