Notes to the Half Year Report

1. ACCOUNTING POLICIES

Basis of preparation

The results for the period ended 30 September 2014 are unaudited and were approved by the Board on 18 November 2014. The financial information contained in this report in respect of the year ended 31 March 2014 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The annual financial statements of Big Yellow Group PLC are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting", as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

Valuation of assets and liabilities held 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 13. 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 derivatives 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 13. Investment Property and Investment Property and Investment Property under Construction have been classified as Level 3. This is discussed further in note 15.

Going concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Chairman's Statement and the Business and Financial Review. 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 to the interim statement. 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 the Business and Financial Review of the Group's Annual Report for the year ended 31 March 2014.

The Directors have considered carefully the Group's trading performance and cash flows in the context of the uncertain global economic environment and the other principal risks to the Group's performance. After reviewing Group and Company cash balances, projected cash flows, and the borrowing facilities available to the Group, 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 and projections contained in the detailed longer term business plan. For this reason, they continue to adopt the going concern basis in preparing the half year report.

2. SEGMENTAL INFORMATION

Revenue represents amounts derived from the provision of self storage accommodation and related services which fall within the Group's ordinary activities after deduction of trade discounts and value added tax. The Group's net assets, revenue and profit before tax are attributable to one activity, the provision of self storage accommodation and related services. These all arise in the United Kingdom.

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000
Open stores			
Self storage income	**33,236**	29,590	59,994
Other storage related income	**5,747**	5,357	10,475
Ancillary store rental income	**140**	133	237
	39,123	35,080	70,706
Other revenue			
Non-storage income	**49**	272	420
Fees earned from Big Yellow Limited Partnership	**343**	309	640
Other management fees earned	**403**	205	430
Revenue per income statement	**39,918**	35,866	72,196
Investment income (see note 3)	**6**	13	20
Total revenue per IAS 18	**39,924**	35,879	72,216

Non-storage income derives principally from rental income earned from tenants of properties awaiting development.

Further analysis of the Group's operating revenue and costs can be found in the Portfolio Summary.

The seasonality of the business is discussed in note 18.

3. INVESTMENT INCOME

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000
Bank interest receivable	**6**	13	20
Unwinding of discount on Capital Goods Scheme receivable	**201**	203	395
Total interest receivable	**207**	216	415
Fair value movement on derivatives	**–**	1,800	2,681
Total investment income	**207**	2,016	3,096

4. FINANCE COSTS

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000
Interest on bank borrowings	**5,184**	5,410	10,768
Capitalised interest	**(190)**	(163)	(484)
Interest on finance lease obligations	**533**	513	1,031
Total interest payable	**5,527**	5,760	11,315
Change in fair value of interest rate derivatives	**205**	–	–
Total finance costs	**5,732**	5,760	11,315

5. TAX

There is no tax charge in the residual business in the period due to the utilisation of brought forward tax losses and group relief.

6. ADJUSTED PROFIT BEFORE TAX

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000
Profit before tax	**35,269**	34,521	59,848
Gain on revaluation of investment properties – Group	**(15,274)**	(17,841)	(28,350)
Share of gain on revaluation of investment properties – associates	**(541)**	(413)	662
Change in fair value of interest rate swaps – Group	**205**	(1,800)	(2,681)
Share of change in fair value of interest rate swaps – associates	**18**	(224)	(258)
Gains on surplus land	**(1,318)**	(8)	–
Adjusted profit before tax	**18,359**	14,235	29,221
Net bank and other interest	**4,988**	5,031	10,264
Depreciation	**266**	262	526
Adjusted EBITDA	**23,613**	19,528	40,011

Adjusted profit before tax which excludes the revaluation of investment properties, changes in fair value of interest rate derivatives, net gains and losses on surplus land, and any non-recurring items of income and expenditure, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

7. DIVIDENDS

	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2014 of 8.4p (2013: 6p) per share.	**11,774**	8,384
Proposed interim dividend for the year ending 31 March 2015 of 10.4p (2014: 8p) per share.	**14,623**	11,207

The proposed interim dividend of 10.4 pence per ordinary share will be paid on 8 January 2015 to shareholders on the Register on 12 December 2014. The interim dividend is all Property Income Dividend.

8. EARNINGS PER ORDINARY SHARE

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain per share information and these are included in the following table.

