

2007

The Crown Estate Annual Report and Accounts 2006-07

Presented pursuant to c.55, section 2(5) of the Crown Estate Act 1961.

Ordered by the House of Commons to be printed on 12th July 2007.

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There is no organisation in the world quite like The Crown Estate. Our property portfolio includes ancient forests, farms, parkland, coastline, shops, offices and homes. Our role as guardian, facilitator, manager, influencer, employer and revenue creator is unique. We have two main objectives: to benefit the taxpayer by paying our revenue surplus to the Exchequer, and to enhance the value of the estate and the income it generates.

2007 has been an extremely impressive year in terms not only of our financial performance, but also our increased level of investment activity and our publicly recognised achievements. In addition, we have begun to benefit from significant operational changes made in the last two to three years. As we complete our first year in brand new offices we have sent out a clear signal that The Crown Estate is a thriving, modern, UK property business which is well placed to deliver on challenging targets developed around our core values of commercialism, integrity and stewardship.

To The Queen's Most Excellent Majesty

May it please Your Majesty, The Crown Estate Commissioners take leave to submit this their fifty-first Report and Accounts, in obedience to sections 2(1) and 2(5) of the Crown Estate Act, 1961.



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What we do

Urban Estate



The Urban Estate consists of over 600 commercial properties in London and elsewhere including shops, offices, retail and business parks, shopping centres and industrial sites.

There are also over 2,600 residential properties ranging from 1,340 units let on monthly regulated or assured tenancies, to long leasehold properties in Millbank, Regent's Park and Kensington.

£195.7m

Turnover (74.6% of group)

£5,352m

Property value (81.4% of group)

Marine Estate



The Marine Estate includes over 55% of the UK's foreshore, the beds of tidal rivers and estuaries, and almost all of the seabed out to the 12 nautical mile territorial limit around the UK. It also includes the rights to explore and utilise the natural resource of the UK continental shelf, with the exception of oil, coal and gas.

It covers a diverse portfolio of interests embracing marine aggregates, potash mining, oil and gas pipelines, telecommunication and power cables, aquaculture, renewable energy, moorings, marinas, wildfowling and ports.

£38.3m

Turnover (14.6% of group)

£337m

Property value (5.1% of group)

Rural Estate



The Rural Estate is one of the largest in the UK with almost 110,000 hectares (270,000 acres) of agricultural land, forests, residential and commercial property in England, Scotland and Wales (excluding Windsor). There are also 22 mineral leases producing limestone, sand, gravel, clay, slate and the

Mines Royal (gold and silver). There are 780 agricultural tenancies and 730 residential properties. The forestry estates cover over 13,700 hectares (34,000 acres) of which almost one third is managed by The Crown Estate, with the remainder let.

£22.3m

Turnover (8.5% of group)

£714m

Property value (10.9% of group)

Windsor Estate



The Windsor Estate covers around 6,300 hectares (15,600 acres) and includes almost 3,200 hectares (7,700 acres) of forest, Windsor Great Park and Home Park, the Savill and Valley Gardens, residential properties and some commercial properties including Berkshire and

Swinley Forest golf clubs, Ascot Racecourse, Smith's Lawn and two let farms. Windsor Great Park is the only Royal Park managed by The Crown Estate. The Board of The Crown Estate has a duty to maintain its character as a Royal Park and forest.

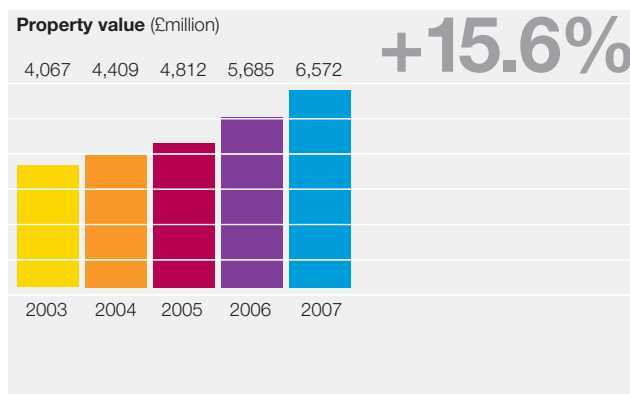
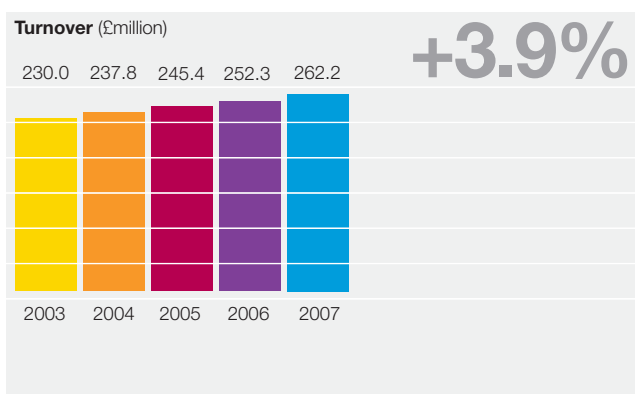
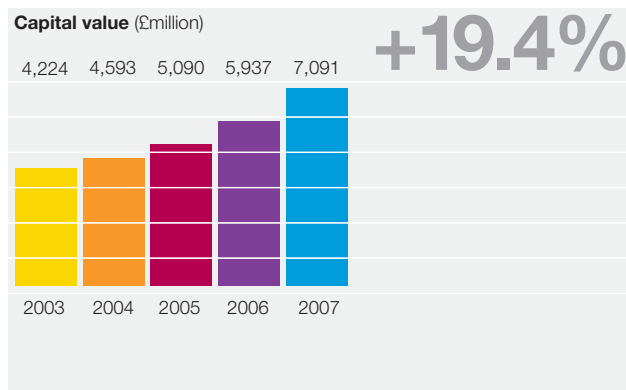
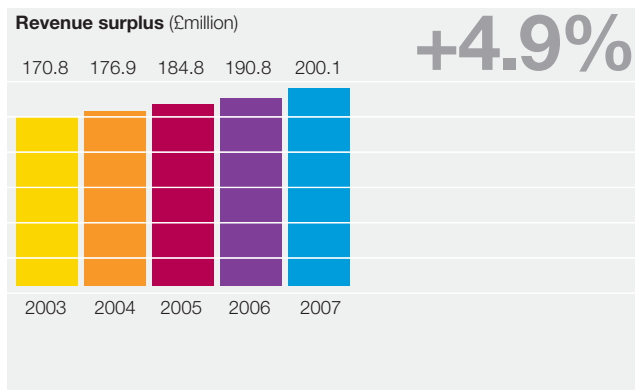
£5.5m

Turnover (2.1% of group)

£170m

Property value (2.6% of group)

Highlights of the year



Revenue/capital

	2006/07 £million	2005/06 £million	% change
Revenue			
Turnover	262.2	252.3	+3.9%
Rental income	257.8	248.5	+3.7%
Revenue surplus	200.1	190.8	+4.9%
Operating costs	38.7	31.6	+22.5%
Administrative expenses	13.3	12.3	+8.1%
Capital			
Capital value	7,091	5,937	+19.4%
Property value	6,572	5,685	+15.6%

Property transactions

	2006/07 £million	2005/06 £million
Capital investment	185.7	199.7
Capital receipts	417.8	139.7
Net capital inflow/(outflow)	232.1	(60.0)

£200.1m

Revenue surplus

£7,091m

Capital value

15.6%

Increase in property value

£603.5m

Property transactions

Chairman's statement



“This year has been an excellent year for The Crown Estate and I am delighted to report that we achieved £200.1 million surplus for the year ending 31 March 2007, up 4.9% on the previous year. There was also a significant rise in capital value to £7,091 million, up 19.4% compared to the previous year.”

New openings have been a prevalent theme of the year. We were honoured by His Royal Highness The Prince of Wales who officially opened our own headquarters at New Burlington Place in June. As we complete our first year in these offices at the heart of our urban portfolio, we have sent out a clear signal that The Crown Estate is a modern organisation, which has at the heart of its business best working practice; that we support and value our staff by providing a good working environment; and are committed to the revitalisation of Regent Street, one of our key assets.

A second major opening, was that of an iconic, new visitor facility, The Savill Building. Opened during the year by His Royal Highness the Duke of Edinburgh, it provides a gateway to the newly defined Royal Landscape, which encompasses The Savill and Valley Gardens and Virginia Water within Windsor Great Park. This is an unequivocal demonstration of the seriousness with which we undertake our stewardship role and an important symbol of our commitment to enhancing the visitor experience at this popular amenity.

I am pleased that our success this year is reflected not only in the financial results, but also in external recognition by way of awards. Our commitment to green tourism and protecting Scotland's natural environment was rewarded with the Glenlivet Estate winning a Gold award at this year's Northern Lights Tourism Awards for best practice in Tourism and Sustainability.

The newly opened Savill Building has won a host of awards, including Best Environmental Scheme and Best Overall Scheme in the Civic Trust Design Awards 2007 and the Gold award at the annual Wood Awards. We were also pleased to receive the coveted 'Property Company of the Year – London' award at the annual Estates Gazette Property Awards in September.

I would like to end by thanking everyone who has contributed to this impressive year. I must also pay tribute to the work of the Board, and particularly to Ronald Spinney who retired from the Board in December after more than seven years' service. His business knowledge and in-depth understanding of the property industry has been invaluable. I am delighted to welcome Chris Bartram to the Board who brings with him a wealth of experience in the property sector.

Finally, I would like to pass on the Board's sincere thanks, along with my own, to all our staff. Without our dedicated, skillful and knowledgeable team, The Crown Estate could never hope to perform as successfully as we have.



Ian Grant
Chairman and First Commissioner

Chief Executive's strategic review



“Last year, as I looked forward to 2006/07, I expressed confidence that our new investment strategy would enhance our financial performance and set us on an even firmer long-term footing. I am pleased that this confidence is reflected in this year’s results.”

Our turnover has increased by 3.9% to £262.2 million and our net revenue surplus, the profit which goes to the Exchequer for the benefit of UK taxpayers, rose by 4.9% to £200.1 million. Our total capital value at the end of the year was £7.1 billion, an increase of £1.2 billion, nearly 20%, over the previous year. Of that, the total value of our property portfolio accounted for £6.6 billion, an increase of 15.6% over the year before.

Our performance when measured against industry benchmarks has also been encouraging. Following disposals totalling £418 million and purchases of £186 million, our total return for the portfolio as a whole was 25.7%, and for the entire urban portfolio 27.4%. This compares with the IPD Quarterly Index to 31 March 2007, which reports all property total returns for the year of 15.8%. This out-performance is driven by our sector weightings, in particular our high exposure to central London offices. Strong contributions have also come from our residential and rural portfolios, and retail rents have been driven forwards on Regent Street on the back of active asset management.

We are not, though, about to rest on our laurels. Our ‘balanced scorecard’ of objectives, developed around our core values of commercialism, integrity and stewardship, provide a framework within which we have set ourselves challenging targets. Over the next five years we have set our sights on being recognised as exemplars of commercial performance, and providers, owners and managers of quality land and buildings, embracing high standards of corporate responsibility and customer focus.

Getting our investment strategy right is key to achieving these aims. The Crown Estate has a substantial portfolio of valuable assets and we are continually striving to drive capital value and revenue return. At the same time, many assets are historically or environmentally important, and we take very seriously our role as their long-term owner.

Over the last two to three years we have developed and refined our investment strategy, the purpose of which is to achieve a balanced high quality portfolio which will deliver sustainable long-term performance across all areas of our business – urban, rural and marine. Our management board reviews on a quarterly basis progress against the strategy and its continuing appropriateness in the light of economic and

market intelligence. Once a year our Main Board reviews the strategy as a whole and agrees any changes which may be needed.

For our Urban Estate, the investment strategy identifies three distinct sectors. The first consists of our core holdings, which comprises high value, contiguous assets primarily in Regent Street and St James’s in central London. Historic holdings long associated with The Crown Estate, such as Regent’s Park, Carlton House Terrace, Pall Mall and Kensington Palace Gardens form the second sector. The third is a portfolio of commercial and fully tradeable properties, which provide long-term secure revenue streams for the future, giving us the room for manoeuvre we need for redevelopment, refurbishment and asset management initiatives elsewhere on the estate.

Against this background, the main thrust of our investment strategy has been to dispose of secondary stock outside our core holdings and to reduce our current substantial exposure to central London offices, balanced by investment in our core estate and in the acquisition of quality assets with good long-term revenue potential. Consequently, disposals have been primarily properties in central London, notably Bedford Square, Osnaburgh Street, Hobhouse Court and a long lease on 13-16 Carlton House Terrace, while major investments during the year included the new John Lewis distribution centre at Magna Park at Milton Keynes, The Harte & Garter hotel in Windsor and two substantial head leaseholds in Regent Street.

This year has also seen a very important initiative for The Crown Estate, in the form of participation for the first time in a limited partnership. In September, we acquired a share of the Lend Lease Retail Partnership for £39 million giving us an equity interest in the Bluewater Shopping Centre in Kent and Touchwood Court Shopping Centre in Solihull. This approach has given us access to investments of a size and scale that would not have been available to us given the constraints on borrowing imposed by The Crown Estate Act.

Towards the end of the year we also set in train the formation of a partnership with Hercules Unit Trust which combines ownership of Fort Kinnaird Retail Park outside Edinburgh with two retail parks in our ownership at Cheltenham and Leamington Spa. This allows us to participate in the

“Over the next five years, we have set our sights on being recognised as exemplars of commercial performance, embracing high standards of corporate responsibility and customer focus.”

performance of one of the premier retail parks in the UK, and to enjoy access to first-class management expertise in this type of asset.

These activities and initiatives are reflected in the performance of our urban portfolio, which saw its capital value grow by 17.5% and its turnover by 3.8% to £195.7 million. We are delighted that our commitment to professional asset management and the promotion of quality development was recognised by our peers in the property industry when we won the Estates Gazette ‘Property Company of the Year – London’ award in September. Judgement by our peers and those with whom we do business is another important indicator of performance.

Falling yields have driven performance over the past couple of years but this yield impact is clearly now on the wane, and looking forward, we expect yields to move sideways and possibly start to ease out. Future performance is therefore going to come from the fundamentals of income return and rental growth. To this end we consider that we are well placed going into next year: the heart of our portfolio is and will remain in central London, and based on regional forecasts of economic growth we are relatively confident. In particular, the current supply and demand imbalance for West End offices suggests better than average rental growth over the next couple of years. The continuing strength of this market will also provide opportunities for further disposals of more peripheral properties that are not key to our strategy.

Outside London we see opportunities for further purchases, similar to Magna Park in Milton Keynes, which have bond-like characteristics and are relatively defensive in the current market. In the short-term there may be concerns over the residential market but this is an emerging investment class and an area where we would like more exposure in the longer term, as our traditional residential base diminishes in value due to enfranchisement. Beyond this we are seeing interesting, perhaps alternative, investment propositions emerging from our Marine Estate, along with opportunities for investment on our

Rural Estate. In each case transactions will need to match our hurdle rates and in so doing, satisfy our requirements as to sustainability, adaptability and accessibility.

The Marine Estate has also performed well this year, with total capital value increasing by 13.2% to £337 million and turnover by 3.8% to £38.3million. A range of increased activities across this diverse estate has contributed to these results, including further offshore windfarms coming on-stream, the newly-completed Langeled undersea gas pipeline and growing demand for marine-based leisure activities.

The unique nature of this estate – involving ownership of the seabed right around the UK out to the 12 mile territorial limit, and just over half the foreshore – means that we work closely not only with a range of marine-based industries but also with a number of Government departments whose responsibilities impact upon the marine environment, including DEFRA which is currently promoting proposals for a new Marine Bill, and DTI which has responsibility for energy policy. We believe we have a vital part to play in the formulation of policy in such areas, and in facilitating its implementation.

Looking ahead, the Government's targets for increasing the proportion of UK energy generated from renewable resources present further opportunities for the Marine Estate in which we will play an active role. Similarly, the major construction programme associated with 2012 Olympic Games presents significant opportunities for the offshore aggregate dredging industry. More broadly, our investment strategy has identified marine as presenting significant potential opportunities which we intend to proactively promote and pursue in the coming year.

The Rural Estate has had a challenging but successful year. Total capital value increased by 6.1% to £714 million despite net disposals, with underlying capital growth increasing by 14.4%. Turnover has increased marginally, to £22.3 million due to firmer commodity prices. Net capital receipts of

£51.5 million from the sale of land at our Bingham Estate in Nottinghamshire and smaller disposals at King's Lynn and Romney Marsh, were achieved. Growth in residential values, together with an uplift in development land at Whitehill, near Edinburgh, contributed to the rise in capital value. Overall, the Rural Estate achieved a total return for the year of 17.2%.

As we enter 2007/08, the prospects for British agriculture are looking stronger than they have for a long time against a background of rising commodity prices, global harvest volatility and competing demands for bio-fuels. Our tenants' success is also our success, and we will look for opportunities to support and invest in their businesses where it makes sound economic sense to do so.

Looking ahead, we remain committed to being a rural landowner, taking very seriously our responsibilities to our tenant farmers, to the rural landscape and to the environment. Our investment strategy for the Rural Estate is designed to ensure that the portfolio has good quality assets that will give a sound long-term return. We will seek to realise development opportunities where they arise but always with very careful regard to their social, economic and environmental impact and with a commitment to promoting high quality, sustainable projects. We will, where appropriate, make selective disposals and reinvest, with the aim of maintaining the overall proportion of rural estate assets within The Crown Estate portfolio.

Our Windsor Estate embraces The Great Park, a national asset of considerable historic, amenity and environmental importance of which we are proud custodians. With over 2 million visitors a year, however, Windsor is far from static and we actively manage and invest in the estate. The net cost of running the estate in 2006/07 was £2 million, and we invested over £7 million in the provision of a new visitor facility for The Royal Landscape, an area of the Park which comprises The Savill Garden, Valley Garden and Virginia Water. The Savill Building – a beautiful and innovative design – was opened by His Royal Highness, The Duke of Edinburgh in June and has already won a number of prestigious architectural and design awards. Around 400,000 visitors have passed through its doors in its first year of opening.

Our holdings in Scotland comprise marine, rural and urban property, and we are keenly aware that our activities, particularly in the Highlands and Islands, can make an important contribution to the environmental, social and economic well-being of the community. We recognise and respect the changes that devolution has brought to the people of Scotland, and we are committed to working with the Scottish Executive, other public bodies and our tenants and customers to release the opportunities on our holdings for the benefit of the public and the communities where we operate.

This year, we are publishing a separate comprehensive report setting out in more detail our activities in Scotland.

Corporate responsibility has always formed an important part of The Crown Estate, with integrity and stewardship firmly established as core values. We have continued to increase our focus in this area, setting clear and measurable targets in the five key areas of how we do business; our customers; our people; the environment; and the wider community. In 2006/07 we successfully met in full 58% of the targets we set ourselves for the year, and achieved over 50% completion of a further 37% of them. As our external environmental auditors acknowledge, the profile of corporate responsibility is now much higher in the organisation and continues to rise.

Our employees are, of course, vital to our success, and as an accredited 'Investor in People' we take our responsibilities in this area very seriously. The organisation has been through a significant amount of change, and it is important that people are clear about their roles and responsibilities and what is expected of them. At the same time, we need to ensure our employees have the right skills and are properly rewarded for their achievements. Our 'balanced scorecard' approach provides clarity of direction, but we need to constantly ensure that our people are engaged and motivated. We have therefore initiated a review of our internal communications and of our reward strategy, both of which will be concluded later this year.

The Crown Estate has changed and modernised significantly over the last five years. There is still much to be done, but I believe we have put in place the foundations for sustained long-term performance. In 2006/07 we have begun to see the benefits of these changes; we must ensure that the momentum continues to grow in 2007/08 and beyond.