	Six months ended 30 September 2014 (unaudited)			Six months ended 30 September 2013 (unaudited)			Year ended 31 March 2014 (audited)		
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic	**35.3**	**140.3**	**25.2**	34.5	139.8	24.7	59.5	139.9	42.5
Adjustments:									
Dilutive share options	**–**	**1.3**	**(0.3)**	–	1.0	(0.2)	–	1.2	(0.3)
Diluted	**35.3**	**141.6**	**24.9**	34.5	140.8	24.5	59.5	141.1	42.2
Adjustments:									
Gain on revaluation of investment properties	**(15.3)**	**–**	**(10.8)**	(17.8)	–	(12.6)	(28.3)	–	(20.1)
Change in fair value of interest rate derivatives	**0.2**	**–**	**0.1**	(1.8)	–	(1.3)	(2.7)	–	(1.9)
Gains on surplus land	**(1.3)**	**–**	**(0.9)**	–	–	–	–	–	–
Share of associates' non-recurring gains	**(0.5)**	**–**	**(0.3)**	(0.7)	–	(0.5)	0.4	–	0.3
EPRA – diluted	**18.4**	**141.6**	**13.0**	14.2	140.8	10.1	28.9	141.1	20.5
EPRA – basic	**18.4**	**140.3**	**13.1**	14.2	139.8	10.2	28.9	139.9	20.7

The calculation of basic earnings is based on profit after tax for the period. The weighted average number of shares used to calculate diluted earnings per share has been adjusted for the conversion of potentially dilutive share options.

EPRA earnings per ordinary share before the revaluation of investment properties, gains and losses on surplus land, the change in fair value of interest rate derivatives, one-off items of expenditure, and the Group's share of its associates' derivative and revaluation movements has been disclosed to give a clearer understanding of the Group's underlying trading performance.

9. NON-CURRENT ASSETS

a) Investment property

	Investment property £000	Investment property under construction £000	Interests in leasehold properties £000	Total £000
At 1 April 2014	776,390	22,303	23,814	822,507
Additions	5,075	1,522	–	6,597
Adjustment to present value	–	–	129	129
Reclassification	12,650	(12,650)	–	–
Revaluation	15,010	264	–	15,274
Depreciation	–	–	(473)	(473)
At 30 September 2014	**809,125**	**11,439**	**23,470**	**844,034**

Capital commitments at 30 September 2014 were £1.1 million (31 March 2014: £nil).

b) Plant, equipment and owner-occupied property

	Freehold property £000	Plant and machinery £000	Motor vehicles £000	Fixtures, fittings and office equipment £000	Total £000
Cost					
At 1 April 2014	1,843	425	25	1,942	4,235
Additions	–	7	–	213	220
At 30 September 2014	**1,843**	**432**	**25**	**2,155**	**4,455**
At 1 April 2014	(293)	(218)	(22)	(717)	(1,250)
Charge for the period	(17)	(21)	(3)	(225)	(266)
At 30 September 2014	**(310)**	**(239)**	**(25)**	**(942)**	**(1,516)**
Net book value					
At 30 September 2014	**1,533**	**193**	**–**	**1,213**	**2,939**
At 1 April 2014	1,550	207	3	1,225	2,985

c) Goodwill

Goodwill relates to the purchase of Big Yellow Self Storage Company Limited in 1999. The asset is tested bi-annually for impairment or more frequently if there are indicators of impairment. The carrying value of £1.4 million remains unchanged from the prior year as there is considered to be no indication of impairment in the value of the asset.

d) Investment in associates

The Group has a 33.3% interest in Big Yellow Limited Partnership and a 20% interest in Armadillo Storage Holding Company Limited ("Armadillo Storage"). Both interests are accounted for as associates, using the equity method of accounting.

	Big Yellow Limited Partnership			Armadillo Storage		
	30 September 2014 (unaudited) £000	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000	**30 September 2014 (unaudited) £000**	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000
At the beginning of the year	**17,861**	17,681	17,681	**–**	–	–
Subscription for partnership capital and advances	**–**	–	–	**3,648**	–	–
Part disposal of partnership interest	**–**	–	–	**(1,728)**	–	–
Share of results (see below)	**836**	850	180	**478**	–	–
	18,697	18,531	17,861	**2,398**	–	–

The Group's total subscription for partnership capital and advances in Big Yellow Limited Partnership to date is £16,366,000. The Group's total subscription for partnership capital and advances in Armadillo Storage Holding Company Limited is £1,920,000.

9. NON-CURRENT ASSETS (CONTINUED)

d) Investment in associates (continued)

The figures below show the trading results of Big Yellow Limited Partnership, and the Group's share of the results and the net assets.

	Big Yellow Limited Partnership			Armadillo Storage
	Six months ended 30 September 2014 (unaudited) £000	Six months ended 30 September 2013 (unaudited) £000	Year ended 31 March 2014 (audited) £000	Period from 16 April to 30 September 2014 (unaudited) £000
Income statement (100%)				
Revenue	**5,566**	4,746	9,529	2,076
Cost of sales	**(2,534)**	(2,427)	(4,846)	(1,087)
Administrative expenses	**(74)**	(59)	(112)	(49)
Operating profit	**2,958**	2,260	4,571	940
Gain/(loss) on the revaluation of investment properties	**743**	1,239	(1,985)	1,762
Net interest payable	**(1,171)**	(1,620)	(2,820)	(245)
Fair value movement of interest rate derivatives	**(21)**	672	774	(55)
Profit before and after tax	**2,509**	2,551	540	2,402
Balance sheet (100%)				
Investment property	**109,300**	110,910	108,110	21,521
Other non-current assets	**3,609**	3,501	3,588	902
Current assets	**2,948**	2,593	3,009	652
Current liabilities	**(2,822)**	(2,386)	(3,201)	(1,239)
Derivative financial instruments	**56**	(25)	77	(55)
Non-current liabilities	**(57,000)**	(59,000)	(58,000)	(9,791)
Net assets (100%)	**56,091**	55,593	53,583	11,990
Group share				
Operating profit	**986**	753	1,524	266
Gain/(loss) on the revaluation of investment properties	**247**	413	(662)	294
Net interest payable	**(390)**	(540)	(940)	(71)
Fair value movement of interest rate derivatives	**(7)**	224	258	(11)
Profit before and after tax	**836**	850	180	478
Associates' net assets	**18,697**	18,531	17,861	2,398

The investment property in Armadillo is carried at Directors' valuation.

10. SURPLUS LAND

	£000
At 1 April 2014	6,059
Additions	200
Disposal	(1,497)
At 30 September 2014	**4,762**

11. TRADE AND OTHER RECEIVABLES

	30 September 2014 (unaudited) £000	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000
Current			
Trade receivables	**2,817**	2,695	2,594
Capital Goods Scheme receivable	**1,373**	2,287	1,344
Other receivables	**980**	310	384
Prepayments and accrued income	**6,787**	5,445	9,209
	11,957	10,737	13,531
Non-current			
Capital Goods Scheme receivable	**7,792**	7,600	7,620

12. TRADE AND OTHER PAYABLES

	30 September 2014 (unaudited) £000	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000
Current			
Trade payables	**5,879**	4,254	10,758
Other payables	**5,869**	4,115	5,647
Accruals and deferred income	**11,541**	11,163	10,332
VAT repayable under Capital Goods Scheme	**81**	193	81
	23,370	19,725	26,818

13. BORROWINGS

	30 September 2014 (unaudited) £000	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000
Aviva mortgage	**2,085**	1,985	2,034
Bank borrowings	**70,000**	–	–
Current borrowings	**72,085**	1,985	2,034
Bank borrowings	**72,000**	133,000	133,000
Aviva mortgage	**93,279**	95,364	94,334
Unamortised debt arrangement costs	**(2,489)**	(1,349)	(1,290)
Non-current borrowings	**162,790**	227,015	226,044
Total borrowings	**234,875**	229,000	228,078

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 income statement. The loss in the income statement for the period of these interest rate swaps was £205,000 (2013: gain of £1,800,000).

At 30 September 2014 the Group and the Partnerships were in compliance with all loan covenants.

14. ADJUSTED NET ASSETS PER SHARE

Analysis of net asset value	30 September 2014 (unaudited) £000	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000
Basic net asset value	**619,119**	579,505	594,064
Exercise of share options	**452**	497	483
EPRA NNNAV	**619,571**	580,002	594,547
Adjustments:			
Fair value of derivatives	**1,610**	3,694	2,813
Fair value of derivatives – share of associates	**(8)**	8	(26)
EPRA NAV	**621,173**	583,704	597,334
Basic net assets per share (pence)	**440.3**	414.1	423.9
EPRA NNNAV per share (pence)	**434.2**	407.9	418.5
EPRA NAV per share (pence)	**435.3**	410.5	420.5
EPRA NAV (£000)	**621,173**	583,704	597,334
Valuation methodology assumption (£000) (see note 15)	**37,934**	36,687	37,057
Adjusted net asset value (£000)	**659,107**	620,391	634,391
Adjusted net assets per share (pence)	**461.9**	436.3	446.5
Shares in issue	**143,527,126**	142,848,202	143,061,147
Own shares held in treasury	**(1,418,750)**	(1,418,750)	(1,418,750)
Own shares held in EBT	**(1,500,000)**	(1,500,000)	(1,500,000)
Basic shares in issue used for calculation	**140,608,376**	139,929,452	140,142,397
Exercise of share options	**2,092,269**	2,253,301	1,926,527
Diluted shares used for calculation	**142,700,645**	142,182,753	142,068,924