Roger Bright
Chief Executive and Second Commissioner

Operating and financial review: **Urban Estate**

DIVERSIFY

Acquisition of 'green' warehouse in Milton Keynes. In March 2007 The Crown Estate bought a 60,400 m² major distribution warehouse in Milton Keynes. The property is currently under construction at Magna Park in Milton Keynes. Upon completion of the building in September, the warehouse will be entirely let to the John Lewis Partnership for a term of 20 years. The warehouse distribution centre is at the leading edge of environmental sustainability with initiatives including renewable energy sources such as wind power and photovoltaic cells, which not only reduce the centre's carbon footprint, but also will deliver significant operational savings to the tenant.

Regent Street attracts international brands. This year has seen a wave of flagship stores and restaurants from international brands joining Regent Street and establishing it as a global destination and world-class shopping destination. In 2006 USA brands Tommy Hilfiger, Brooks Brothers and Timberland all chose Regent Street for their UK flagship stores. And 2007 has already seen the arrival of the Spanish super-brands Hoss Intropia and Desigual. They join Zara Home who opened their first store outside Spain in autumn 2006. The trend for home design stores was started by Habitat in June 2006 when they opened their flagship in the Grade II listed 'New Gallery' site, formally a cinema. And most recently Regent Street welcomed COS (Collection of Style). COS is the new line from H&M and is proving extremely popular with customers and the fashion press alike. Later in 2007 we can look forward to the arrival of Banana Republic, Armani Exchange, a new GAP store and Nokia. Regent Street continues to generate a unique buzz in London; the ongoing regeneration has delighted newcomers and classic British brands alike.

ATTRACT



Urban Estate

The gross revenue contribution from the Urban Estate was £174.7 million for 2006/07, up 2.2% on the previous year. Capital value of the estate also increased to £5,352 million, up 17.5%, accounting for over 75% of The Crown Estate's balance sheet. Total return from the urban commercial portfolio was 30.6% as measured by the IPD compared with our industry benchmark of 16.3%. These are good results reflecting our investment strategy and market conditions that have benefited our core holdings particularly offices in central London.

A broad range of activity across the portfolio has contributed to this success.

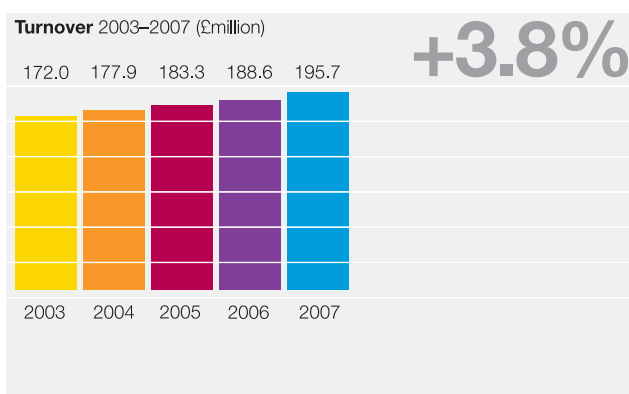
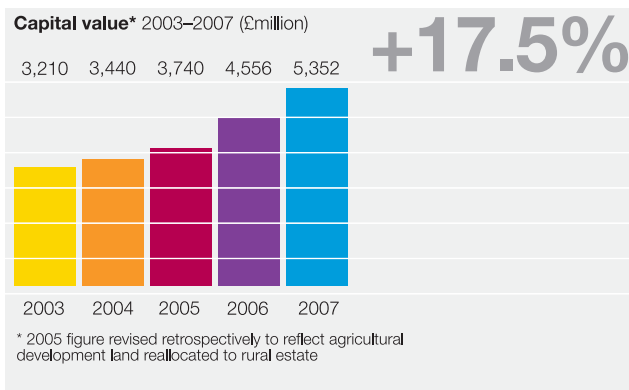
We received some £136.8 million in premiums for residential lease extensions that provide a steady source of capital for reinvestment elsewhere on the estate, along with other receipts from the sale of low yielding residential property. Notable sales during the year include 8 Palace Green in Kensington, sold for £28 million, and a site at Osnaburgh Street, previously used as poor quality flats and workshops, sold to the adjoining owner British Land for in excess of £50 million who will now extend their office scheme at Regent's Place.

At Kensington Palace Gardens, arguably the finest residential address in the world, we are close to completing the refurbishment of three mews houses, which we will add to our letting portfolio, and have begun the development of two new villas on the edge of another of our core residential holdings, Regent's Park.

New investment into residential property has included a development at Stamford Street in Southwark, which is being built for us by Crest Nicholson. This is the first major residential investment by The Crown Estate outside our traditional portfolio and is part of a strategy to replace assets that are sold to leaseholders through enfranchisement and lease extensions. It also reflects our objective to invest in areas with good rental and capital growth prospects.

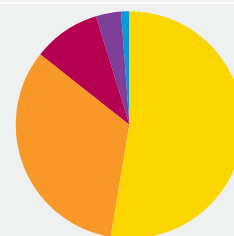
Against a background of decreasing lease terms across the property market, our security of income is holding up well with less than 50% of our commercial income due to expire over the next 10 years. The trend is for this percentage to increase as the portfolio becomes more rack rented. However the majority of income secure beyond 20 years is from highly reversionary geared or fixed head leases which will present opportunities in forthcoming years.

Activity on our London office portfolio during the past year has been dominated by sales of secondary investments generally selected for disinvestment because of their small lot sizes, requiring a disproportionate amount of management time and with limited opportunities for improvement. These included the sale of 40–53 Bedford Square, an entire Georgian terrace on the south side of the square in Bloomsbury, for £54.5 million, and Hobhouse Court,



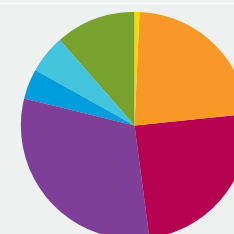
Turnover by activity 2006/2007 (£million)

● Retail	103.0
● Office	64.6
● Residential	18.8
● Industrials	7.0
● Other urban	2.3



Security of income (net rent) Urban commercial portfolio (£million)

● Lease expired	0.1	0.1%
● <5 years	41.0	22.8%
● 5–10 years	44.4	24.7%
● 10–20 years	55.9	31.1%
● 20–50 years	7.8	4.3%
● 50–75 years	10.0	5.5%
● >75 years	20.7	11.5%



Top The new residential development at Stamford Street, Southwark, London.

Bottom Guildford Business Park, the site of a £5 million refurbishment.



a multi-let group of properties close to Trafalgar Square, sold for £34 million. Office sales also include a long lease on our former headquarters at Carlton House Terrace following our move to new headquarters in New Burlington Place.

While undertaking these sales, we have been acutely conscious of the challenge of replacing this stock with assets that we believe will generate a better return and contribute to the overall balance of risk associated with the structure of our portfolio. We have therefore used some properties to engineer swaps worth around £75 million with AXA and Derwent Valley that have enabled us to acquire, off market, the head leasehold interests in a number of substantial blocks on Regent Street.

As important as these investment transactions are, we also recognise the importance of getting the best from our retained assets, through improving our buildings and the services we provide to those who occupy them.

This year, we have completed a refurbishment of 70 Jermyn Street and already four of the five floors are under offer at rents considerably ahead of our most optimistic forecasts. We also have office refurbishments underway at Haymarket and Farringdon Street in central London.

Generally, our vacancy rates have been low and the limited letting activity we have undertaken has reflected the strength of the London office market.

On Regent Street, we were delighted to welcome King Sturge who chose the street as the site for their headquarters. The retail space below their office is now fully let to an impressive line up including Brooks Brothers, Timberland, Tommy Hilfiger and Mappin and Webb.

Elsewhere on the street, the enhanced retail mix has contributed to the attraction of Regent Street as a world-class shopping destination, with the opening of flagship stores for Bose, Habitat, Gerry Weber and Zara Home. These were joined by new stores for Penhaligons, Duchamp and Hoss Intropia, the Spanish retailer, which opened its first UK store, and COS who made their European debut on the street.

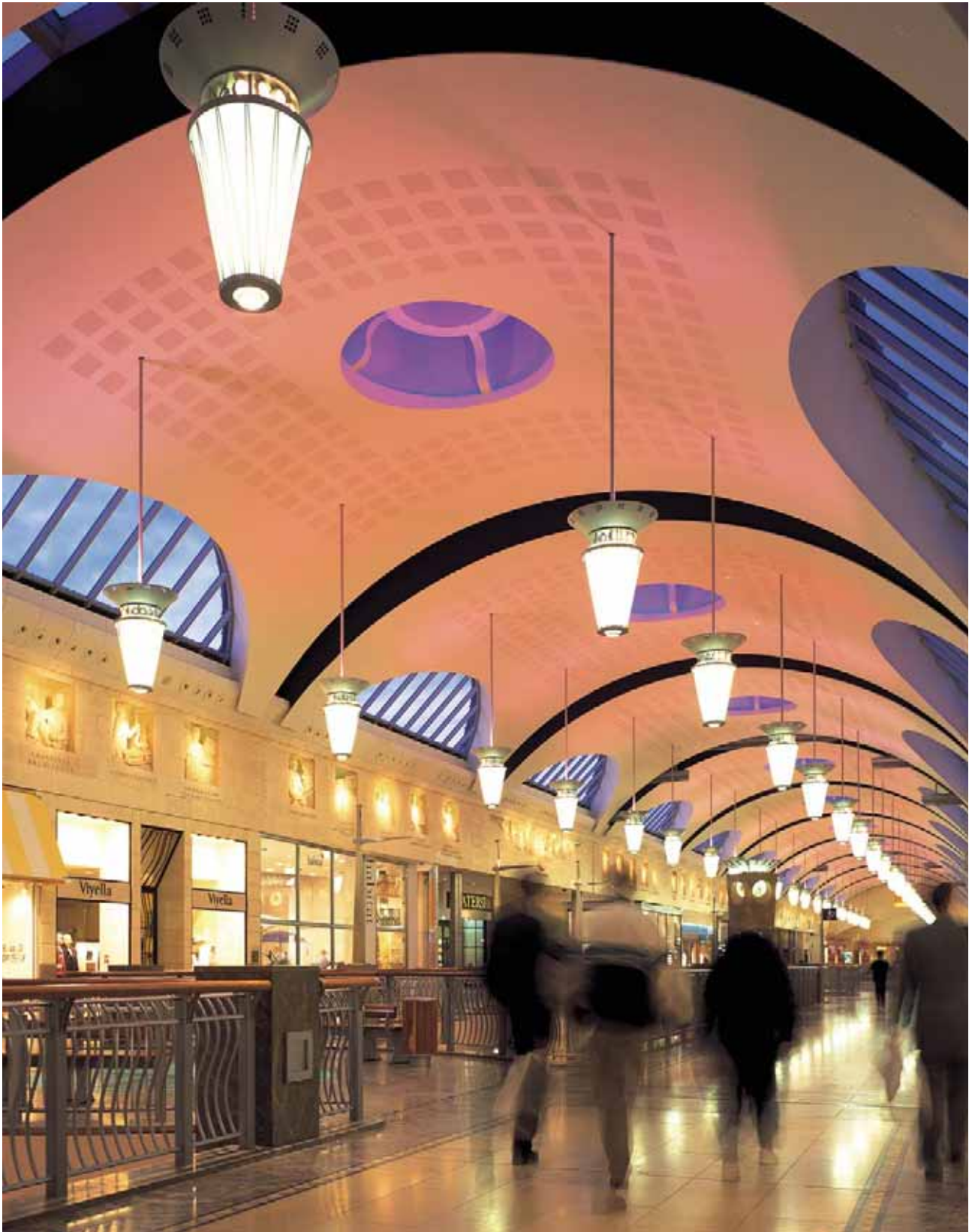
In 2007/08 the retail offer will grow even more with scheduled openings including Armani Exchange, H&M, and the first UK openings for Nokia, Desigual, a 2,787m² (30,000 sq ft) Banana Republic store, and 1,579m² (17,000 sq ft) for National Geographic where construction is well underway at the southern end of Regent Street and will include a further 5,400m² (60,000 sq ft) of offices and seven apartments. The scheme will bring added public realm improvements to a newly part-pedestrianised Swallow Street and introduce comprehensive waste management and recycling facilities.

Our programme of upgrading and redeveloping existing stock has not been confined to London. During the past year we have taken possession of Building 3 at Guildford Business Park, spent £5 million on a major refurbishment and put the building back on the market. It now provides 5,110m² (55,000 sq ft) of top quality contemporary space and has been awarded a 'Very Good' rating by BREEAM. Refurbishments were also carried out at Cambridge Business Park and in Birmingham we have refurbished our office investments in the city centre.

During the year, we also made excellent progress in our quest to find new ways of gaining access to, or creating, joint ventures. We acquired a stake in the Lend Lease Retail Partnership for around £39 million giving us an equity interest in both Bluewater Shopping Centre in Kent and in Touchwood Court Shopping Centre, Solihull.

This new approach is vitally important to our future activities as we seek to achieve a balance between intensively managing the parts of our estate where we can demonstrably add value ourselves, and having exposure to property sectors or individual assets that do not sit as comfortably within our close managed portfolio. This type of investment includes those with a lot size that is too big for The Crown Estate to contemplate as a single owner, for example very large shopping centres; those that require particularly intensive or specialist management; or situations where we might want to spread our risk across a large fund of a particular asset type.

Below A £39 million stake in the Lend Lease Retail Partnership has given us an equity interest in Bluewater Shopping Centre.



Our priorities and the challenges for next year relate to the investment market, in which we will continue to look for opportunities to buy and sell to our financial advantage, and in the occupier market, into which we must supply the products our customers want, either to a higher standard or at a lower price than our competitors, matching or bettering their quality in order to maintain and improve our returns.

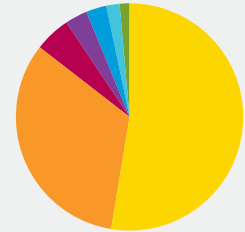
A further priority for us relates to the environmental impact of buildings and how we manage them in anticipation of the possible introduction of Energy Performance Certificates and Landlord's Annual Energy and CO₂ statements. We are already adjusting investment hurdle rates to reflect environmental factors, which is leading us towards a best in class approach for stock selection. But, there is still a great deal to be done and we will be working as part of the British Property Federation and Property Industry Alliance to take this forward. We have also started engaging with our customers on this issue and we have invited occupiers to approach us with proposals for the improvement of their buildings, with an undertaking that we will consider these positively and flexibly.

Last but by no means least, we will be increasing our focus on customer care. We recognise that we should only ever lose good rent paying customers if they cease to exist, we genuinely cannot accommodate them elsewhere on the estate or they really cannot afford to stay. If they leave because they have simply got a better offer elsewhere or have complaints about us as a service provider, this must be an unacceptable outcome. We will therefore be taking a look at a comprehensive approach to exit surveys of those that we do lose, to find out why they have gone, and what we can learn from their experience with us. Our aim is to know our customers and understand their property needs.

It has been a tremendously active year, which has yielded great results for the Urban Estate. We are now at a time when we face challenging investment and occupier markets and as a result of this The Crown Estate will continue to adapt, starting with a greater level of understanding of what really drives the business and the interests of our customers.

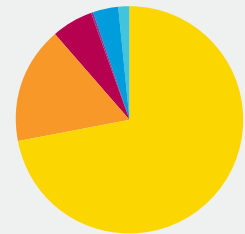
Capital value by sector (inc. owner occupied)
Urban commercial portfolio (£million)

Office	2,500	52.6%
Retail	1,563	32.9%
Retail Warehouse	242	5.1%
Industrial	154	3.2%
Other	139	2.9%
Residential	89	1.9%
Shopping Centre	66	1.4%



Capital value by region (inc. owner occupied)
Urban commercial portfolio (£million)

West End	3,421	72.0%
Rest of UK	793	16.6%
City	279	5.9%
Rest of London	15	0.3%
Rest of South East	170	3.6%
Midtown	75	1.6%



“Our priorities and the challenges for next year relate to the investment market, in which we will continue to look for opportunities to buy and sell to our financial advantage, and in the occupier market, into which we must supply the products our customers want.”

Operating and financial review: **Marine Estate**

Carbon dioxide storage on the seabed. The Crown Estate is working closely with UK Government and the specially formed 'North Sea Taskforce' on developments and innovations in the new science of storing carbon dioxide in seabed formations such as disused salt caves. With the UK leading the world in this pioneering new science, The Crown Estate is undertaking investigations into how we in the UK can realise the potential benefits that could come from carbon dioxide storage in the seabed. In doing so we are attempting to understand the technological issues, economic characteristics and most importantly the environmental considerations of such a development. We are hopeful that carbon dioxide storage on the seabed can provide a significant contribution to the management of carbon emissions as part of the UK Government's energy policy.



INNOVATE



ENABLE

Offshore wind delivering over 2GW of electricity. The Marine Estate plays an important part in helping to deliver the UK Government's target of a 20% reduction in carbon emissions by 2010 by developing renewable energy sources. The Crown Estate has been instrumental in facilitating the expansion of the offshore wind industry. Within the 12 nautical mile territorial limit, The Crown Estate grants lease areas of the seabed for the generation of offshore wind power. But our role is not limited to that of lease granter. We also invest in research into this relatively new industry in order to ensure that developers have at their disposal the most up-to-date environmental data to assist them in their work offshore. Even though wind energy is leading the way in terms of offshore renewable energy, wave and tidal devices also offer potential for the future. There are currently prototype devices in operation around the UK, helping The Crown Estate and the offshore industry develop understanding of this exciting new energy source.

Marine Estate

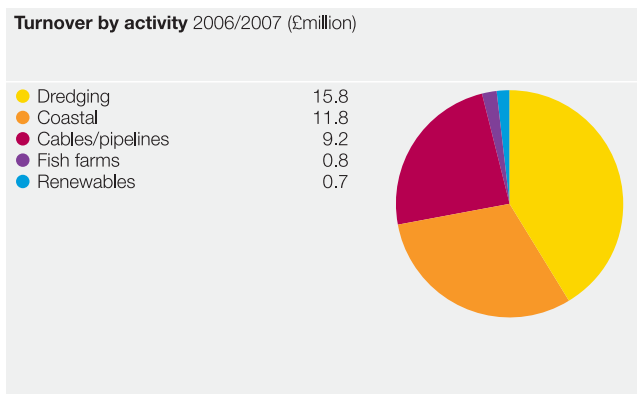
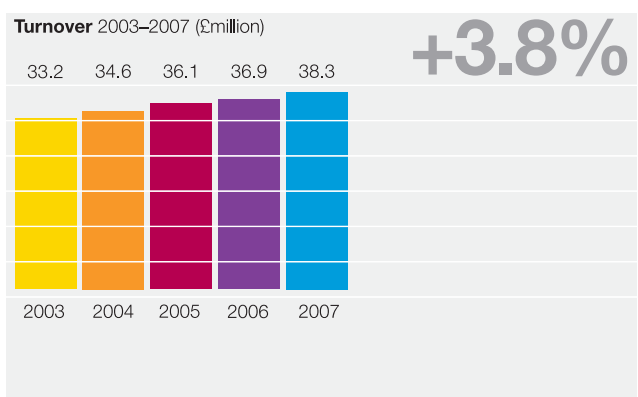
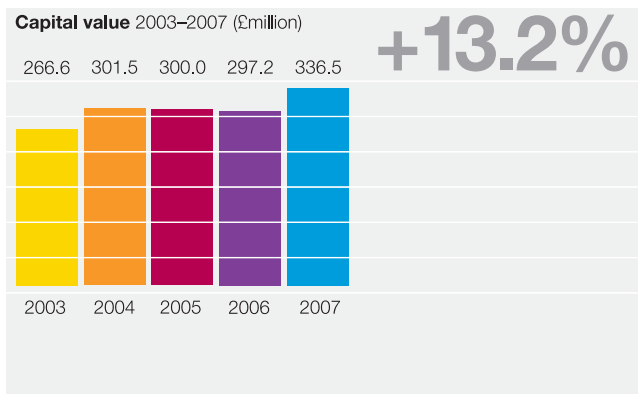
The gross revenue contribution generated by the Marine Estate was £35.1 million, an increase of 2.9% on the previous year. Capital value of this estate, which consists of almost the entire seabed out to the 12 nautical mile limit, over 55% of the UK's foreshore and the beds of tidal rivers and estuaries, increased by £39.3 million to £336.5 million.