Basic net assets per share are shareholders' funds divided by the number of shares at the period end. The shares currently held in treasury and in the Group's Employee Benefit Trust are excluded from both net assets and the number of shares.

Adjusted net assets per share include:

- the effect of those shares issuable under employee share option schemes; and
- the effect of alternative valuation methodology assumptions (see note 15).

15. VALUATIONS OF INVESTMENT PROPERTY

	Cost £000	Revaluation on cost £000	Valuation £000
Freehold stores*			
At 1 April 2014	373,503	352,857	726,360
Transfer from investment property under construction	12,990	(340)	12,650
Movement in period	4,967	14,878	19,845
At 30 September 2014	**391,460**	**367,395**	**758,855**
Leasehold stores			
At 1 April 2014	16,199	33,831	50,030
Movement in period	108	132	240
At 30 September 2014	**16,307**	**33,963**	**50,270**
Total of open stores			
At 1 April 2014	389,702	386,688	776,390
Transfer from investment property under construction	12,990	(340)	12,650
Movement in period	5,075	15,010	20,085
At 30 September 2014	**407,767**	**401,358**	**809,125**
Investment property under construction			
At 1 April 2014	29,642	(7,339)	22,303
Transfer to investment property	(12,990)	340	(12,650)
Movement in period	1,522	264	1,786
At 30 September 2014	**18,174**	**(6,735)**	**11,439**
Total			
At 1 April 2014	419,344	379,349	798,693
Movement in period	6,597	15,274	21,871
At 30 September 2014	**425,941**	**394,623**	**820,564**

* Includes one long leasehold store

The Group has classified the fair value investment property and the investment property under construction within Level 3 of the fair value hierarchy. There has been no transfer to or from Level 3 in the period.

The freehold and leasehold investment properties have been valued at 30 September 2014 by external valuers, Cushman & Wakefield LLP ("C&W"). The valuation has been carried out in accordance with the RICS Valuation – Professional Standards, published by The Royal Institution of Chartered Surveyors ("the Red Book"). The valuation of each of the investment properties and the investment properties under construction has been prepared on the basis of either Fair Value or Fair Value as a fully equipped operational entity, having regard to trading potential, as appropriate.

The valuation has been provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the Red Book, C&W have confirmed that:

- The members of the RICS who have been the signatories to the valuations provided to the Group for the same purposes as this valuation have done so since September 2004;
- C&W have been carrying out this bi-annual valuation for the same purposes as this valuation on behalf of the Group since September 2004;
- C&W do not provide other significant professional or agency services to the Group;
- In relation to the preceding financial year of C&W, the proportion of the total fees payable by the Group to the total fee income of the firm is less than 5%; and
- The fee payable to C&W is a fixed amount per store, and is not contingent on the appraised value.

15. VALUATIONS OF INVESTMENT PROPERTY (CONTINUED)

Market uncertainty

C&W's valuation report comments on valuation uncertainty resulting from low liquidity in the market for self storage property. C&W note that, although there were a number of self storage transactions in 2007, the only significant transactions since 2007 are:

1. The sale of a 51% share in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008;
2. The sale of the former Keepsafe portfolio by Macquarie to Alligator Self Storage which was completed in January 2010;
3. The purchase by Shurgard Europe of the 80% interests held by its joint venture partner (Arcapita) in its two European joint venture vehicles, First Shurgard and Second Shurgard. The price paid was 172 million Euros and the transaction was announced in March 2011. The two joint ventures owned 72 self storage properties;
4. The purchase of Selstor, Sweden, by Pelican Self Storage/M3 Capital in Q4 2012; and
5. The Purchase of Armadillo Self Storage by a JV between Big Yellow and an Australian consortium in April 2014.

There have been 12 single store market transactions in the UK since 2010. C&W state that due to the lack of comparable market information in the self storage sector, there is greater uncertainty attached to their opinion of value than would be anticipated during more active market conditions.

Valuation methodology

C&W have adopted different approaches for the valuation of the leasehold and freehold assets as follows:

Freehold and long leasehold

The valuation is based on a discounted cash flow of the net operating income over a ten year period and notional sale of the asset at the end of the tenth year.

A. Net operating income is based on projected revenue received less projected operating costs together with a central administration charge of 6% of the estimated annual revenue subject to a cap and a collar. The initial net operating income is calculated by estimating the net operating income in the first 12 months following the valuation date.

B. The net operating income in future years is calculated assuming either straight-line absorption from day one actual occupancy or variable absorption over years one to four of the cash flow period, to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 56 trading stores (both freeholds and leaseholds) open at 30 September 2014 averages 80.9% (31 March 2014: 81.1%). The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth. The average time assumed for the 32 established stores to trade at their maturity levels is 16 months (31 March 2014: 29 months); for the 24 lease-up stores, the average period to maturity is 29 months (31 March 2014: 36 months).

C. The capitalisation rates applied to existing and future net cash flow have been estimated by reference to underlying yields for industrial and retail warehouse property, yields for other trading property types such as student housing and hotels, bank base rates, ten year money rates, inflation and the available evidence of transactions in the sector. The valuation included in the accounts assumes rental growth in future periods. If an assumption of no rental growth is applied to the external valuation, the net initial yield pre-administration expenses for the 32 established stores is 7.4% (31 March 2014: 7.0%) rising to a stabilised net yield pre-administration expenses of 7.7% (31 March 2014: 7.8%). Also on a no growth and pre-administration expenses basis the 24 lease-up stores have a net initial yield of 6.0% (31 March 2014: 5.5%) rising to 7.6% (31 March 2014: 7.8%) on stabilisation.

D. The future net cash flow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 10.9% (31 March 2014: 11.0%).

E. Purchaser's costs of 5.8% (see below) have been assumed initially and sale plus purchaser's costs totalling 6.8% are assumed on the notional sales in the tenth year in relation to the freehold stores.

Short leasehold

The same methodology has been used as for freeholds, except that no sale of the assets in the tenth year is assumed but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's seven short leasehold properties is 16.3 years (31 March 2014: 16.8 years).

15. VALUATIONS OF INVESTMENT PROPERTY (CONTINUED)

Investment properties under construction

C&W have valued the stores in development adopting the same methodology as set out above but on the basis of the cash flow projection expected for the store at opening and after allowing for the outstanding costs to take each scheme from its current state to completion and full fit-out. C&W have allowed for holding costs and construction contingency, as appropriate. One scheme does not yet have planning consent and C&W have reflected the planning risk in their valuation.

Immature stores: value uncertainty

C&W have assessed the value of each property individually. However, one of the Group's stores is relatively immature and has low initial cash flow. C&W have endeavoured to reflect the nature of the cash flow profile for this property in their valuation, and the higher associated risks relating to the as yet unproven future cash flow, by adjustment to the capitalisation rates and discount rates adopted. However, immature low cash flow stores of this nature are rarely, if ever, traded individually in the market, unless as part of a distressed sale or similar situation. Although, there is more evidence of immature low cash flow stores being traded as part of a group or portfolio transaction.

Please note C&W's comments in relation to market uncertainty in the self storage sector due to the lack of comparable market transactions and information. The degree of uncertainty relating to the single immature store is greater than in relation to the balance of the properties due to there being even less market evidence that might be available for more mature properties and portfolios.

C&W state that in practice, if an actual sale of the properties were to be contemplated then any immature low cash flow stores would normally be presented to the market for sale lotted or grouped with other more mature assets owned by the same entity, in order to alleviate the issue of negative or low short term cash flow. This approach would enhance the marketability of the group of assets and assist in achieving the best price available in the market by diluting the cash flow risk.

C&W have not adjusted their opinion of Fair Value to reflect such a grouping of the immature asset with other properties in the portfolio and all stores have been valued individually. However, they highlight the matter to alert the Group to the manner in which the properties might be grouped or lotted in order maximise their attractiveness to the market place.

C&W consider this approach to be a valuation assumption but not a Special Assumption, the latter being an assumption that assumes facts that differ from the actual facts existing at the valuation date and which, if not adopted, could produce a material difference in value.

C&W have not assumed that the entire portfolio of properties owned by the entity would be sold as a single lot and the value for the whole portfolio in the context of a sale as a single lot may differ significantly (either higher or lower) from the aggregate of the individual values for each property in the portfolio, reflecting the lotting assumption described above.