During the year the marine aggregates business performed well and contributed approximately £15.8 million, up 14.5% on last year. The coastal estate, involving marinas, ports, harbours and other coastal activity also performed well and contributed £11.8 million in revenue, 2.6% higher than the previous year. In addition, the offshore renewables sector of the Marine Estate is now starting to produce a material contribution to revenue, generating approximately £0.5 million during the year. We are confidently expecting this sector to grow to generate in the order of £4 million of revenue per year by 2010 with continued growth thereafter.

Over the past few years, The Crown Estate has identified the Marine Estate as an area for investment with potentially good returns, which could form an important part of the overall investment portfolio of the business. The expectation is that through direct investment in the Marine Estate, its considerable potential may start to be unlocked. In order to achieve this, an outline investment strategy has been developed during the year and this has now moved into implementation during 2007/08.

In recognising the unique nature of the Marine Estate, there are a number of interesting challenges presented when direct investment is considered. To face up to these challenges, the investment strategy reflects truly sustainable business principles by giving full recognition to the environmental, social and economic opportunities of all investments being considered. We are developing and establishing methodologies, processes and practices to ensure this approach is effectively implemented, with the expectation that our corporate values of commercialism, stewardship and integrity are all enhanced.

We have also been highly active during the year to respond to the growing focus of Government policy on the marine environment, through the proposed Marine Bill, renewable energy policy as set out in the Energy Review White Paper, and the investigation of the potential for offshore geological gas storage and CO₂ sequestration. We are confident that the Marine Estate can continue to provide an important contribution to the delivery of Government policy while ensuring that a sustainable future for the estate is secured, taking a long-term view as necessary.



This is exemplified by an important new area under consideration relates to the storage of natural gas and carbon dioxide in geological formations on the continental shelf. During the year, we participated in DTI-led steering groups to explore the concept and possibilities for deployment. In parallel with this, we are pleased to report that the DTI-led consultation on this matter has proposed that the rights to store gas, other than for the purposes of enhanced oil recovery should be vested in The Crown Estate. In support of this, we intend to establish a formal agreement with DTI to support the early stages of developing storage projects.

Another important area of Government focus this year included the Marine Bill, driven by DEFRA, which aims to simplify UK coast and offshore legislation and make it more effective. The Crown Estate has worked through the Marine Bill steering group, participating in the development of the White Paper, which is currently progressing through consultation. We have taken a more indirect role in the energy review 'The Energy Challenge' undertaken by the DTI, having an important input into the Government's plans for renewable energy policy.

New regulations for marine aggregate dredging were also developed this year to transpose EU Directives on conservation and the environment into the domestic legal framework. We welcome the introduction of these regulations, which apply to England and Northern Ireland.

Major activities in the year included entering leases for two new large gas pipeline projects, the Langeled pipeline from Norway and the BBL from Holland, which came on-stream in 2006. These will contribute in the order of £0.5 million per year in revenue from the seabed leases for the pipelines.

The diversity of the Marine Estate can be seen in the range of projects that we have actively been involved in during the year.

We are working closely with the Olympic Delivery Authority, South West of England Regional Development Agency, Weymouth and Portland National Sailing Academy and the developer, Dean & Reddyhoff to facilitate the development of a marina and other facilities in Portland Harbour to be used for the sailing events of the 2012 Olympic Games. We are providing the land, assisting with costs and have played a key role in facilitating stakeholder engagement for those affected by the development. A planning application has been made to the authorities with a view to commencing work next year and the facilities being ready for the pre-Olympics trials in 2010 and 2011.

We remain committed to a sustainable aquaculture industry and have completed an industry-wide review of the rental arrangements for fish farms through consultation with our

Top Johnson Seafarms, Shetland. We are supporting the development of sustainable farming of new fish species.

Bottom We contributed to brand new visitor facilities at Conwy Nature Reserve.



customers which has been well received. We are also actively seeking ways to encourage sustainable activity across the sector by supporting the development of the farming of new species, following the example of Johnson Seafarms who have successfully established a new market for organic cod.

We continue to promote good stewardship of our estate via the Marine Stewardship Programme amounting to £0.75 million in 2006/07. With this we help to fund initiatives that can promote understanding, conservation and good management of marine and coastal resources, enable more people to enjoy the UK coast and contribute to regeneration opportunities for coastal communities. We have supported 48 projects over the course of the year including brand new visitor facilities at Conwy Nature Reserve on the banks of the estuary opened in October, with space for educational activities and family events. We have also agreed to contribute £15,000 over three years towards a pilot scheme shaping the future management of Scotland's marine environment with the aim of developing and implementing a marine spatial plan to help balance industry, leisure and environmental pressures on local seas.

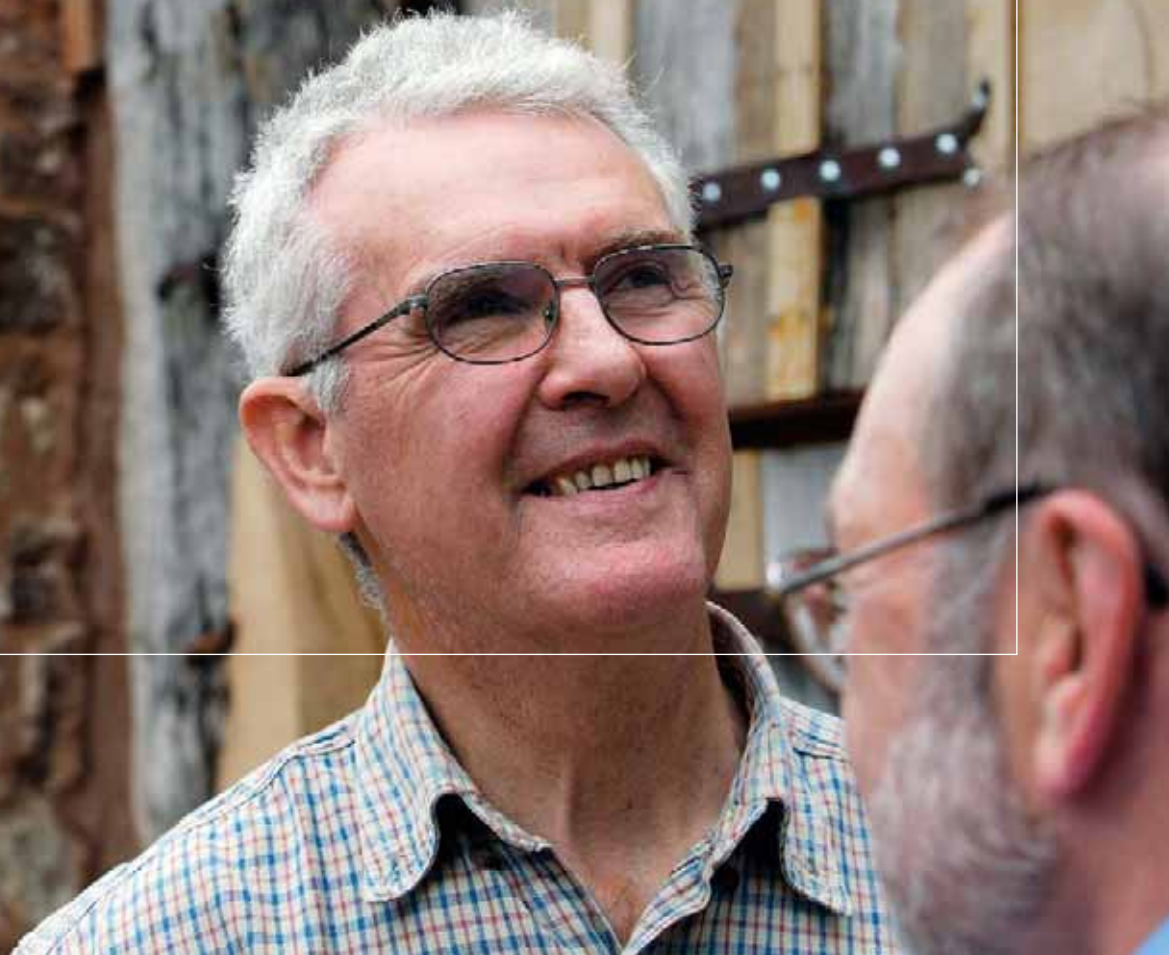
Operating and financial review: Rural Estate

EVOLVE

Re-development of disused farm buildings. Following many years as a pig farmer at Roundway Hill Farm on The Crown Estate's Devizes estate, Christopher Coombs recognised the need for his business to evolve and diversify. The opportunities open to him were plentiful and enhanced by the farm's location near Devizes and the many Victorian buildings on the farm. After securing financial support from The Crown Estate, Christopher began a £1 million conversion scheme, which has delivered six units for local businesses to rent. The project is showing every sign of being a great success with one unit already let to a very popular women's only gym and two more under offer from an electrical contractor and a grain supplier. The Crown Estate is always keen to support our tenants in the development of their businesses on the Rural Estate and are greatly pleased to see Roundway Hill Farm thrive with the new direction their business is taking.

Facilitating community engagement in Somerset. The 'Tithe Barn' in the Somerset village of Dunster dates back to the 16th century. Owned by The Crown Estate, this landmark building stood derelict for many years despite being literally in the 'heart' of the village. Following the formation of the 'Dunster Tithe Barn Community Hall Trust' much fundraising has been done to enable a £450,000 renovation project that has seen the building returned to community use. The Crown Estate was pleased to match-fund locally raised money in order that the project was completed to a high standard. We have also donated plants from The Savill Garden and a 'Windsor Oak' in order to assist with the finishing touches for this spectacular community facility.

ENGAGE



Rural Estate

In 2006/07 the Rural Estate made a gross revenue contribution of £16.5 million, an increase of 2.4% on the previous year. A number of strategic disposals completed during the year reduced revenue potential by approximately £260,000. The value of the Rural Estate, comprising some 780 agricultural tenancies as well as around 700 residential tenancies, forestry and natural mineral resources, was £714 million, 6.1% up on the previous year.

Income continues to be supported by growth in residential and commercial rents alongside gains from non-farm enterprises. Improving commodity market conditions during 2006/07 eased the pressure on farm incomes, with the exception of the dairy sector that remains subdued in spite of buoyant world market conditions. Rent review activity has been relatively quiet, although there have been increases where customers have non-agricultural enterprises. Rental increases have also been associated with new enterprises and residential changes from fair rent to AST terms.

In line with our objective to track the IPD Let Land Standing Investments Capital Growth Index over a rolling three-year period, the Rural Estate achieved average capital growth of 14.3% per annum (IPD 13.5%) between 2004–2006. Over the same period, our total return averaged 17% per annum (IPD 16.3%).

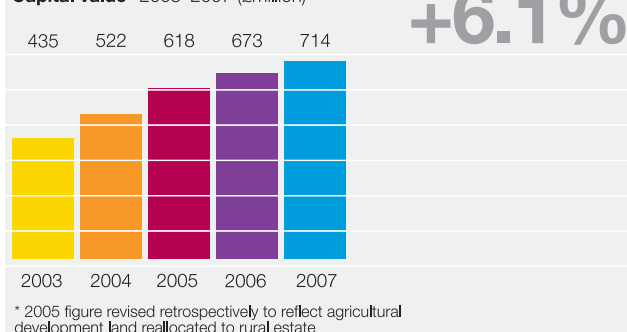
With respect to the balance of our portfolio, we continue to implement our investment strategy that is geared to enhancing long-term performance. We have also increased and enhanced our asset management capabilities so we can identify more effectively the opportunities this substantial portfolio offers.

A strong market with limited supply has restricted reinvestment during the year with vendor's price expectation for 'hope value' too high in most cases. We have made acquisitions adjoining Hull on Humberside and adjoining the Bluewater Shopping Centre at Dartford, Kent, together with minor purchases on our Ashby St. Ledgers, Oxshott and Bryanston Estates.

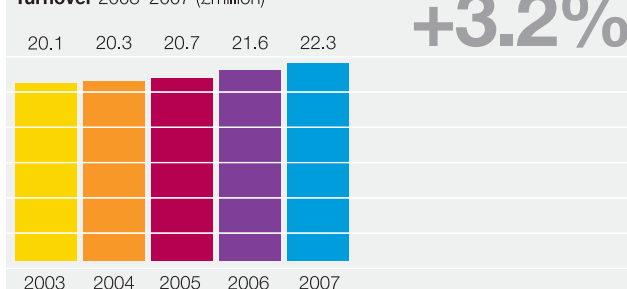
Development sales at Bingham and Taunton, together with farm sales at Romney Marsh, Sunk Island and Marham, East Anglia have been principal contributors to capital realisations of over £59 million.

We have continued to encourage farm diversification by our tenants, helping to facilitate their ideas and plans in a number of ways. This has resulted in the completion of partnership projects at Manor Farm, Wynam Farm and Southern Farm, Derwent and Roundway Hill Farm, Devizes involving the conversion of traditional buildings to form commercial units.

Capital value* 2003–2007 (£million)

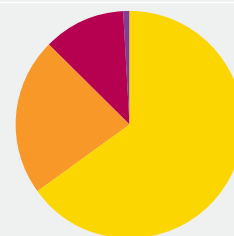


Turnover 2003–2007 (£million)



Turnover by activity 2006/2007 (£million)

Agricultural	14.5
Residential	5.0
Minerals	2.6
Forestry	0.2



Below Property at Ashby St. Ledgers. 85% of residential properties are now considered to be in very good condition.

Right Our publications to keep in touch with our customers have attracted excellent feedback.



New projects include farm development schemes to add value to primary products and investigate renewable energy ventures.

Our residential improvement programme has progressed well this year and has resulted in 85% of properties now being considered to be in very good condition or better, compared to 78% in 2005/06. This year we have also made a commitment to establish a 'Decent Homes Standard'. We will be auditing housing stock to assess standards under a grading system to rank property, seeking to develop a new residential brand identity, based on higher quality standards.

Enhancing communication with our customers remains a priority. To this end, farming tenants and other stakeholders have received a third edition of the 'Rural Bulletin' and residential tenants have received the first edition of 'Rural Housing News'. Both publications have attracted favourable feedback. In addition, residential tenants have been issued with a 'Tenant's Handbook' that provides information on their tenancies, their contract with The Crown Estate and advice on what to do when things go wrong. Environmental advice is also incorporated, with particular emphasis on improving the efficiency of energy use.

Estate visit programmes have continued to provide Board Members with the opportunity to take a strategic view of individual rural estates, whilst preserving direct contact with tenants. Follow-up visits by members of the senior management team ensure further direct liaison with our customers.

Environmental issues and corporate responsibility have always been central to the management of the Rural Estate and we continue to develop standards as expectations continue to

rise. An environmental improvement programme is now underway, through which The Crown Estate is co-funding LEAF (Linking the Environment and Farming) membership for farming tenants. A series of six demonstration days have been arranged for the autumn, when specialist advisers will highlight the merits of new techniques and technologies. The programme seeks to develop an 'environmental ladder' through which tenants can progress to the highest standards demanded by ethical consumers. It is anticipated that this progression will increasingly yield economic benefits for our tenants as markets adjust to customer demands.

This programme will be enhanced by our further involvement in the 'CALM Project' (Carbon Accounting for Land Managers) through which we are at the leading edge of developing techniques for application throughout the EU. We are also sponsoring a Consultation at St George's House, Windsor, on 'Climate Change and the Rural Economy' in November. The outcomes and implications will be discussed with our tenants next winter.

We are represented on the 'Major Landowners Group' of public bodies owning large areas of SSSIs (Sites of Special Scientific Interest). The Government has set a target for all such bodies to have at least 95% of SSSIs in a 'favourable' or 'recovering' condition by 2010. At present the Rural Estate has achieved 92% and expects to reach the target by 2008.

All this activity is reflected in our overall financial performance, with healthy total return figures and a growing revenue bottom line. We believe that through these programmes, we are laying the foundations for long-term sustainable financial performance, coupled with enhancing our reputation as a forward-looking, enlightened and responsible landowner.

Operating and financial review: Windsor Estate

CREATE

Redesigned New Zealand Garden. One of the largest collections of native New Zealand plants in the UK was unveiled in Windsor Great Park in 2007, designed and landscaped under the eye of the new Head of The Savill Garden, Harvey Stephens, who worked in conjunction with leading New Zealand gardener Sam Martin. The inspiration was the unique and diverse habitat of Sam's native country. Sam's winning design was selected because of the way it mimics the undulating roof of The Savill Building. The garden showcases some spectacular flora with the use of more than a thousand tussock grasses, striking individual specimens of cabbage palm and spiky groups of silver-leafed astelias. This exciting new horticultural element of The Savill Garden is a clear demonstration of The Crown Estate's commitment to enhancing the visitor experience at The Royal Landscape.

The Savill Building wins a multitude of architectural awards. The beautiful new Savill Building in The Royal Landscape in Windsor Great Park opened to great accolades in the national architectural and design press. In addition, The Savill Building also won several prestigious awards since opening in 2006 such as, a 'Regional Award' at the RIBA Awards 2007, the 'Gold Award' at the Wood Awards 2006, 'Best Environmental Scheme' and 'Best Overall Scheme' at the Civic Trust Design Awards 2007 and 'Best Environmental Scheme' and 'Best Overall Scheme' at Runnymede Borough Council Awards 2007. The Savill Building features a stunning gridshell design roof and it offers visitors a truly impressive gateway to The Royal Landscape. It is unashamedly of the 21st century in its design and facilities but through its shape and use of materials it neither dominates, nor is diminished by the woodland and gardens around it. The Crown Estate is extremely proud and delighted to have been awarded these prestigious awards in recognition of The Savill Building.



WIN

Windsor Estate

Turnover for the Windsor Estate was £5.5 million with a capital value of £170.3 million for the year ending 31 March 2007. The net cost of maintaining Windsor Great Park as a valuable historical and unique environmental amenity was £2.6 million. The costs were offset by net income derived from commercial and residential property amounting to £0.4 million, and agricultural and forestry revenue of £0.2 million.

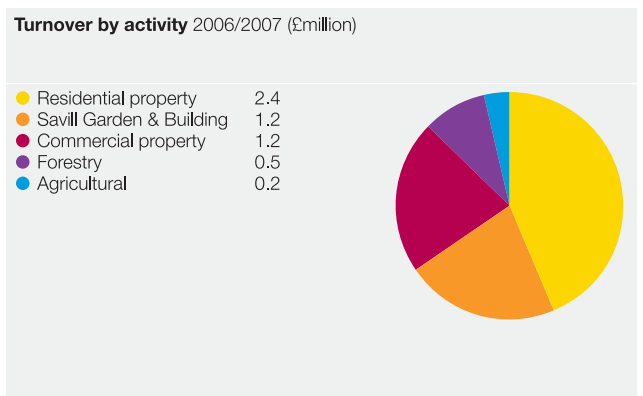
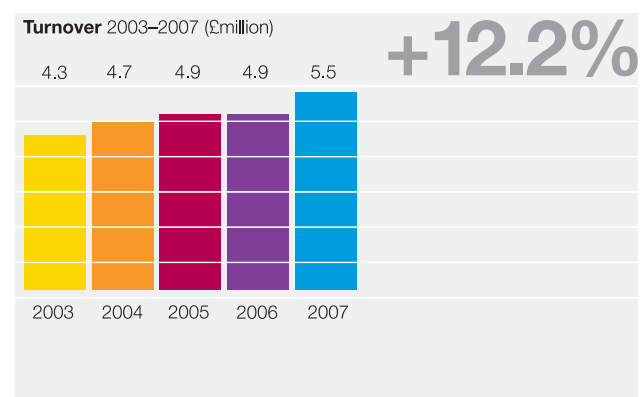
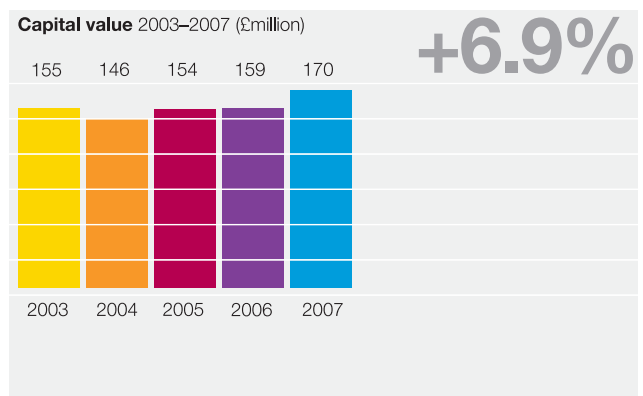
The completion and opening of the new Savill Building in 2006 represents a pinnacle in our development of The Royal Landscape. It now provides excellent facilities for visitors who wish to enjoy The Savill Garden and other aspects of the southern area of Windsor Great Park. The award winning building was officially opened by HRH The Duke of Edinburgh in June 2006. From the moment of opening, the building has been heavily used by visitors with around 400,000 people passing through the doors in the first 12 months of operation. We are justly proud of the stunning building that has already notched up a sizeable list of awards including the prestigious Gold Award and two other awards from the timber industry. In addition to awards from RIBA, The Civic Trust and Runnymede Borough Council.