Valuation assumption for purchaser's costs

The Group's investment property assets have been valued for the purposes of the financial statements after deducting notional purchaser's cost of 5.8% of gross value, as if they were sold directly as property assets. The valuation is an asset valuation which is entirely linked to the operating performance of the business. They would have to be sold with the benefit of operational contracts, employment contracts and customer contracts, which would be very difficult to achieve except in a corporate structure.

This approach follows the logic of the valuation methodology in that the valuation is based on a capitalisation of the net operating income after allowing a deduction for operational cost and an allowance for central administration costs. Sale in a corporate structure would result in a reduction in the assumed Stamp Duty Land Tax but an increase in other transaction costs reflecting additional due diligence resulting in a reduced notional purchaser's cost of 2.75% of gross value. All the significant sized transactions that have been concluded in the UK in recent years were completed in a corporate structure. The Group therefore instructed C&W to carry out a Red Book valuation on the above basis, and this results in a higher property valuation at 30 September 2014 of £856,898,000 (£36,334,000 higher than the value recorded in the financial statements). The valuations in Big Yellow Limited Partnership are £4,800,000 higher than the value recorded in the financial statements, of which the Group's share is £1,600,000. The sum of these is £37,934,000 and translates to 26.6 pence per share. We have included this revised valuation in the adjusted diluted net asset calculation (see note 14).

16. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES

The table below sets out the categorisation of the financial instruments held by the Group at 30 September 2014. Where the financial instruments are held at fair value the valuation level indicates the priority of the inputs to the valuation technique. The fair value 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). Valuations categorised as Level 2 are obtained from third parties. If the inputs are 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.

	Valuation level	30 September 2014 (unaudited) £000
Interest rate derivatives	**2**	**(1,610)**

17. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

AnyJunk Limited

James Gibson is a Non-Executive Director and shareholder in AnyJunk Limited, and Adrian Lee is a shareholder in AnyJunk Limited. During the period AnyJunk Limited provided waste disposal services to the Group on normal commercial terms, amounting to £14,000.

Transactions with Big Yellow Limited Partnership

As described in note 9d, the Group has a 33.3% interest in Big Yellow Limited Partnership, and entered into transactions with the Partnership during the period on normal commercial terms as shown in the table below.

Transactions with Armadillo Storage Holding Company Limited

As described in note 9d, the Group has a 20% interest in Armadillo Storage Holding Company Limited, and entered into transactions with Armadillo during the period on normal commercial terms as shown in the table below. In prior periods fees earned from Armadillo were not a related party transaction.

	30 September 2014 (unaudited) £000	30 September 2013 (unaudited) £000	31 March 2014 (audited) £000
Fees earned from Big Yellow Limited Partnership	**343**	309	640
Fees earned from Armadillo (since 16 April 2014)	**336**	–	–
Balance due from the Partnership	**737**	141	338
Balance due from Armadillo	**200**	–	–

18. RISKS AND UNCERTAINTIES

The operational risks facing the Group for the remaining six months of the financial year are consistent with those outlined in the Annual Report for the year ended 31 March 2014. The outlook for the housing market and the economy is broadly in line with March 2014, and the risk mitigating factors listed in the 2014 Annual Report are still appropriate.

The value of Big Yellow's property portfolio is affected by the conditions prevailing in the property investment market and the general economic environment. Accordingly, the Group's net asset value can rise and fall due to external factors beyond management's control. The uncertainties in global financial markets look set to continue and investors remain cautious about property investment, although sentiment is improving. We have a high quality prime portfolio of assets which should help to mitigate the impact of this on the Group.

Self storage is a seasonal business, and over the last three years we have seen losses in occupancy of c. 2-4% in the December quarter. The New Year typically sees an increase in activity, occupancy and revenue growth. The visibility we have on the business is relatively limited at three to four weeks and is based on the net reservations we have in hand, which are currently in line with our expectations.

Our customers are facing difficult financial conditions and there is therefore an increased risk that they may default on their rent payments, however since the start of the current economic difficulties, we have not seen an increase in bad debts. We have 47,000 customers and this, coupled with the diversity of their reasons for using storage mean the risk of individual tenant default to Big Yellow is low. 83% of our customers pay by direct debit and we take a deposit from all customers. Furthermore, we have a right of lien over customers' goods, so in the ultimate event of default, we are able to auction the goods to recover the debts.

19. SUBSEQUENT EVENTS

On 19 November 2014 Big Yellow Group PLC has announced its intention to raise up to 9.99% of its issued share capital by means of a placing to fund the further growth of the business.