Ascot Authority, a major prestigious tenant on the Windsor Estate, has also been engaged in a sizeable redevelopment scheme, completing a new grandstand at the Ascot Racecourse available in time for Royal Ascot in 2006. The new stand is an impressive feature and it will take its place as a world-class facility for the racing fraternity for the 2007 season.

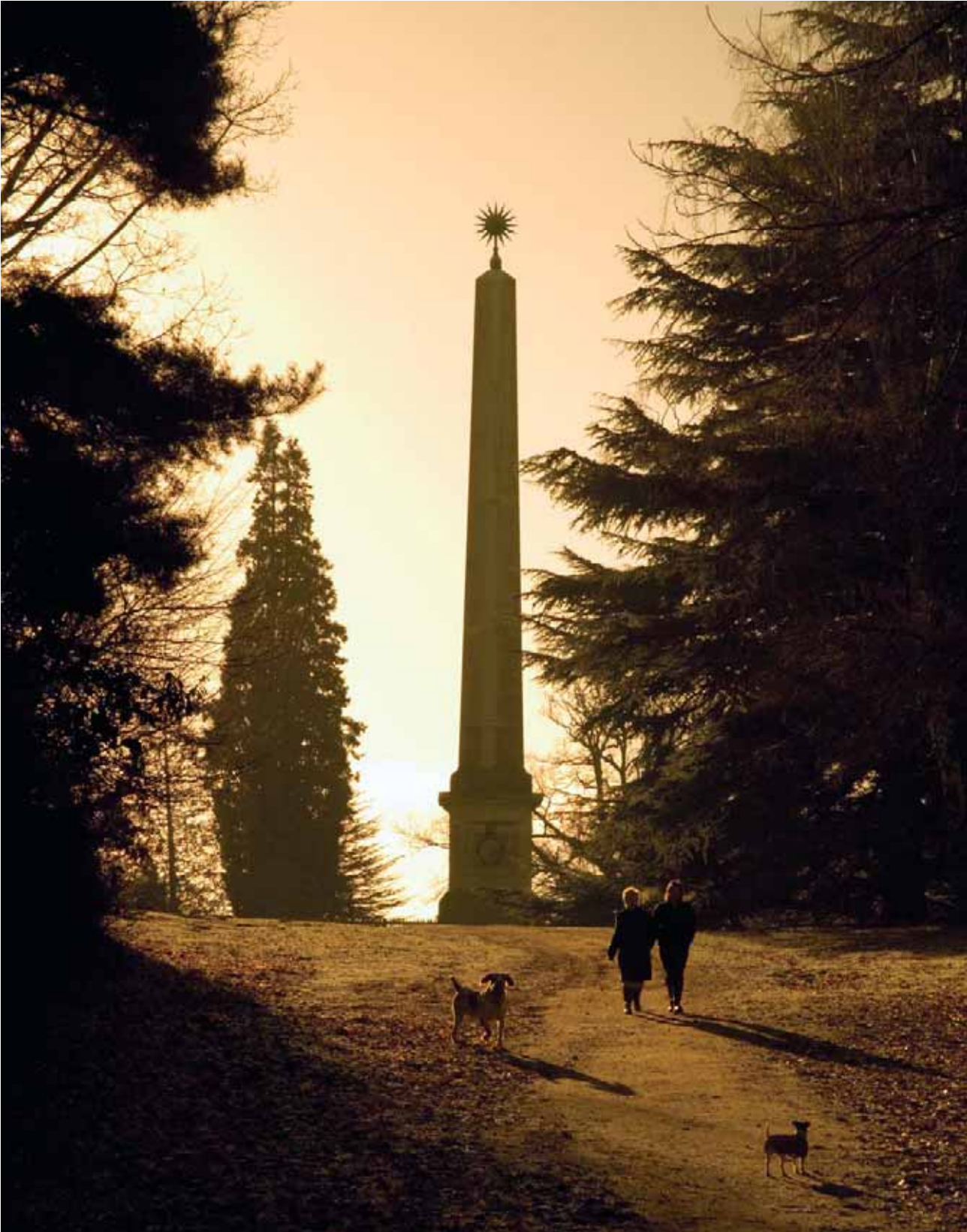
This year, the Windsor Estate has continued to evolve and enhance its conservation work. A new recycling plant was completed within the Great Park. This allows for the collection of waste from all aspects of estate work, so that it can be appropriately recycled and re-used if feasible. In addition to the main recycling plant, a prototype wash-down area has been installed in one of the Park's depots. The wash-down area provides facilities to recycle water used in washing the machinery, and the run-off is collected and treated biologically, so that no potential pollutants can enter watercourses or leach into adjoining ground. This unit has proved highly successful and we propose to install similar units at other key depots.

This year, the number of events being held on the Park's open spaces continued to rise. A new event, the Wag & Bone Show, has proved very popular with dog owners. The Royal Windsor Horse Show continues to attract many thousands of spectators and participants and in September 2006, the 25th annual Windsor Half Marathon took place.

Overall public use of Windsor Great Park is steadily increasing, and we are now seeing heavy usage during the winter months, putting greater pressure on the Park itself, together with the adjoining car parks and other facilities. To help educate visitors about their impact on the Park, we are aiming to provide more information points, together with leaflets and guidance about the way in which they can enjoy the Park, whilst protecting it for future generations.



Below Public enjoyment of Windsor Great Park is increasing during the winter months.



Corporate Responsibility

SUPPORT

The Crown Estate supports farm tenants' LEAF membership. As part of our commitment to sustainable farming practices we are encouraging our tenants to join Linking Environment and Farming (LEAF). This provides a mechanism to help them improve the performance of their farm and successfully enter the Government's agri-environment schemes. We will support tenants who wish to join LEAF by offering a discount membership for the next three years: we will pay 50% of the membership fee. Additionally we are developing Environmental Frameworks for each Rural estate which will include action plans that pick up on the specific corporate responsibility commitments of The Crown Estate.

Carbon project promotes sustainable travel. Carbon management and accounting studies have been a focus across The Crown Estate this year. The Marine Estate has reviewed the energy and carbon emission issues associated with marine aggregate dredging. This has covered not just the extraction and transport of aggregate materials but also their use in concrete in the built environment. Across the rural portfolio, a broad assessment of the carbon contribution of the in-hand forestry estate has been undertaken. Additionally the Windsor Estate was subject to the 'Climate Change and European Countryside' study which found the estate to be carbon neutral and recommended the enhanced production of bio-fuels to further combat climate change. Work has commenced with The Carbon Trust to calculate the carbon footprint of our Headquarters buildings and close-managed urban buildings. This focuses on emissions from energy consumption and travel. The project also explores carbon production and abatement in the development and investment processes. Recommendations will be produced across all areas within the scope of the project.

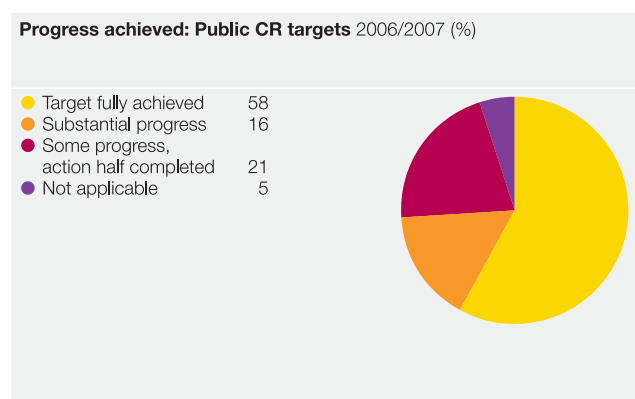
A close-up, low-angle photograph of a blue bicycle. The focus is on the front wheel, handlebars, and the front fork. The bicycle is parked on a light-colored, textured pavement. The background is a dark, textured surface, possibly a wall or a large shadow. The word "SUSTAIN" is overlaid in large, white, sans-serif capital letters across the middle of the image.

SUSTAIN

Corporate Responsibility

The Crown Estate's commitment to Corporate Responsibility (CR) continues to be underpinned by our three core values of commercialism, integrity and stewardship. These values inform and shape the work we do and the aspirations we hold.

Over the past four years, we have been implementing a formal CR programme, made up of long-term objectives and annual targets. These targets cover the diverse areas of our business and our progress against them is audited by third party advisors each year. A summary of our progress in achieving the 19 public targets that we set for 2007/08 is provided in the chart below, and this is verified through the statement from our advisors on page 36.



The work carried out this year reflects an increasing commitment to CR from all employees and a growing awareness of the importance of integrating sustainability principles into all business decisions. Throughout the year, the senior management team and management board have also been working to define a series of high level aspirational CR targets to underpin our efforts in this area until 2011.

Significant achievements during the past year have included:

- Continuing improvements from each of the agents managing our urban properties against the bespoke Environmental Performance Index (EPI), which sets out our requirements against key objectives relating to the efficient use of natural resources; the minimisation of emissions; the reduction of waste and an increase in recycling; and the communication of our CR commitments to our advisors, contractors and suppliers.
- We now have, for the first time, an environmental performance baseline for the majority of our close-managed urban properties in respect of energy use, associated carbon emissions, and water use. This will enable us to track and monitor our resource efficiency throughout the year, and forms the basis for our longer-term targets to improve this in future.
- A very considerable amount of work has been undertaken by all our estates to further understand the carbon footprint of our activities. This has led to a continuing programme of work on carbon management aimed at better understanding and evaluating the carbon risks of our decisions and managing our carbon emissions.
- Our rural agents work to an Environmental Plan, which now includes action plans aligned with our specific CR commitments. Furthermore, farm tenants are being encouraged to sign up to the Linking Environment and Farming (LEAF) audit. This includes an 'environmental ladder' which will be introduced to agricultural tenants in the coming year.
- We continue to work very closely with our customers and tenants to improve the quality of the built and physical environment in which we operate and preserve the best of our heritage for future generations.

Of course, we also recognise that sustainable development brings with it a number of considerable challenges, both to us at The Crown Estate, and to other companies in our sector. But our commitment to corporate responsibility remains unabated and we will continue to seek ways to increase its profile within the business, and to find innovative solutions for doing business in a more efficient and sustainable manner.



More detailed information about corporate responsibility and key performance indicators (KPIs) can be found on our website:
www.thecrownestate.co.uk/cr

We have five key themes to which we apply our corporate responsibility principles and these are explained over the following pages:

Our customers

To us being good people to do business with means understanding the needs of our customers and tenants and responding to them. Communicating with our customers is very important. As a good landlord we want to provide a good quality service, choice and flexibility. We also wish to provide safe working and living environments which have been designed, or adapted as much as practically possible, to help the fight against global warming. The service given by our business partners should be seamless, reflecting our principles and working practices.



Case study:

Business Awards

The Business Awards recognise excellence in business performance, innovation, environmental care and sustainability. The awards operate in each of The Crown Estate's business areas – marine, rural and urban – and demonstrate our ongoing commitment to encouraging the development of successful, innovative and sustainable business.

The Urban Business Award has been awarded to Firmdale Hotels plc, for their Haymarket Hotel. The judges were impressed by their contribution to the built environment by improving a relatively run down area, and their demonstrable commercial success since their launch in 1985. Firmdale's chain of small boutique town house hotels has an excellent customer service ethos which aligns itself closely to The Crown Estate's core values.

The Marine Business Award winner is the RSPB Conwy Nature Reserve, for their education centre which creates activities for a variety of people contributing to a wider dissemination of environmental awareness. The reserve was only created 12 years ago and now has over 200 species of bird present throughout the year. This has led to a greater involvement by the public and school children in environmental educational activities and conservation work.

The Rural Business Award has been won by Tim Piper of Chapel Bank Farm on the Romney Marsh estate in Kent. The judges were impressed with the efficiency and development of their business operations; their responsible care of the environment around them and their contribution to society throughout their locality and beyond. Over the past 30 years, the Piper family have grown their business ten-fold.

The way we do business

We aim to apply the best modern working practices, manage business risks effectively, to work efficiently and to demonstrate value for money. We are committed to dealing honestly and fairly with people. We are taking steps to ensure that all of our strategies and policies are communicated to our business partners, suppliers, advisers and contractors. We acknowledge their work in helping us to achieve our targets.

Case study:

Energy Efficiency Strategy

An Energy Efficiency Strategy has been developed to focus on The Crown Estate's 1,300 affordable homes in London. This provides the Housing Business Group with a clear plan of action for the improvement of the energy efficiency of this housing stock over the coming years, integrating energy efficiency improvements into broader repair and maintenance programmes and exploring new technologies. Not only will the implementation of the strategy help to reduce carbon emissions but it will help tenants to see a reduction in their energy costs. The strategy also establishes a framework for employee motivation, training and the provision of advice to tenants.



Our people

We are proud of the expertise and enthusiasm of the people we employ and we want them to feel fulfilled in their work. To ensure this we provide clarity in our employment policies; remunerate employees for their contribution to our business; support equal opportunities; maintain strong communication channels between different levels of employees; provide a safe working environment and improve learning and innovation by investing in training and development.



INVESTOR IN PEOPLE



Case study:

Online HR system

As part of our ongoing drive towards a 'paper-less' office we have introduced an online Human Resource IT system to all office based employees. This has enabled all prior paper-based systems to go electronic. It provides an up-to-date time management system with additional features enabling employees to self-manage all absences, personal details and training course attendance

The environment around us

We believe that our stewardship role on our estates should leave a legacy for future generations and be an example to others. We aim to operate as a lean and enterprising organisation that uses resources efficiently; minimises emissions to land, air and water; curbs the production of waste and increases its recycling; and conserves and enhances those parts of the estate rich in bio-diversity and architectural and historical value.

Case study:

Sites of Special Scientific Interest

There has been clear progress made in meeting the Natural England target to bring 95% of directly managed Sites of Special Scientific Interest (SSSI) in England up to favourable condition by 2010. There are a large number of directly managed SSSIs spanning the Rural, Windsor and Marine Estates. Of those on the Rural and Windsor Estates 92% currently meet the target condition. On the Marine Estate 75% are currently considered in favourable condition. The condition of the remainder are outside The Crown Estate's control due to constraints such as 'costal squeeze' and fisheries.



The wider community

We believe vibrant and thriving communities have an important role in our estate and we want to contribute to their vitality. We seek to do this by working with them in partnership and identifying opportunities for inward investment; listening to their views when undertaking development projects; contributing to affordable housing; acting as a good neighbour and supporting community initiatives consistent with our corporate responsibility objectives.



Case study:

Marine Stewardship Programme

The Marine Stewardship Programme (MSP) supports a wide range of projects designed to involve communities, build partnerships and help develop good environmental practices around the coast of the UK. The Programme also supports relevant scientific research that helps underpin our management of marine and coastal activities.

We have supported 48 projects over the course of the year including part-funding the National Maritime Museum's Marine Environment Education Initiative aimed at addressing climate change issues and the impact of local action on the wider environment. Another initiative is the 'Fishing for Litter' campaign. This campaign encourages fishermen to collect marine litter accumulating in their nets as part of their normal fishing activity. Once deposited on the quayside, the participating harbours monitor the waste before moving it to a dedicated skip for disposal.

We also contributed towards the Shark Trust's 'Great Eggcase Hunt'. In order to determine the general whereabouts of shark species in the UK, the Shark Trust encouraged the British public to count eggcases washed up on beaches. At Dunwich Heath, a redundant WW2 generator building was redeveloped into a cetacean watching and recording centre in partnership with the National Trust and the Sea Watch Foundation. The site houses viewing equipment, identification charts and interactive activities on marine conservation.

Objectives & targets 2007/08

Our customers
Long-term objective
To develop a new customer brand to act as a focal point for further initiatives to enhance customer experience.
Targets
<ul style="list-style-type: none"> ▶ To develop a mechanism for rural tenants which allows the promotion of their businesses and products. ▶ To offer advice and partnership investment opportunities to rural tenants aimed at enabling them to diversify and access national retail markets through high value sustainable goods.
Long-term objective
Work with our customers, encouraging them to act responsibly with regard to the environment and local communities.
Target
<ul style="list-style-type: none"> ▶ To secure commitment from 100 farm tenants to undertake the LEAF Audit.

The way we do business
Long-term objective
Integrate CR considerations into procurement and supply chain management practices, focusing on prioritised suppliers including managing agents.
Target
<ul style="list-style-type: none"> ▶ To influence corporate responsibility policy within legal business partners at an awareness raising workshop hosted by The Crown Estate and facilitated by expert consultants.

Our people
Long-term objective
Raise awareness of CR and environmental issues amongst staff, and provide them with appropriate training to deliver good practice.
Target
<ul style="list-style-type: none"> ▶ To establish the level of CR awareness and understanding amongst employees and produce recommendations to increase awareness including organising at least four educational or awareness-raising events for staff on relevant CR issues.

The environment around us	The wider community
Long-term objective	Long-term objective
Monitor resource use, improve resource efficiency and implement environmentally preferable waste management measures.	Review The Crown Estate's contributions to sustainable communities and ensure that these result in positive benefits for society.
Targets	Targets
<ul style="list-style-type: none"> ▶ To adopt a tailored Environmental Performance Index for the business activities of the Windsor Estate. 	<ul style="list-style-type: none"> ▶ To become a founding member of the Westminster Small and Minority Business Council and contribute to its work where it is consistent with the nature of our business. To encourage managing agents to support small and minority-owned businesses within the West End.
<ul style="list-style-type: none"> ▶ To review the procurement of office supplies with London Remade (the Mayor's Green Procurement Code) in order to increase the proportion of recycled and Fairtrade products purchased. 	<ul style="list-style-type: none"> ▶ To pilot flagship sustainability performance standards in a residential development scheme on the Patshull Estate, Shropshire.
Long-term objective	
Develop and implement a carbon management strategy to mitigate The Crown Estate's contributions to climate change across the entire portfolio.	
Targets	
<ul style="list-style-type: none"> ▶ To work with the appointed Carbon Trust consultant to establish the carbon footprint (based on energy consumption and transport emissions) of our HQ buildings and (in liaison with the Urban Estate) of common areas of urban close-managed buildings. 	<ul style="list-style-type: none"> ▶ To carry out visitor surveys in selected areas to ascertain usage, public opinion and understanding of Windsor Great Park including the ecological impact of human activities.
<ul style="list-style-type: none"> ▶ The Marine Estate will have an operational spatial planning process in place based on the principles of sustainability by the end of the financial year. 	<ul style="list-style-type: none"> ▶ To set up a Give as you Earn Scheme for employees and achieve at least a Bronze award under the Payroll Giving Quality Mark.
<ul style="list-style-type: none"> ▶ To reduce the carbon dioxide emissions associated with energy use in those parts of the Urban Estate that are under our direct control by 3% compared with 2006/07 levels (like for like properties only). 	<ul style="list-style-type: none"> ▶ To increase by 10% time spent by employees participating in the volunteering scheme.
<ul style="list-style-type: none"> ▶ To achieve 100% of the objectives agreed for completion by the end of the financial year as set out in the Housing Energy Efficiency Strategy report. 	
<ul style="list-style-type: none"> ▶ To engage with a 'Centre of Excellence' to advise on carbon, climate change and sustainable development initiatives and consequently commission a carbon audit of the Rural Estate. 	
<ul style="list-style-type: none"> ▶ To develop a green travel plan for the Headquarters building, 16 New Burlington Place. 	
<ul style="list-style-type: none"> ▶ To achieve carbon neutrality for direct activities undertaken by the marine team and their Managing Agents by the end of the financial year. To require all new contracts placed from now on with agents to place the obligation on them to be carbon neutral with regard to business undertakings of The Crown Estate's behalf. 	
<ul style="list-style-type: none"> ▶ For the Marine Estate to be facilitating the displacement of 1 million tonnes of CO₂ by the end of financial year from the farming of its natural resources. 	

Corporate Responsibility advisor's statement

Upstream has undertaken a formal review to establish The Crown Estate's level of achievement against each of its 2006/07 Corporate Responsibility (CR) targets. Upstream continues to provide strategic advice to The Crown Estate on CR strategy, and should therefore not be considered fully independent.

As in previous years Upstream's review has consisted of attendance at the quarterly meetings of the CR Working Group and the CR Committee, as well as meetings with representatives from Corporate Support and other key individuals from within the organisation, and finally a review of documentation submitted as evidence against each target

From the review findings, Upstream can confirm the following:

- A total of 19 public targets were set for 2006/07, of which 58% were fully achieved during the year.
- This compares with 26 public targets set in 2005/06 and a higher proportion of those being fully achieved (73%). The slight drop in achievement levels is partly attributable to the increasingly challenging nature of targets set by The Crown Estate's various business divisions.
- In addition, unlike in previous years, none of the targets for the latest financial year remain either entirely or significantly unprogressed (either 0% or 25% achievement). This shift reflects the growing maturity of The Crown Estate's CR Strategy.
- The Crown Estate's commitment to CR, particularly in relation to environmental management has reached a new level, and the profile of CR in general has risen within the organisation. CR has formed the main focus of senior management away days, and staff awareness raising sessions, as well as a critical topic for discussion at management board meetings.

- A more robust approach to understanding and mitigating the risks associated with climate change has emerged over the year. A baseline carbon footprint associated with the Rural Estate, and with energy used in the close managed urban properties has been established. Upstream looks forward to seeing The Crown Estate setting itself medium-term carbon reduction targets in the near future. Any efforts in this area will, of course, be complemented by the unique roles played by both the Marine and Rural Estates in the active promotion of renewable energy technologies.

Nevertheless, in keeping with all other businesses and particularly property players, The Crown Estate continues to face several major challenges ahead, including the continued development and implementation of a responsible procurement strategy, the need to deepen the stakeholder engagement programme, which includes learning from the efforts of the Rural Estate who are currently engaging with, and assisting rural tenants to respond to a set of changing business opportunities. Finally, it is clear that excellent mechanisms already exist to invest in local communities in and around The Crown Estate's portfolio, most notably with initiatives such as the Marine Stewardship Programme. It will be important in coming years to seek to align such community efforts with business goals, and measure the impact effectively.



Julie Hirigoyen
Director, Upstream

Finance Director's review

The excellent results this year have been discussed in the Chief Executive's review. The purpose of this review is to develop some of the elements that contributed to the year's success and highlight areas receiving special consideration going forward. The results are underpinned by both investment activity and asset management initiatives across the entire estate.

As a long-term landowner we have obligations to achieve year-on-year long-term growth. Over the past 10 years we have seen revenue growth of 76.7% delivering to the Treasury £1.6 billion, capital growth of 134.9% and a total return that has outperformed IPD over the past one, three and five years.

The Crown Estate Act 1961

It is important to understand the provisions of the Act and especially how we report our financial results. The Crown Estate Act 1961 places certain obligations and restrictions on the way we do business. In particular we are unable to borrow to finance investment and we have special accounting arrangements that are specifically aimed at maintaining a balance between revenue and capital, which is similar to a trust.

Given these arrangements our results are all the more impressive. In particular, if our revenue results were fully presented under UK GAAP and unencumbered by the restrictions of The Crown Estate Act, they would increase by £89.4 million from £200.1 million to £289.5 million. The majority of this relates to profit on sales of freeholds of £56.6 million which is retained within the capital account for re-investment in the estate. Full details of this are given in note 3 to the financial statements.

Property valuation

The total value of the estate rose by 15.6% to £6,572 million for the year ending 31 March 2007. Our commercial urban properties delivered the strongest growth at 17.5% but there was also significant growth across the remainder of the portfolio with residential at 11.6%, rural at 6.1% and marine at 13.2%.

In line with the rest of the market these increases have been driven by yield compression plus growth in rental values, particularly in central London offices. Indeed, despite reducing our exposure by 1%, the rental value of our London offices has risen by 9.4% and its share of the total capital value of our urban commercial portfolio has risen by 3% to 47.6%.

The continuing weight of money in the investment market has driven yields down. This is reflected in the IPD Quarterly Index where the equivalent yield for all property has fallen from 5.7% to 5.3% over the year to 31 March 2007. Similarly, the equivalent yield across our commercial portfolio has fallen from 5.3% to 5%.

The total return on the entire property portfolio was 25.7%. This compares favourably with the IPD Quarterly Index which recorded an all property return of 15.8% for the year to March 2007.



Since last year we have agreed a bespoke benchmark with IPD based upon quarterly valued long-term funds in excess of £200 million. We now submit the whole of our urban commercial portfolio for analysis on a six monthly basis. As at 31 March 2007 this amounted to 423 properties with a total value of £4,753 million, or 70% of the entire estate by value. The total return from these properties for the year to 31 March 2007 was 30.6% which compares to the benchmark of 16.3%.

As in previous years we commissioned independent check valuations of a sample of our urban and rural properties (7.9% by value of the whole estate). The results of this exercise reassuringly supported the tone of the main valuation. In addition, all purchases and developments completed during the year were valued independently of the acting investment advisers, which represents a further 2% of the estate.

As a publicly accountable body, transparency of disclosure and the pursuit of best practice is a key priority to us. In furtherance of this aim we have appointed DTZ and Jones Lang LaSalle as independent valuers across nearly 90% of the value analysed by the IPD and 60% of the estate as a whole. Their first valuation will be in September 2007.

Investment in English Limited Partnerships

During the year and as part of the process of revising our investment strategy we undertook a close analysis of alternative approaches to investment, in particular third party investments which might be available to The Crown Estate bearing in mind the constraints of The Crown Estate Act. This involved detailed legal analysis with external lawyers and leading Counsel, an assessment of the accounting impact with our accountancy advisors, and discussion with HM Treasury. The analysis concluded that we may invest in land through the structure of limited partnerships.

In light of this conclusion we acquired a 4.7% share of the Lend Lease Retail Partnership in September for £39 million and took steps to form a 50:50 joint venture partnership with Hercules Unit Investment Trust (HUT) with a combined total value of £680 million that completed in early April 2007.

Source The Crown Estate performance calculated internally.
IPD = Quaterly Universe to March 2007.

Cash flow

Maintaining capital liquidity is very important in taking forward our investment strategy, which includes our future development plans. This year we have taken advantage of a very buoyant market and have made disposals of non-performing assets. During the year there was significant cash generated from the commercial and residential portfolios with total receipts of £418 million. Investment in the estate was £186 million leading to a net inflow of capital of £232 million compared with a net outflow of cash of £60 million in 2005/06.

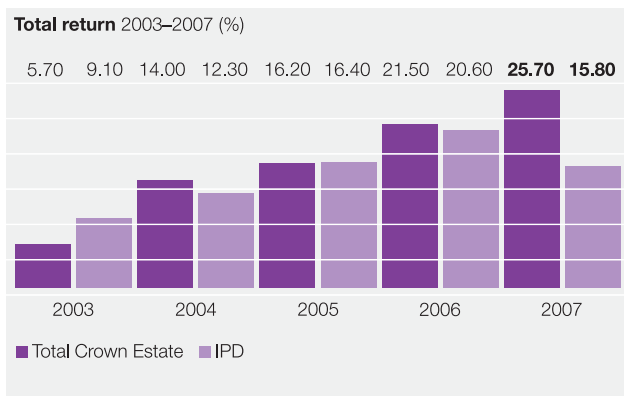
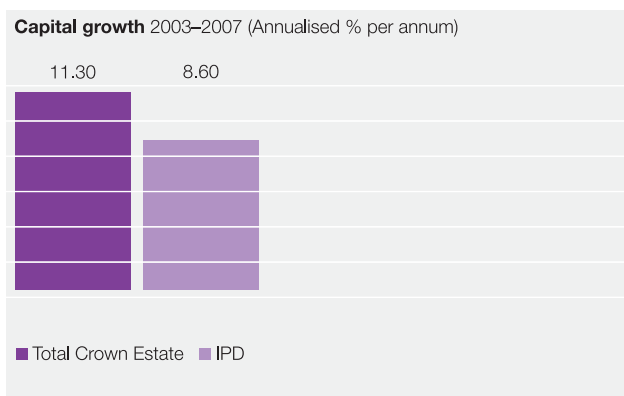
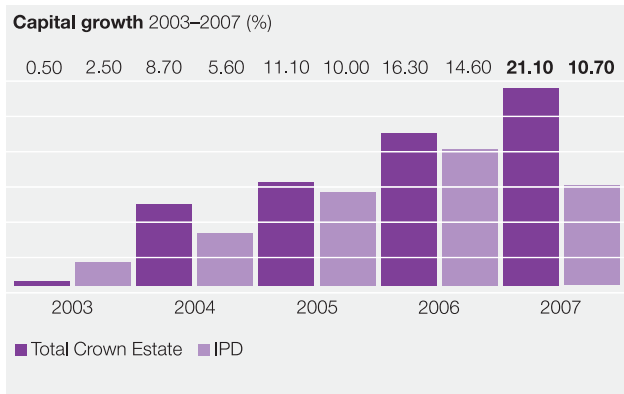
Accounting and regulatory issues

There have been no changes in accounting policies during 2006/07. Additional disclosure notes have been included to analyse the adjustments that are made between revenue and capital and to give details of our investment in English Limited Partnerships. The introduction of International Financial Reporting Standards (IFRS) is now firmly established for listed companies. We along with other public sector organisations will follow the Accounting Standards Boards convergence timetable and are not expected to be IFRS compliant until 2008/09. This will result in significant changes not only in the presentation of financial information but also our accounting policies and disclosures.

Risk factors and risk management

We continue to develop and embed the risk management process within The Crown Estate. Risk management is becoming an effective planning tool as well as a means of reviewing our strategic and operational risks throughout the organisation.

Risk registers are held and maintained for each department and risk reporting is based around internal control statements that are regularly completed by each department. The cross-departmental review group, whose aim is to ensure consistency and best practice, reviews the risks and opportunities that may arise across all areas of operation and escalates them where necessary to the management board. Strategic risks and their assessment are the responsibility of the management board and are reviewed quarterly.



Insurance

Following a tender exercise Willis Ltd was appointed as insurance advisor to The Crown Estate for a three-year term with effect from January 2007. As a result enhancements have been introduced to extend and improve the scope of cover across the estate.

The Crown Estate strongly supports the New Code for Leasing Business Premises provisions on disclosure of commission. At 8.5%, our commission is considered to be at the lower end of commission retained by our property peer group and has been capped expressly to cover only the work carried out on the administration of the insurance programme.

Charitable donations

The Crown Estate provided donations to a range of bodies, including charities, totalling £5,950 in 2006/07 (£7,467 in 2005/06), as permitted by The Crown Estate Act 1961, section 4(2).

Supplier payment performance

The Crown Estate's payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year The Crown Estate paid 72% (74% in 2005/06) of invoices from suppliers within this period. This percentage includes invoices under dispute and amounts recoverable from third parties. On average, invoices from suppliers are paid within 26 days of receipt (30 days in 2005/06). The Crown Estate observes the principles of the 'Better Payment Practice Code'.

Information Systems – Financial Systems

In December 2006 The Crown Estate embarked on a project to replace its existing finance system with a new system provided by software suppliers Agresso. The new system will enable The Crown Estate to fulfil its future business and corporate objectives in a more streamlined manner than is currently possible. It is estimated that the cost of the new system will be £3.8 million and it is anticipated that it will be delivered by June 2008.

Looking ahead

Last year we forecast that conditions would remain conducive to the selective disposal of properties within our central London office portfolio. This proved to be the case as we realised proceeds of some £278.0 million across 25 properties. These properties were identified as not being core to our business and their disposal also incrementally increased our average lot size.

Whilst we did not expect quite such strong performance in 2007 we did believe that we would outperform the market due to our high exposure to the London office market. It is clear now that the yield impact on capital values has been on the wane since June 2006 and therefore we do not expect such strong total returns next year.

Looking forward to 2008, we believe that we are well positioned for the year ahead. In particular, steady demand and an acute lack of supply should continue to support West End office rents. We are also optimistic about our rural holdings due to the resurgence in commodity prices and the increasing global volatility of food supply. In addition new investment opportunities that are starting to emerge from the Marine Estate hold the prospect of further income growth. However, we have concerns about the residential market due to interest rate rises this year and affordability levels. A slowing housing market and a tightening of disposable income will have a consequential impact on the level of retail consumption. Retail and residential may therefore be poorer performing sectors but again we believe that London, where we have the majority of our holdings, will be amongst the most resilient regions. The residential letting sector should be supported by a continuing supply/demand imbalance and in Regent Street we have the considerable advantage that we can continue to add value through active asset management.



John Lelliott
Finance Director

The Board



Ian Grant CBE
Chairman, First Commissioner
and Scottish Commissioner

Appointed to the Board in September 1996 and as Chairman in October 2002. Deputy Chairman of NFU Mutual Insurance Society and Chairman of the Scottish Exhibition Centre. For 30 years he was an arable and livestock farmer in Perthshire. Previous experience includes: President of NFU Scotland, Chairman of the Scottish Tourist Board, Deputy Chairman of Scottish and Southern Energy plc and non-executive director of Clydesdale Bank plc. Fellow of Royal Agricultural Society and Hon. Doctor of Business Administration Napier University, Edinburgh. Age 63.



Roger Bright
Chief Executive and
Second Commissioner

Appointed as an executive Board member in April 2000 and subsequently appointed Chief Executive in September 2001. Chairman of Corporate Responsibility Committee. Former member of the General Advisory Council of the British Property Federation, and a Board member of the Central London Partnership. Previous experience includes: a career with the Department of the Environment, Deputy Chief Executive of The Housing Corporation, Head of Finance and Operational Services at the Personal Investment Authority and subsequently Chief Executive, Head of Investment Business (PIA firms) Department at the Financial Services Authority. Former Director of Finance and Administration at The Crown Estate 1999–2001. Age 56.



Sir Donald Curry KB, CBE
Non-executive Board member

Appointed in January 2000. Member of the Audit Committee. Sir Donald Curry is Chairman of the NFU Mutual Insurance Company and the Government's Sustainable Farming and Food Strategy Delivery Group. Sir Donald farms 250 hectares of arable and lowland grass in Northumberland. Previous experience includes: Chairman of the Meat and Livestock Commission and Chairman of the Policy Commission on the Future of Farming and Food (2001/02). Vice Chair of SAC (Scottish Agricultural College) Hon. Doctor of Science (Cranfield University) and Hon. Doctor of Philosophy (University of Gloucester). Fellow of Royal Agricultural Society. Age 63.



Hugh Duberly CBE
Non-executive Board member

Appointed in January 2002. Chairman of the Remuneration Committee. Hugh Duberly is HM Lord-Lieutenant of Cambridgeshire. Chairman of the Papworth Trust and the Shuttleworth Trust. He is also a Governor of Writtle College and Chairman of the Ely Board of Finance. He owns and manages land in Cambridgeshire. Previous experience includes: President of the Country Landowners Association, Director of the Agricultural Mortgage Corporation plc and an elected member of Huntingdonshire District Council. Age 65.

**Jenefer Greenwood**

Non-executive Board member

Appointed in January 2004. Member of the Remuneration Committee. Jenefer Greenwood is Retail Strategist at Grosvenor with special responsibility for direction of all Marketing and Leasing activities on the retail development portfolio. She is also a member of the Management Board of the New West End Company and a Governor of Westonbirt School, Tetbury, Gloucestershire. Previous experience includes: Head of Retail at CB Hillier Parker, member of the general council of the Royal Institution of Chartered Surveyors, President of the British Council of Shopping Centres (2003/04) and member of International Council of Shopping Centres European Board. Fellow of the Royal Institution of Chartered Surveyors. Age 49.

**Martin Moore**

Non-executive Board member

Appointed in April 2002. Chairman of the Audit Committee. Martin Moore is Managing Director of PRUPIM (Prudential Property Investment Managers Ltd) and past-President of the British Property Federation (year to June 2005). He is also a non-executive director of hSo, an IT and telecommunications company. Previous experience includes: Chairman of the Investment Property Forum, Chairman of Westminster Property Owners Association and a member of CABE's Design Review Committee. Member of the Royal Institution of Chartered Surveyors. Age 51.

**Dinah Nichols CB**

Non-executive Board member

Appointed to the Board in January 2003. Member of the Corporate Responsibility Committee. Dinah Nichols is a non-executive director of Pennon plc (a waste and water company based in the South West) and Shires Smaller Companies plc. She is also Chair of the National Forest Company, Chair of a Groundwork Trust and a Trustee of several other charities. Previous experience includes: Director-General for Environment, DEFRA, Director-General for Property Holdings, Department of the Environment, Director-General for Housing and Construction, Department of the Environment. Hon. Fellowship, Royal Holloway College, University of London. Age 63.

**Chris Bartram**

Non-executive Board member

Appointed in January 2007. Member of the Audit Committee. Chris Bartram is currently Chairman of Orchard Street Investment Management and was Managing Director of Haslemere which was floated on the Amsterdam Stock Exchange in 1999. Current non-executive appointments include: Chairman of Estate Management Development Fund at Cambridge University and Associate Fellow, Downing College, Cambridge. Past non-executive appointments include: President of the British Property Federation, Chairman of the Bank of England Property Forum, and a non-executive director of George Wimpey plc. Age 58.

Governance report

Introduction

In managing the affairs of The Crown Estate, the Board of Commissioners (the Board) is committed to business integrity, high ethical values and professionalism across all its activities – all in accordance with the organisation's core values of commercialism, integrity and stewardship. As an essential part of this commitment, the Board recognises the importance of high standards of governance and has in place a corporate framework document setting out the basis on which The Crown Estate operates and the formal structure for decision-making.

The Combined Code on Corporate Governance (the Combined Code) issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance. Although The Crown Estate is not obliged to comply with the requirements of the Combined Code, its Board nevertheless supports the principles and provisions set out in the code and, inasmuch as they are applicable to the circumstances of The Crown Estate, seeks to comply with the code where this is appropriate.

This report provides information on The Crown Estate, including the statutory position of The Crown Estate Commissioners (the Board). It also describes the Board's approach towards governance of The Crown Estate and, to the extent possible, how The Crown Estate has applied the principles set out in the Combined Code. Adherence to best practice in corporate governance is kept under regular review.

Statutory Position of The Crown Estate and the Crown Estate Commissioners (the Board)

The Crown Estate Act 1961 was enacted by Parliament in pursuance of the recommendations of the Report of the Committee on Crown Lands which visualised the role of The Crown Estate Commissioners as analogous to that of trustees of a trust fund. The Act charged the Commissioners with the management of The Crown Estate.

The Crown Estate may be traced back to the reign of King Edward the Confessor and, until the accession of King George III, the Sovereign received its rents, profits and expenses. However since 1760, the annual surplus, after deducting management costs, has been surrendered by the Sovereign to Parliament to help meet the costs of civil government. In return, the Sovereign receives the civil list and the Government meets other official expenditure incurred in support of the Sovereign.

The duties of the Commissioners are to maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to

maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. By the Civil List Act 1952 the net income from The Crown Estate, after defraying costs of collection and management, is required to be paid into the Exchequer and made part of the Consolidated Fund (general government revenues).

The Commissioners have authority to do on behalf of the Crown in relation to The Crown Estate all such acts as belong to the Crown's right of ownership, subject only to the detailed restrictions set out in the Act. The Commissioners must comply with such directions, as to the discharge of their functions under the Act, as may be given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland. The Commissioners submit annually to the Treasury a forecast of their activities in a corporate plan covering the following and two ensuing years.

The Crown Estate is not the property of the Government, nor is it the Sovereign's private estate. It is part of the hereditary possessions of the Sovereign in right of the Crown.

The Crown Estate Commissioners are a statutory corporation; they are not a company for the purposes of the Companies Act.

The Crown Estate may not hold assets other than in land, gilts or cash. Investment in equities or outside the United Kingdom is not permitted.

The Crown Estate has no general powers to borrow, either for capital purposes or for working balances, and there is thus no external indebtedness in the balance sheet.

Under The Crown Estate Act 1961 (First Schedule, paragraph 5) monies are provided by Parliament (Resource Finance) towards the cost of the Commissioners' salaries and the expense of their office.

Composition of the Board

At 31 March 2007 the Board comprised eight members: a Chairman (who is non-executive), Chief Executive and six non-executive members. The composition of the Board is defined by The Crown Estate Act 1961.

The Board is satisfied that no individual, or group of individuals, is or has been in a position to dominate the Board's decision-making. It is of the view that collectively Board members provide an appropriate balance of skills, experience and qualities and that, as currently constituted, the Board has strong independent and diverse characteristics.

Brief biographies of each of the current members are set out on pages 40 and 41.

The role of the Board

The role of the Board is to maintain and enhance the value of The Crown Estate and the return obtained from it, having due regard to the requirements of good management. To achieve this, the Board's responsibilities include:

- setting objectives, policies and strategies;
- monitoring long-term development of the organisation in the light of the political, economic and social environments in which it operates;
- controlling and monitoring the financial state and performance of The Crown Estate;
- approving major expenditure and transactions including acquisitions, disposals and joint ventures;
- ensuring a system of controls (financial and otherwise) is in place; and
- ensuring adequate succession and remuneration arrangements are in place.

Delegated authorities

The Board has a formal schedule of matters reserved for its decision which include:

- approving the annual report and accounts;
- approving the annual budget and strategic plan;
- agreeing capital expenditure or disposals over £20 million;
- agreeing investment strategy; and
- granting or varying authority levels for Board committees and the Chief Executive.

Certain matters are delegated to committees of the Board and these are described in the terms of reference of the committees in question. The terms of reference of the Audit Committee, Corporate Responsibility Committee, Remuneration Committee and Scottish Committee are summarised later in this report. Other issues are delegated to executive committees which include the management board (including investment and strategy matters), Stock Selection Committee and communications group.

Subject to these matters, the Board delegates authority for the management of The Crown Estate's business to the relevant directors and heads of department. The senior management team is responsible for the delivery of financial and qualitative targets and objectives as agreed annually as part of the business planning process. A formal set of financial delegations is in place for both revenue and capital expenditure.

The management board as at 31 March 2007 consisted of:

Roger Bright, Chief Executive
 Christopher Bouchier, Director of Rural Estate
 Giles Clarke, Director of Investment Strategy & Asset Management
 Martin Gravestock, Director of Corporate Operations
 Rob Hastings, Director of Marine Estate
 Vivienne King, Head of Legal (appointment commenced 1 April 2006)
 John Lelliott, Director of Finance & Information Systems

Chairman of the Main Board Ian Grant is responsible for chairing the Board and overseeing the official business of The Crown Estate. His duties include managing the business of the Board, ensuring its effective operation, keeping under review the general progress and long-term development of The Crown Estate, representing The Crown Estate to its various stakeholders and the general public, chairing the selection panel for the appointment of Board members, and undertaking the annual appraisal of non-executive Board members.

Chief Executive

Roger Bright is responsible for directing and promoting the profitable operation and enhancement of The Crown Estate. His duties include responsibility for the development of The Crown Estate and its effective operation, strategic planning, ensuring implementation of objectives, policies and strategies approved by the Board, including corporate responsibility targets and objectives, being responsible for public relations and acting as HM Treasury's appointed Accounting Officer for The Crown Estate.

The non-executive members

The non-executive members are Sir Donald Curry, Hugh Duberly, Jenefer Greenwood, Martin Moore, Dinah Nichols, Ronald Spinney (appointment expired 31 December 2006), and Christopher Bartram (appointed 1 January 2007). The Board reviews annually the independence of each of its non-executive members to ensure that they bring an objective viewpoint and none of the factors implying a lack of independence set out in the Combined Code applies. None of the non-executive members has (to his or her knowledge) any conflict of interest which has not been disclosed to the Board.

The Board considers annually the commitments of the non-executives and is satisfied that each of the non-executive members commits sufficient time to the fulfilment of his or her duties as a Crown Estate Commissioner.

During the financial year Hugh Duberly was nominated as senior independent director on the Board.

Each of the non-executive Board members has a formal letter of appointment. This letter was reviewed during the year and new letters issued recording current best practice in this area. All Board members' appointments are held by virtue of a Royal Warrant for a fixed term of years.

The position of Board secretary was held during 2006/07 by Martin Gravestock, Director of Corporate Operations. In addition to other executive duties, the Board secretary's responsibilities include supporting and advising the Chairman, ensuring that all board procedures are followed, ensuring good information flow to Board members, acting as secretary to the selection panel for new Board appointments, and facilitating the induction of new Board members upon appointment. All Board members, including the non-executives, have access to the advice and services of the Board secretary.

Appointments process

Board members are formally appointed as Crown Estate Commissioners and are selected in accordance with the Government's general principles for public appointments. The appointment process is compliant with the principles set down in the Nolan Committee's report on Standards in Public Life. In practice, initial appointments are made for a period of four years with a further potential renewal for a second period of four years. There is a presumption against further renewal but in any event a maximum 10 year appointment period applies.

The Crown Estate is required to operate to the highest standards of prudence, probity and professional competence. Board members are selected to provide collectively an

appropriate balance of skills, experience and qualities, and minimal conflicts of interest with their outside activities.

The potential pool is therefore relatively small, but all new appointments are publicly advertised and wide soundings with relevant outside bodies (including the Public Appointments Unit) are undertaken before a short list is drawn up.

The selection panel (comprising a representative from HM Treasury, an independent member agreed with HM Treasury and up to two existing Board members including the Chairman) supervises the process, interviews candidates against the detailed written requirements of the post and agrees its recommendation. The Chairman makes recommendations for re-appointments with a presumption against second extensions. Appointments are made by Her Majesty The Queen on the advice of the Prime Minister. Special arrangements apply for appointments to the role of Chairman or Chief Executive, within the Government's principles.

Board meetings

The Board held eight scheduled meetings of the Main Board during the year ending 31 March 2007. As well as meetings in London the Board also met in Windsor and Inverness.

In addition there were four meetings of the Audit Committee, two meetings of the Corporate Responsibility Committee, two meetings of the Remuneration Committee, and three of the Scottish Committee.

Succession planning

Board members' appointments and re-appointments are staggered to allow the managed transition of the Board's business as non-executive Board members become ineligible for re-appointment.

Current terms of office

Board member	Date of most recent appointment	Date of expiry	Length of service as at 31 March 2007
Ian Grant (Chairman) *	1 October 2006	31 December 2009	4 years
Roger Bright (Chief Executive)	1 September 2005	31 September 2009	6 years
Christopher Bartram**	1 January 2007	31 December 2010	3 months
Sir Donald Curry	1 January 2004	31 December 2007	7 years
Hugh Duberly	1 January 2006	31 December 2009	5 years
Jenefer Greenwood	1 January 2004	31 December 2007	3 years
Martin Moore	22 April 2006	31 December 2010	5 years
Dinah Nichols	16 January 2007	31 December 2010	4 years
Ronald Spinney***	1 January 2003	31 December 2006	7 years

*Formerly a non-executive Board member.

**Christopher Bartram's appointment commenced on 1 January 2007.

***Ronald Spinney's appointment expired on 31 December 2006.

Three re-appointments were made during the year to 31 March 2007.

In addition to scheduled Board meetings, each year the Board attends a special meeting which takes place over two days at which broad strategy, external factors and the direction of the business is discussed in depth. This year's meeting was held in Inverness.

Information flow

Board members receive a regular and controlled flow of information relevant to the fulfilment of their duties. For example, details of portfolio valuations and performance against external benchmarks, financial information particularly directed at revenue performance, and various market and research information and presentations.

Board papers encompass regular reports from the Chief Executive, Director of Finance and Information Systems and others on a planned basis. Formal minutes of all Board meetings are circulated to Board members. Between Board meetings other information is circulated as necessary to keep Board members informed on relevant issues, and outside of formal meetings the Board may be asked to make decisions 'out of committee'. Board members have access to up-to-date corporate and market information as required.

Board processes

All key procedures and policies affecting the Board are maintained and operated by the Board secretary.

Liability

Board members are indemnified against any personal civil liability which is incurred in proper execution of their Board functions provided that the Board member has acted honestly, reasonably, in good faith and without negligence.

Board effectiveness

Board performance evaluation

During the last financial year, the Chairman carried out an annual appraisal with each of the non-executive Board members. These evaluations were conducted against the background of a comprehensive check list which ensured that there was opportunity to gain assurances or comments in respect of areas which required action. The evaluation included the perspective of the non-executive Board member (covering the view from his/her position and from the Board), and the Chairman's assessment points.

Also during the year the Board reviewed the performance of the relationship between themselves, the Chairman and the Chief Executive. In this matter the Board considered the relationship and communication to be positive and that there were no issues to be addressed.

Induction

All new Board members receive a full, formal and tailored induction on joining the Board. The process is overseen by

the Board secretary. This involves the provision of necessary background information, briefing by key management personnel and implementing training where appropriate.

Board committees

The Board has established a number of both non-executive and executive committees and ensures that each committee is provided with sufficient resources to enable it to undertake its duties.

A summary of the role and terms of reference of the four Board committees (Audit, Corporate Responsibility, Remuneration and Scottish Committee) is given below. The terms of reference of these committees are available on request.

In addition to these four Board committees, three other executive committees operate with specific authority delegated by the Board. First, the management board is chaired by the Chief Executive and comprises directors and heads of department. The management board considers strategic issues, significant organisational policies and reviewing investment strategy, and operates within the financial delegation of the Chief Executive. In reviewing investment strategy, the committee considers economic and property market analyses and forecasts, the overall weightings of the portfolio and the movements necessary to optimise performance. The stock selection committee considers, amongst other things, specific investment and divestment proposals, reviewing them against strategy. The third executive committee is the communications group whose duties include considering questions of PR policy and reviews and recommends an annual strategy and programme of PR activities.

There is no Nominations Committee as the appointment of Board members is conducted in line with principles approved by the Government for public appointments.

Audit Committee

Members

The members of the committee as at 31 March 2007 consisted of:

Martin Moore (Chairman)

Sir Donald Curry, non-executive Board member

Christopher Bartram, non-executive Board member

Secretary to the Audit Committee, Martin Gravestock, Director of Corporate Operations.

Ronald Spinney was a member and Chairman of the committee until 31 December 2006, when his appointment expired.

The Chairman of the Board believes that the financial knowledge and experience of the Audit Committee meet the needs of the business. The Chairman of the Board and the Audit Committee has the authority to appoint specialist advisers as necessary.

Meetings are held three times a year. The following executives ordinarily attend meetings: the Chief Executive, the Director of Investment and Asset Management, the Director of Finance and Information Systems and the Head of Internal Audit.

Terms of reference

The Board has delegated responsibility for risk management, internal control, internal and external audit to the committee.

Specific duties include:

- reviewing the annual financial statements;
- considering the external audit appointment, the audit fee and the nature and scope of the external audit;
- reviewing reports from the external auditor;
- reviewing the risk management process;
- setting internal control policies and receiving regular reports on the effectiveness of internal control; and
- reviewing annually the scope, authority and resources of internal audit.

The committee is authorised by the Board to investigate any activity or occurrence and to seek any information that it requires, including from employees.

'Whistleblowing'

A 'whistleblowing' policy is in place within the organisation. If any employee believes that they are required to act in a way which:

- is illegal, improper, or unethical;
- is in breach of a professional code;
- may involve possible maladministration, fraud or misuse of public funds; or,
- is otherwise inconsistent with the internal code, they should either raise the matter through their management line or else approach in confidence the Head of Internal Audit who has been entrusted with the duty of investigating employee concerns about illegal, improper or unethical behaviour. Employees should also draw attention to cases where:
- they believe there is evidence of irregular or improper behaviour elsewhere in the organisation, but where they have not been formally involved;

- there is evidence of criminal or unlawful activity by others; or,
- they are required to act in a way which, for them, raises a fundamental issue of conscience.

This policy has been reviewed to bring it into line with current public and private sector standards.

The Comptroller and Auditor General

The National Audit Office (NAO) acts as The Crown Estate's external auditors. The appropriate NAO Director attends meetings of the Audit Committee and has complete access to all financial and other information. The Chairman of the Audit Committee meets privately with the relevant NAO Director periodically in accordance with best practice.

Report of the committee's activities

During the year, the committee met three times (on each occasion with the external auditor in attendance) for routine business and one special meeting to consider the Internal Audit structural review, and considered all matters within the committee's terms of reference, in particular:

- external audit strategy and report;
- internal audit charter, scope and authority, programme and report;
- risk management;
- health and safety;
- annual and interim accounts and accounting policy;
- valuation;
- litigation;
- retrospective investment appraisals;
- pension scheme; and
- internal audit departmental structure.

During the last financial year Internal Audit completed a performance review of the Audit Committee. This review was carried out against the background of the National Audit Office: Audit Committee Self Assessment checklist and Deloitte: Audit Performance Evaluation. The review concluded that the Audit Committee complies substantially with best practice for public and private sector organisations. There were a small number of areas where improvements were identified and appropriate remedial actions recommended.

Remuneration Committee

The committee's membership, terms of reference and activity is described in the Remuneration Committee report on pages 51 and 52.

Corporate Responsibility Committee

Members

The current members are:

Roger Bright (Committee Chairman)

Dinah Nichols, non-executive Board member

The secretary to the committee is Jane Baptist, a corporate support executive.

Meetings are held at least quarterly. The following executives ordinarily attend meetings: Director of Corporate Operations, members of the management board, and Head of Corporate Support. The committee reports to the Main Board particularly in relation to relevant policy statements or decisions and the achievements against objectives and targets.

Terms of reference

The committee's main purpose is to ensure that there is an established framework in place for improving the management of the historic, environmental and social aspects of the business of The Crown Estate and that the organisation's reputation as a responsible landowner continues to be enhanced. The duties of the committee include:

- formulating policy and strategy in relation to corporate responsibility for approval by the Board;
- ensuring implementation of corporate responsibility and environmental policies;
- overseeing production of the annual corporate responsibility report; and
- providing representation for The Crown Estate at external events relating to corporate responsibility.

Report of the committee's activities

During the year, the committee met twice and considered all matters within the committee's terms of reference, in particular:

- setting objectives and targets;
- monitoring performance;
- good management practice;
- training and awareness;
- benchmarking; and
- external consultancy and audit advice.

The work of the committee is reflected in the corporate responsibility section of the Annual Report and Accounts.

Scottish Committee

During the last financial year the Chairman established a Scottish Committee, the duties of which are set out below.

The current members are:

Ian Grant (Committee Chairman)

Roger Bright, Chief Executive

The secretary to the Scottish Committee is Alex Adrian as a member of the Edinburgh office.

Meetings are held at least quarterly. The following executives ordinarily attend meetings: Director of Marine Estate, Director of Rural Estate, Director of Investment and Asset Management, Head of Edinburgh Office and Head of Customer Management (Rural).

Duties

The Scottish Committee will:

- operate within the strategic and policy parameters established by the Board and other specialist committees, including in particular the CR Committee, the management board, and the communications group;
- take decisions within this framework reporting as necessary to the appropriate Board or committees;
- take decisions on significant issues within the appropriate delegations affecting Scotland;
- consider any major investment or disinvestment decision affecting Scotland and report its views to the appropriate Board or committee exercising higher capital delegations;
- determine the interpretation of broad policy insofar as it specifically affects The Crown Estate's interests in Scotland;
- maintain an overview on the performance of Scottish interests against quarterly and annual financial targets;
- take decisions in relation to the implementation of the communications programme for Scotland;
- consider, appraise and appoint principal outsourcing contracts in Scotland.

Report of the committee's activities

During the year the committee met three times and considered all matters within the committee's terms of reference, in particular:

- monitoring financial performance;
- stewardship;
- investment/disinvestment;
- communication.

Attendance at Board and committee meetings

Attendance by individual members at Board, Audit and Corporate Responsibility Committee meetings, which they were eligible to attend, was as follows:

	Main Board	Board strategy	Audit Committee	Corporate Responsibility Committee	Remuneration Committee	Scottish Committee
Number of meetings in year	8	1	4*	2	2	3
Ian Grant	8	1	n/a	n/a	n/a	3
Roger Bright	8	1	4	2	2	3
Christopher Bartram**	2	n/a	1	n/a	n/a	n/a
Sir Donald Curry	6	1	4	n/a	n/a	n/a
Hugh Duberly	8	1	n/a	n/a	2	n/a
Jenefer Greenwood	8	1	n/a	n/a	2	n/a
Martin Moore	7	1	4	n/a	2	n/a
Dinah Nichols	7	1	n/a	2	n/a	n/a
Ronald Spinney***	5	1	2	n/a	n/a	n/a

*There were three scheduled Audit Committee meetings, plus one 'ad-hoc' special meeting.

**Christopher Bartram's appointment commenced on 1 January 2007.

***Ronald Spinney's appointment expired on 31 December 2006.

In addition Board members have taken part in formal visits to estates at Glenlivet, Ashby St Ledgers, Patshull, West of Severn, Delamere and Cauldon Low, Sunk Island and the Welsh Commons. In addition a number of visits were made to parts of the London and marine estates, including coastal areas of Scotland, as well as attendance at a number of ad-hoc seminars and events.

Auditors

The financial statements of The Crown Estate are audited by the Comptroller and Auditor General in accordance with section 2(6) of The Crown Estate Act 1961. The audit certificate appears on pages 54 and 55. No fees have been incurred in respect of non-audit services. The audit fee for work performed in the year of account was £95,000.

Statement on disclosure of relevant audit information to the entity's auditors.

So far as the Accounting Officer is aware there is no relevant audit information of which the entity's auditor is unaware: and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of this information.

Health and safety

Following the retirement of our in-house adviser we appointed consultants to review the arrangements for the management of health and safety across the organisation; to introduce modern, best practice throughout and to provide practical advice as required. Sygol were appointed following a competitive tender.

Following on from the review of health and safety management and practice, our policy was updated and our manual was rewritten in a more usable and practical format.

Particular attention was paid to ensuring that responsibilities were made clear to all concerned.

Electronic risk assessment systems were successfully used to undertake workstation assessments and to meet the Control of Substances Hazardous to Health regulations. It is intended that all paper based documents and risk assessments will be transferred into electronic format to achieve consistency across all estates.

Both active and reactive safety monitoring has been revisited. Accident and incident reporting has increased following the delivery of health and safety awareness training to all employees and this has helped to indicate more accurate safety performance across all operations. The reporting of near misses has also increased significantly from no reported incidents in 2005/06 to 29 in 2006/07.

All near misses (an incident which did not result in injury but that had the potential to do so) are now investigated and efforts taken to both minimise recurrence and to inform relevant employees of the need to adhere to the recognised safety controls and procedures. Accidents and near misses involving members of the public have also been reported and recorded more effectively.

Programmes of safety inspections have been implemented at all locations and standards in work areas have improved accordingly. The instigation of these inspections has been very well received by both managers and employees and a definite change in perception to health and safety has been observed. This has also caused an improvement in the overall safety culture which now requires further reinforcement by implementing active site monitoring, auditing and manager/employee support in specific task related activities such as manual handling.

It is intended over the coming year to improve safety communication further both within and between the various parts of the businesses.

Statement of The Crown Estate Commissioners' and Accounting Officer's responsibilities

The Commissioners (the Board) are responsible for ensuring that The Crown Estate has in place a system of controls, financial and otherwise, and under section 2(5) of The Crown Estate Act 1961 are required to prepare a statement of accounts in the form and on the basis determined by the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of The Crown Estate's surplus, state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commissioners are required to:

- i) observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii) make judgements and estimates on a reasonable basis;
- iii) state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- iv) prepare the financial statements on the going concern basis.

The Treasury has appointed the Chief Executive and Second Commissioner as the Accounting Officer for The Crown Estate. His responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in Government Accounting.

Statement on internal control

The purpose of the system of internal control

The system of internal control is based on an on-going process designed to identify and prioritise the risks which threaten the achievement of The Crown Estate's policies, aims and objectives, as set out in The Crown Estate Act 1961; to evaluate the likelihood of those risks being realised and their impact should they be realised; and to manage them efficiently, effectively and economically.

It is designed to manage risk down to an acceptable level rather than to eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in The Crown Estate for the year ended 31 March 2007 and up to the date of approval of the annual report and financial statements, and accords with Treasury guidance.

Capacity to handle risk

The Main Board, Audit Committee, Chief Executive and management board provide leadership in risk management

within The Crown Estate. The management board reviews risk as part of the on-going business planning and control cycle and its members are 'risk owners' for strategic risks, as well as for the risks that relate to those functions, projects and change programmes that they directly manage.

Risk management is embedded within all key processes of The Crown Estate, with which all staff are familiarised during induction processes and via 'on the job' training and awareness. Project and business managers and other staff received on-going training on risk management during 2006/07.

The Crown Estate's risk management policy and guidelines are held within its intranet, which is accessible to all staff. The risk management procedures include appropriate metrics designed to provide both support to staff in the tasks in which they are involved and consistency of results across all departments.

The responsibilities of The Crown Estate's Risk Manager were transferred from the Director of Finance and Information Systems to the Head of Internal Audit from 1 December 2006. These responsibilities include the implementation, co-ordination and monitoring of the risk management process across The Crown Estate and administration of the strategic risk register.

The risk and control framework

The Crown Estate's risk framework, policy and processes are consistent with the best practices as defined in the Office of Government Commerce's Management of Risk (M_o_R): Guidance for Practitioners and with the contents of Government Accounting Chapter 21. The framework adopts the strategic programmes, projects and operational model contained within this guidance and aligns the guidance with The Crown Estate's corporate planning cycle that is well developed and embedded.

Strategic risks and their assessment are the responsibility of the management board. Programme and project risks are assessed in a hierarchy with the Project Monitoring Committee reviewing major projects and their risks within the overall portfolio every quarter and individual project managers managing all project risks on an operational basis. This tiered structure supports The Crown Estate in identifying and managing trends across the projects and also to provide further assurance that risks are being managed in a pragmatic and efficient manner. Risks are discussed, at a minimum, on a quarterly basis at departmental team meetings or similar forums. The risk manager and the central risk function assist in the facilitation of this process.

Strategic 'red' risks are reviewed by the management board on a quarterly basis, by exception. The Cross Cutting Committee review all amber risks to identify interrelated and aggregated risks. Furthermore this body has appropriate delegated authority to manage these amber risks to allow the management board to fully focus on The Crown Estate's key risks. The Risk Manager reviews departmental risks to identify

links between departments and projects where the impact of one or more risks could affect others. Serious departmental risks are escalated as and when necessary firstly to the Cross Cutting Committee and if necessary to the management board, for consideration for inclusion onto the strategic risk register.

Risk registers are held centrally in the intranet for all departments and their projects. Risk reporting, based around internal control statements (ICs), is now an embedded and standard management process that provides additional assurance that risks are being actively managed across the whole of the organisation.

Risk appetites and tolerances are assessed and delegated by The Crown Estate management, reflecting experience and past history of effective risk management. Impact metrics and regular monitoring and review ensure that delegated approval limits are consistently applied throughout the business.

Review of effectiveness

The Accounting Officer is responsible for reviewing the effectiveness of the system of internal control. He is advised by the Audit Committee which is informed by the work of the internal auditors, the executive managers (who have responsibility for the development and maintenance of the internal control framework), external consultants and the NAO, by way of comments contained in their management letter.

During 2006/07 an external review of the Internal Audit department was carried out and the recommendations implemented. A core audit team of three staff led by a Head of Internal Audit were retained. Additional resources will be provided as required via a co-sourcing arrangement. The Head of Internal Audit retired on 31 March 2007 and an interim Head of Internal Audit will be in place until a permanent replacement is appointed.

The Audit Committee have reviewed the effectiveness of the system of internal controls and found them to be effective other than for the two items highlighted below. Planning to ensure continuous improvement of the system will be finalised following the appointment of the new Head of Internal Audit.

Internal control problems

For the financial year 2006/07, the Internal Audit Assurance report shows that:

- there is an ongoing investigation of financial irregularities at a subsidiary office. Remedial action has been undertaken by the management team and a provision has been made (within current liabilities) to cover the potential loss in the 2006/07 accounts which is included within creditors and accrued charges (note 23 to the Accounts);
- during the year substantial improvements have been made to the internal control weaknesses in the corporate financial systems and processes that were identified in 2005/06. However, some weaknesses remain which will be addressed in 2007/08.



Roger Bright
Chief Executive

18 June 2007

Remuneration report

Remuneration Committee

The Remuneration Report has been prepared in line with the principles and requirements set out in The Combined Code. The Remuneration Committee is appointed by and reports to the Main Board.

The current members of the Remuneration Committee are:

Hugh Duberly (Chairman)
Jenefer Greenwood, non-executive Board member
Martin Moore, non-executive Board member

The meetings are held twice annually. The following executives ordinarily attend: the Chief Executive, Director of Corporate Operations and Director of Finance & Information Systems, but absent themselves if matters relating to their individual reward packages are discussed. The secretary to the Remuneration Committee is Valerie Burns, Head of Human Resources.

Terms of reference:

Its primary purpose is to ensure scrutiny and oversight of the reward packages for senior managers, ensuring that rewards are appropriate to recruiting and retaining the skills and experience necessary to take the business forward. During the year the committee met twice and considered all matters within the committee's terms of reference.

The duties of the committee include:

- retaining oversight of the process whereby senior management reward systems and packages are agreed;
- fair and transparent remuneration of senior management at The Crown Estate;
- ensure that senior management remuneration is sufficient to attract and retain the skills and experience necessary to take the business forward;
- express its view in relation to total compensation for the Chief Executive;
- scrutinise, and hold The Crown Estate responsible for any procedures where appropriate remuneration for senior managers is formulated and agreed;
- sign-off proposed reward strategies for senior managers;
- satisfy itself that sufficient and appropriate performance management arrangements are in place;
- consider all performance-related proposals in respect of individuals as put forward by the Chief Executive; and
- ensure that decisions are equitable and taken with due diligence.

Remuneration and pension entitlements of the Board were as follows:

Board	2006/07 Total remuneration including bonus £	2005/06 Total remuneration including bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2007 £	Cash equivalent transfer value as at 31 March 2006 £	Cash equivalent transfer value as at 31 March 2007 £	Real increase in cash equivalent transfer value £
Ian Grant – Chairman	48,544	47,866	–	–	–	–	–
Roger Bright – Chief Executive	257,439	253,450	1,041	76,836	1,477,669	1,645,197	164,714
Christopher Bartram (appointed 1 January 2006)	4,727	–	–	–	–	–	–
Sir Donald Curry	18,798	18,536	–	–	–	–	–
Hugh Duberly	18,798	18,536	–	–	–	–	–
Jenefer Greenwood	18,798	18,536	–	–	–	–	–
Martin Moore	18,798	18,536	–	–	–	–	–
Dinah Nichols	18,798	18,536	–	–	–	–	–
Ronald Spinney	14,072	18,536	–	–	–	–	–

This information is covered by the Comptroller and Auditor General's audit opinion. The Chairman and non-executive members of the Board are initially appointed for terms of four years with the prospect of renewal for a further term. Roger Bright, the Chief Executive, is also appointed on a four year contract with a notice period of six months and which expires in September 2009.

Roger Bright the Chief Executive is entitled to receive a non-pensionable annual bonus which is geared to specific targets and is approved by the Treasury. During the year he received a bonus of £71,706 (£68,450 in 2005/06).

The salary and pension entitlements of the members of the management board were:

Management Board	2006/07 Total remuneration £'000	2005/06 Total remuneration £'000	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2007 £	Cash equivalent transfer value as at 31 March 2006 £	Cash equivalent transfer value as at 31 March 2007 £	Real increase in cash equivalent transfer value £
Christopher Bourchier	120-125	100-105	2,493	33,822	426,026	602,245	174,751
Giles Clarke	150-155	120-125	1,837	10,632	93,483	113,527	16,243
John Ford (retired March 2007)	85-90	85-90	2,692	39,970	635,484	1,050,117	413,397
Martin Gravestock	115-120	100-105	2,967	45,963	838,756	926,628	86,404
Robert Hastings	115-120	15-20	1,629	1,894	3,185	22,980	16,370
Vivienne King (appointed April 2006)	105-110	85-90	3,016	11,753	112,613	194,368	80,615
John Lelliott	115-120	105-110	1,631	46,516	724,262	1,027,361	301,631

This information is covered by the Comptroller and Auditor General's audit opinion. Members of the management board are appointed on permanent contracts which provide for a notice period of three months. Their remuneration is determined by reference to individual job responsibilities and market data and is reviewed periodically.

Total remuneration includes salary, performance bonuses, flexible benefit and leave converted into salary. In addition to salary, non-pensionable bonuses are payable to members of the management board. Members of the management board, excluding the Chief Executive, are entitled to individual levels of non-pensionable discretionary bonus up to 20% of their salary which is performance related and is approved by the Remuneration Committee. Members of the management board, excluding the Chief Executive, also receive a non-pensionable flexible benefit of 6% of base pay which is available to all office based employees.

Christopher Bourchier, as Director of Rural Estates, received a car mileage allowance of £nil (£5,500 in 2005/06).

Pensions

Two defined benefit pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees based on individual final emoluments.

The Crown Estate Board members with the exception of Roger Bright, Chief Executive, are non-executive appointments and are not members of either The Crown Estate Pension Scheme or the Principal Civil Service Pension Scheme.

Pension benefits are provided to Roger Bright, Chief Executive and members of the management board through the Principal Civil Service Pension Scheme or The Crown Estate Pension Scheme. Roger Bright and Martin Gravestock are members of the Principal Civil Service Pension Classic Scheme, Giles Clarke and Robert Hastings are members of the Principal

Civil Service Pension Premium Scheme. The remaining members of the management board are ordinary members of The Crown Estate Pension Scheme. Roger Bright's bonus is non-pensionable.

Both schemes provide benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service except for the Principal Civil Service Pension Premium Scheme which is 1/60th. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1½% of pensionable earnings with the exception of the members of the Principal Civil Service Pension Premium Scheme which is 3.5%. Pensions payment increase is in line with the retail price index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, a lump sum benefit of four times pensionable pay is payable to Crown Estate Pension Scheme members. This benefit has also been extended to Roger Bright, Martin Gravestock, Giles Clarke and Robert Hastings. Both schemes provide a service enhancement in computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.



Roger Bright
Chief Executive

18 June 2007

Financial Statements

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The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2007 under The Crown Estate Act 1961. These comprise the Revenue account, the Balance Sheet, the Cash flow statement and Statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration report that is described in that report as having been audited.

Respective responsibilities of The Crown Estate Commissioners, the Accounting Officer and Auditor

The Commissioners and Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration report, and the financial statements in accordance with The Crown Estate Act 1961 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Commissioners' and Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report on pages 1 to 52 is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if The Crown Estate has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects The Crown Estate's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of The Crown Estate's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Commissioners and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to The Crown Estate's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinions**Audit opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with The Crown Estate Act 1961 and directions made thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2007, and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder; and
- information given within the Annual Report on pages 1 to 52 is consistent with the financial statements.

Audit opinion on regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

**John Bourn**

19 June 2007

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Revenue account

for the year ended 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Turnover	2	262,160	252,341
Direct operating costs	2	(38,718)	(31,613)
Gross surplus	2	223,442	220,728
Administrative expenses	4	(13,271)	(12,321)
Indirect operating expenses	5	(766)	(1,030)
Recovery of capital expenditure	9	(28,008)	(27,087)
Operating surplus		181,397	180,290
Indirect investment in property	16	869	–
(Loss)/profit on sale of fixed assets		(142)	137
Income from gilt-edged investments		794	1,523
(Loss) on sale of gilt-edged investments	22	(145)	–
Bank interest receivable		24,631	15,645
FRS 17 Retirement benefits – net financing cost	8	(42)	(56)
Surplus on ordinary activities		207,362	197,539
Parliamentary resource finance	11	2,249	2,141
Statutory transfers	12	(9,539)	(8,863)
Net revenue surplus		200,072	190,817
Consolidated Fund payment	13	(200,000)	(188,000)
Residue carried to revenue reserve		72	2,817
Revenue reserve brought forward		7,457	4,640
Pension reserve adjustment	31	(2,854)	–
Revenue reserve carried forward		4,675	7,457

The notes (including accounting policies) on pages 59 to 71 form part of these accounts.

Statement of total recognised gains and losses

for the year ended 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Net revenue surplus		200,072	190,817
Actuarial loss FRS 17 Retirement benefits	8	(6)	(2,717)
Gilt-edged security dealings	22	325	761
Unrealised increase in investment property portfolio valuation	14	1,102,338	803,533
Unrealised increase in owner occupied properties	15	16,856	9,854
Unrealised increase in indirect investments in property	16	2,661	–
Other losses		(2,039)	(1,577)
Total recognised gains and losses in the year		1,320,207	1,000,671

The notes (including accounting policies) on pages 59 to 71 form part of these accounts.

Balance sheet

at 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Fixed assets			
Tangible fixed assets:			
Investment property	14	6,448,636	5,578,941
Owner occupied property	15	123,812	106,454
Property investment in English Limited Partnerships	16	42,065	–
Other fixed assets	17	5,584	4,577
		6,620,097	5,689,972
Investments:			
Mortgages and loans	18	1,064	64
Other investments	19	4,941	4,995
		6,005	5,059
Current assets:			
Stocks and work in progress	20	752	175
Debtors and prepayments	21	58,616	37,569
Gilt-edged securities	22	–	33,322
Cash and cash equivalents		435,223	216,132
Total current assets		494,591	287,198
Creditors: amounts due within one year			
Creditors and accrued charges	23	(38,449)	(39,807)
Pension fund provision	8	(3,504)	(5,824)
Total current liabilities		(41,953)	(45,631)
Net current assets		452,638	241,567
Debtors: Amounts due after more than one year	24	12,750	–
Total assets less current liabilities		7,091,490	5,936,598
Financed by			
Capital and reserves:			
General capital reserve	31	2,141,819	1,911,350
Revaluation reserve	31	4,948,500	4,024,143
Revenue reserve	31	4,675	7,457
Pensions reserve	31	(3,504)	(6,352)
		7,091,490	5,936,598

The notes (including accounting policies) on pages 59 to 71 form part of these accounts.



Roger Bright

Second Commissioner and Accounting Officer
18 June 2007

Cash flow statement

for the year ended 31 March 2007

	2006/07 £'000	2005/06 £'000
Net cash inflow from operating activities	172,204	208,917
Returns on investments less Consolidated Fund payment		
Interest from gilt-edged securities	996	1,542
Interest received	23,745	15,865
Income from indirect investment in property	869	–
Consolidated Fund payment – Revenue surplus	(198,000)	(190,300)
Net cash decrease from returns on investments less Consolidated Fund payment	(172,390)	(172,893)
Capital income/(expenditure)		
Purchase of property	(117,738)	(132,593)
New works and improvements and other capital outlay on properties	(67,950)	(67,085)
Sale of properties	416,774	137,074
Other capital receipts	1,055	2,620
Limited Partnerships	(39,404)	–
Purchase of fixed assets and antiques	(3,289)	(3,034)
Sale of fixed assets and antiques	87	165
Loan	(1,000)	–
Other cash flows and investing activities	(4,684)	(1,695)
Net cash increase/(decrease) from capital income and expenditure	183,851	(64,548)
Management of liquid resources		
Sale of gilt-edged securities	33,177	–
Net increase from management of liquid resources	33,177	–
Financing		
Parliamentary Resource Finance	2,249	2,141
Increase/(decrease) in cash	219,091	(26,383)
Notes to cash flow statement		
1) Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	181,397	180,290
Recovery of capital expenditure	28,008	27,087
Increase in debtors	(33,112)	(6,985)
(Decrease)/increase in creditors	(3,512)	8,514
(Increase)/decrease in stocks and work in progress	(577)	11
Net cash inflow from operating activities	172,204	208,917
2) Analysis of change in cash as shown in balance sheet		
Balance at 1 April	216,132	242,515
Net cash inflow/(outflow)	219,091	(26,383)
Balance at 31 March	435,223	216,132

The notes (including accounting policies) on pages 59 to 71 form part of these accounts

Notes to the financial statements

for the year ended 31 March 2007

1. Accounting policies

a. Accounting basis

The accounts are prepared on a going concern and an accruals basis under the historic cost convention, modified to include the revaluation of investment properties. They are prepared in accordance with section 2(5) of The Crown Estate Act 1961 and with the directions made thereunder by the Treasury and, where appropriate, with the Companies Act 1985 and Accounting Standards in the United Kingdom.

b. The Crown Estate Act 1961 – Statutory provisions

The Crown Estate is a body corporate regulated by statute. The provisions of The Crown Estate Act 1961 specify certain distinctions between capital and revenue reflecting the Report of the Committee on Crown Lands before the Act was passed, to the effect that The Crown Estate resembles a trust, in which the income beneficiary is the Exchequer and the capital is held for Her Majesty and Her Successors. Section 2(4) of the Act requires capital and revenue to be distinguished in the accounts and for provision to be made for recovering capital expenditure from revenue where appropriate and the accounts are prepared on that basis. The section then specifies that:

- i) any sum received by way of premium on the grant of a lease shall be carried to revenue account if the lease is for a term of 30 years or less and to capital account if the lease is for a term exceeding 30 years; and
- ii) net earnings from mineral workings shall be carried one half to capital account and one half to revenue account.

c. Treasury agreements

By agreement with the Treasury the revenue account is charged with:

- i) the purchase of leaseholds which are recoverable from revenue over 40 years or the unexpired term of the lease if less;
- ii) the cost of all new works and improvements of a wasting nature to investment properties which are recovered from revenue over 25 years; and
- iii) the cost of purchasing other assets e.g. office equipment, plant and machinery, which is recoverable from revenue over the expected life of the asset category.

Expected lives are as follows:

Vehicles:	4–10 years depending on nature of vehicle
Plant and equipment:	4–10 years
Computer equipment:	4 years
Office equipment:	4 years

The total of such repayments from revenue to capital is limited to 15% of gross income (as defined in agreement with the Treasury). Also by agreement with the Treasury, earnings on dated gilt-edged stocks are carried one half to capital and one half to revenue. 'Earnings' are defined as interest plus or minus gains or losses on disposal. Interest on non-dated securities and short-term balances is carried to the revenue account alone.

d. Valuation

The portfolio of land and buildings and other property assets has been valued at 31 March 2007 by professionally qualified external valuers. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The valuation has been carried out as follows:

Investment properties

Investment properties and those held for development are valued on the basis of market value. Properties in course of development are valued at either the market value of the partially-built development or the market value of the land, plus development costs expended to date.

Marine and mineral assets are valued only where a letting or licence exists, where entry has occurred, or where an interest is expected to provide either a revenue cash flow or a capital receipt within the foreseeable future. Wind farm sites where an option has been granted within round 1 and round 2 of the wind farm tender process have been included. Mineral bearing land, including marine dredged aggregates, is valued on the basis of market value.

All investment properties in the designated area of the Windsor Estate have been valued.

1. Accounting policies (continued)

Owner occupied properties

Properties occupied by The Crown Estate are valued on the basis of existing use value, this includes dwellings occupied by The Crown Estate employees and pensioners at Windsor.

Other fixed assets

Other fixed assets are not revalued each year as the effect of the revaluation is immaterial.

e. Property investment via English Limited Partnership

The financial statements reflect The Crown Estate's share of the net profits, and net assets of their investment in English Limited Partnerships.

f. Disposal of freehold properties

Revaluation reserve released on disposal of a property is transferred to a general capital reserve. In accordance with The Crown Estate Act, capital and revenue is required to be distinguished in the account; book profit or loss on disposal (i.e. the amount by which sales proceeds exceed the property valuation at the last accounting date prior to sale) is therefore not taken to the revenue account, but is also carried to a general capital reserve.

g. Depreciation and amortisation

In accordance with Statement of Standard Accounting Practice No.19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve, and no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties. The Crown Estate consider that this accounting policy is necessary to provide a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

h. Operating lease incentives

UITF28 requires landlords in the property sector to treat any incentive for lessees to enter into a lease agreement as a revenue cost and also account for rental income from the commencement of any rent free period. The cost of all lease incentives (such as rent-free periods) is offset against the total rent due and the net rental income is then spread evenly over the shorter of the period from the rent-free or rent commencement date as appropriate, to the date of the next rent review or the lease end date. Contributions made towards tenant's fit out costs and other costs are charged to capital as new works and improvements and are recovered from revenue over 25 years.

i. Stocks

Stocks comprise estate produce on hand for resale at the year end and stores of supplies held at various estate yards. Produce is valued at the lower of cost and net realisable value. Stores are carried at The Crown Estate's valuation.

j. Gilt-edged securities

Gilts are individually valued each year at the lower of cost and middle market price at the balance sheet date.

k. Grants

The Crown Estate is entitled to apply for Government grants available to landowners generally e.g. for agricultural improvements, forestry planting etc. In the year a grant is received, it is credited to revenue or capital depending on the classification of the related expenditure.

l. Turnover

Turnover is recorded net of VAT and represents the total value of:

- i) rent, royalty and similar payments falling due within the year excluding service charges collected from tenants and held to meet specific expenses;
- ii) premiums on leases granted for a term of less than 30 years;
- iii) sales of produce; and
- iv) miscellaneous fees and sundry income.

m. Taxation

The Crown Estate is not subject to corporation, income or capital gains tax. The revenue surplus is paid annually to the Exchequer and will be used for the benefit of the taxpayer.

1. Accounting policies (continued)

n. Revaluation reserve

The investment portfolio was valued at 31 March 1987 and this value is shown in the first published balance sheet as the 'original cost' of properties. The revaluation reserve reflects changes in the value of properties owned at 31 March 1987 and of properties which have been purchased since that date.

2. Analysis of gross surplus

	Urban Estate £'000	Rural Estate £'000	Marine Estate £'000	Windsor Estate £'000	Crown Estate HQ £'000	2006/07 Total Crown Estate £'000	2005/06 Total Crown Estate £'000
Turnover							
Rent and royalties	193,688	22,070	38,230	3,802	–	257,790	248,500
Premiums on leases	1,835	25	20	–	–	1,880	1,489
Sale of produce	–	156	–	332	–	488	664
Other	185	78	47	1,408	284	2,002	1,688
Total	195,708	22,329	38,297	5,542	284	262,160	252,341
Operating costs							
Management fees and costs	7,489	2,892	1,894	4,644	42	16,961	14,520
Repair and maintenance	2,567	1,930	13	1,769	1,072	7,351	5,501
Other expenditure	10,957	1,051	1,288	1,089	21	14,406	11,592
Total	21,013	5,873	3,195	7,502	1,135	38,718	31,613
Gross surplus	174,695	16,456	35,102	(1,960)	(851)	223,442	220,728

Other expenditure includes the movement on the provision for bad and doubtful debts as follows:

	2006/07 £'000	2005/06 £'000
Provision at the beginning of the year	3,022	4,248
Income written off during the year	(706)	(314)
Increase/(reduction) in provision for the year	1,551	(912)
Provision at the end of the year	3,867	3,022

3. Analysis of adjustments between income and capital

The Crown Estate has a statutory obligation under section 2(4) of the Crown Estate Act 1961 to make a distinction in their assets between income and capital and (with qualifications) make proper adjustments, including provision where appropriate for recouping capital expenditure out of revenue. As a result of this requirement the total adjustments between revenue and capital during the year was £89.4 million (£66.6 million – 2005/06) and comprise:

	2006/07 £'000	2005/06 £'000
Net revenue surplus	200,072	190,817
Adjustments:		
Statutory transfers (note 12)	9,539	8,863
Capital recovery (note 9)		
i) Purchase of leaseholds	6,331	6,969
ii) New works and improvements	19,471	18,462
Profit on disposal of freehold properties	56,614	34,702
Capitalised staff costs (note 6)	(2,497)	(2,411)
Adjusted net revenue surplus	289,530	257,402

4. Administrative expenses

Administrative expenses comprise:

	2006/07 £'000	2005/06 £'000
Salaries, N.I. and pension costs	7,007	7,295
Commissioners' remuneration	492	466
Management and administration expenses	5,677	4,470
Auditor's remuneration	95	90
	13,271	12,321

5. Indirect operating expenses

Indirect operating expenses comprise additional costs incurred by The Crown Estate from the re-organisation of its operations. These costs include early retirement, redundancy payments and associated costs and have been separately disclosed because of their significance and impact.

	2006/07 £'000	2005/06 £'000
Re-organisation expenses	766	1,030
	766	1,030

6. Employee information

a. The total cost of Crown Estate employees (including Board members) included in direct operating costs, indirect operating expenses and administrative expenses during the year was as follows:

	2006/07 £'000	2005/06 £'000
Wages and salaries	11,879	10,522
Social security costs N.I. (employer's contribution)	955	944
Pension accrued liability	2,521	2,464
Pension payments	100	723
Capitalised staff costs	(2,497)	(2,411)
	12,958	12,242

b. The average number of permanent employees during the year was made up as follows:

	2006/07		2005/06	
	Parliamentary Resource a/c	Crown Estate Revenue a/c	Parliamentary Resource a/c	Crown Estate Revenue a/c
Commissioners	8	–	8	–
General administration	32	137	33	151
Operating activities	–	213	–	194

7. Staff pensions

Two defined benefit pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees based on individual final emoluments. The schemes are as follows:

a. The Principal Civil Service pension scheme

The PCSPS is an unfunded multi-employer defined benefit scheme but The Crown Estate is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006/07, employers' contributions of £1,518,246 were payable to the PCSPS (£1,316,083 in 2005/06) at one of four rates in the range 17.1 to 25.5% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

b. The Crown Estate pension scheme

The Crown Estate pension scheme is a defined benefit scheme. The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with FRS 17 the current service cost of the scheme is charged to the revenue account. The current service cost and contributions are determined by the Scheme Actuary on the basis of triennial valuations using the projected unit method. At 30 September 2005, the value of the scheme's assets was £14.78 million and the actuarial value of the technical provisions exceeded these assets by 45%. The actuarial assumptions used for the statutory funding valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 2% per annum and the post-retirement investment yield would exceed pension increases by 1.5% per annum. The Trustees and The Crown Estate have agreed a seven year Recovery Plan to eliminate the deficit. Consequently, an additional amount of £85,000 per month is being paid to the Scheme by The Crown Estate. Furthermore, the regular employer contribution rate has increased to 28.7% of pensionable earnings per annum.

8. FRS 17 retirement benefits

a. Balance sheet and notes

The valuation of The Crown Estate pension scheme used for FRS 17 disclosures has been based on a fair value of the assets of the scheme measured at 31 March 2007. The principal actuarial assumptions are:

	31 March 2007	31 March 2006	31 March 2005
Discount rate	5.25%	5.0%	5.5%
Rate of increase in salaries	4.25%	4.0%	4.0%
Rate of increase to pensions in payment	3.25%	3.0%	3.0%
Rate of increase to pensions in deferment	3.25%	3.0%	3.0%
Inflation assumption	3.25%	3.0%	3.0%

For 2006/07 employer contributions were £3,016,000 (£1,266,000 in 2005/06), this includes £2,326,000 to reduce the scheme deficit and an adjustment of £528,000. The agreed contribution rate for the coming year is 28.7% of pensionable pay.

8. FRS 17 retirement benefits (continued)

The assets in The Crown Estate pension scheme and the expected rates of return were:

	Long-term rate of return expected at 31 March 2007	Long-term rate of return expected at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2007 £'000	Value at 31 March 2006 £'000	Value at 31 March 2005 £'000
Equities	7.5%	7.5%	7.5%	9,208	8,484	6,850
Bonds	4.75%	4.5%	5.0%	9,837	7,464	6,343
Other	4.75%	4.5%	5.0%	97	19	96
Total market value of assets				19,142	15,967	13,289
Present value of scheme liabilities				(22,646)	(21,791)	(16,653)
Deficit in scheme				(3,504)	(5,824)	(3,364)
Net pension liability				(3,504)	(5,824)	(3,364)

b. Analysis of amount charged to operating surplus

	31 March 2007 £'000	31 March 2006 £'000
Current service cost	548	451
Past service cost	100	502
Total operating charge	648	953

c. Other finance income/(expenditure)

	31 March 2007 £'000	31 March 2006 £'000
Expected return on pension scheme assets	1,044	841
Interest on pension scheme liabilities	(1,086)	(897)
Net return	(42)	(56)

d. Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	31 March 2007 £'000	31 March 2006 £'000
Actual return less expected return on pension scheme assets	(207)	1,710
Experience gain arising on the scheme liabilities	65	263
Profit/(loss) arising from changes in assumptions underlying the scheme liabilities	136	(4,690)
(Actuarial loss) recognised in statement of total recognised gains and losses	(6)	(2,717)

e. Movements in deficit during the year

	31 March 2007 £'000	31 March 2006 £'000
Deficit in scheme at beginning of the year	(5,824)	(3,364)
Movement in year:		
Current service cost	(548)	(451)
Contributions	3,016	1,266
Past service costs	(100)	(502)
Other finance expenditure	(42)	(56)
(Actuarial loss)	(6)	(2,717)
Deficit in scheme at the end of the year	(3,504)	(5,824)

8. FRS 17 retirement benefits (continued)**f. History of experience gains and losses**

	31 March 2007	31 March 2006	31 March 2005	31 March 2004
Difference between expected and actual return on scheme assets:				
Amount (£'000)	(207)	1,710	605	1,483
Percentage of scheme assets	(1%)	11%	5%	13%
Experience gain on scheme liabilities:				
Amount (£'000)	65	263	–	78
Percentage of the present value of the scheme liabilities	–	1%	–	–
Total amount recognised in statement of total recognised gains and losses:				
Amount (£'000)	(6)	(2,717)	605	703
Percentage of the present value of the scheme liabilities	0%	(12%)	4%	4%

9. Recovery of capital expenditure

	2006/07 £'000	2005/06 £'000
Purchase of leaseholds	6,331	6,969
New works and improvements	19,471	18,462
Depreciation of fixed assets	2,206	1,656
	28,008	27,087

10. Financial instruments

This disclosure excludes short-term debtors and creditors. The Crown Estate may not be held other than in land, gilts or cash. Investment in equities or outside the United Kingdom is not permitted.

The cash holdings not needed for operational purposes are maintained in overnight 'on call' accounts with major United Kingdom clearing banks, thereby avoiding liquidity risks. These deposits are on a variable interest basis. There is no currency risk as it is only permitted to hold funds in sterling and there are no significant transactions in currencies other than sterling. The Crown Estate monitors the rates offered by the banks and transfers deposits as appropriate to maximise returns. As The Crown Estate is not permitted to place money for periods longer than overnight there is no maturity profile in respect of cash deposits.

Any investment of The Crown Estate's non-cash financial assets would comprise solely of gilts managed on its behalf by the Commissioners for the Reduction of National Debt.

11. Parliamentary Resource finance

The Crown Estate Act 1961 provides that monies are provided by Parliament in respect of Board members' salaries and the expense of their Office. The total of such expenses chargeable to the resource account for the current year is shown on the face of the revenue account and the detail is reported separately to Parliament as a resource account.

12. Statutory transfers

	2006/07 £'000	2005/06 £'000
Moieties:		
Mineral dealings	9,214	8,102
Gilt-edged securities dealings	325	761
To general capital reserve (note 31)	9,539	8,863

13. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the revenue surplus is due to the Consolidated Fund. As The Crown Estate is not permitted by statute to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short-term financing requirements.

14. Tangible Fixed Assets – investment properties

	Urban Estate £'000	Rural Estate £'000	Marine Estate £'000	Windsor Estate £'000	2006/07 Total Crown Estate £'000	2005/06 Total Crown Estate £'000
Valuation at 1 April 2006	4,509,612	672,776	297,243	99,310	5,578,941	4,738,516
Completed properties	4,469,432	672,776	297,243	99,310	5,538,761	4,664,791
Properties under development	40,180	–	–	–	40,180	73,725
Additions						
Transfer from owner occupied properties	–	–	–	–	–	13,154
Freeholds	61,029	2,294	–	–	63,323	113,858
Leaseholds	53,751	664	–	–	54,415	18,735
New works	51,959	4,144	290	4,693	61,086	49,094
Other	4,760	1,166	419	17	6,362	5,135
	171,499	8,268	709	4,710	185,186	199,976
Proceeds from disposals						
Transfer to owner occupied properties	–	–	–	–	–	(23,390)
Freeholds	(214,304)	(59,772)	(840)	(4,992)	(279,908)	(102,275)
Premiums	(136,760)	5	(80)	(31)	(136,866)	(34,799)
Other	(979)	(48)	(22)	(6)	(1,055)	(2,620)
	(352,043)	(59,815)	(942)	(5,029)	(417,829)	(163,084)
Surplus on valuation	963,644	92,357	39,529	6,808	1,102,338	803,533
Valuation at 31 March 2007	5,292,712	713,586	336,539	105,799	6,448,636	5,578,941
Completed properties	5,201,504	713,586	336,539	105,799	6,357,428	5,538,761
Properties under development	91,208	–	–	–	91,208	40,180

Leasehold properties

The valuation of Crown Estate properties at 31 March 2007 includes £160.6 million (£136.1 million at 31 March 2006) in respect of leasehold properties analysed as follows:

	2006/07 £'000	2005/06 £'000
Leaseholds with 50 or more years to run	160,610	136,100

The leasehold additions figure includes £33.3 million in respect of leasehold interests on Crown Estate freeholds bought back in the course of the year ended 31 March 2007 (£17.3 million in 2005/06).

15. Tangible Fixed Assets – owner occupied properties

	Urban Estate £'000	Rural Estate £'000	Marine Estate £'000	Windsor Estate £'000	2006/07 Total Crown Estate £'000	2005/06 Total Crown Estate £'000
Valuation at 1 April 2006	46,060	424	–	59,970	106,454	73,508
Additions						
Transfer from investment properties	–	–	–	–	–	23,390
Improvements	502	–	–	–	502	12,856
	502	–	–	–	502	36,246
Proceeds from disposals						
Transfer to investment properties	–	–	–	–	–	(13,154)
	–	–	–	–	–	(13,154)
Surplus on valuation	12,538	(163)	–	4,481	16,856	9,854
Valuation at 31 March 2007	59,100	261	–	64,451	123,812	106,454

16. Property Investment in an English Limited Partnership

In September 2006, The Crown Estate acquired a 4.7% share of the Lend Lease Retail Partnership, an English Limited Partnership, for £39.4 million (inclusive of fees). The organisation provides an equity interest in both Bluewater Shopping Centre in Kent and Touchwood Court Shopping Centre in Solihull.

i) Share of Profit from Investment

	2006/07 £'000	2005/06 £'000
Net income received	869	–

ii) Share of Assets and Liabilities

	2006/07 £'000	2005/06 £'000
Net assets	42,065	–

17. Tangible Fixed Assets – Other fixed assets

	Plant and machinery	Office equipment	Motor vehicles	Total
Cost/valuation at 1 April 2006	1,241	8,377	1,532	11,150
Additions	88	2,989	212	3,289
Disposals	(158)	(1,416)	(3)	(1,577)
Gross value at 31 March 2007	1,171	9,950	1,741	12,862
Depreciation at 1 April 2006	775	4,741	1,057	6,573
Charge	90	1,939	177	2,206
Disposals	(73)	(1,413)	(15)	(1,501)
Total depreciation at 31 March 2007	792	5,267	1,219	7,278
Net book value:				
At 31 March 2007	379	4,683	522	5,584
At 1 April 2006	466	3,636	475	4,577

18. Investments – Mortgages and loans**Mortgages and Loans**

	2006/07 £'000	2005/06 £'000
Eccleshill, Bradford	64	64
Jaeger Holdings Limited	1,000	–
Total	1,064	64

The mortgage advance is secured. Interest is payable quarterly.

On 30 September 2006 The Crown Estate entered into an agreement with Jaeger Holdings Ltd for the loan of £1,000,000 towards refurbishment of 200/206 Regent Street. The loan is repayable over three years.

19. Other investments

Other investments comprise:

	2006/07 £'000	2005/06 £'000
Antiques and paintings	4,941	4,995

Antiques and paintings are valued by recognised experts every three years on a rolling basis, the last valuation took place in 2004/05.

20. Stocks and work in progress

Stocks and work in progress comprise:

	2006/07 £'000	2005/06 £'000
Stocks for resale	144	82
Stores	100	93
Work in progress	508	–
	752	175

Work in progress comprises of costs associated with the implementation of a new financial system. Accumulated costs will be transferred to tangible fixed assets on completion.

21. Debtors

Debtors comprise:

	2006/07 £'000	2005/06 £'000
Rent receivable	9,317	8,255
Other debtors	41,678	20,970
Prepayments	442	123
Accrued income	7,179	8,221
	58,616	37,569

22. Gilt-edged securities

	2006/07 Cost £'000	2006/07 Nominal £'000	2005/06 Cost £'000	2005/06 Nominal £'000
At 1 April 2006	33,322	33,373	33,322	33,373
Disposals	33,177	(33,373)	–	–
Loss on disposal	(145)	–	–	–
	–	–	33,322	33,373
Book value at 31 March 2007	–	–	33,322	33,373

On 6 October 2006 The Crown Estate sold its entire gilt-edged security portfolio for £33 million incurring a net loss on sale of £144,697. Interest received in respect of gilt-edged securities for the period 1 April to 6 October 2006 totalled £794,281 and has been apportioned equally between revenue and capital in accordance with our Treasury Agreement.

23. Creditors: Amounts due within one year

Creditors and accrued charges comprise:

	2006/07 £'000	2005/06 £'000
Trade creditors	6,562	4,859
Rents received in advance	10,884	18,929
Taxes and social security	3,324	6,578
Other creditors	5,980	1,646
Consolidated Fund	3,000	1,000
Accruals and deferred income	8,699	6,795
	38,449	39,807

24. Debtors: Amounts due after more than one year

Debtors: Amounts due after more than one year comprise:

	2006/07 £'000	2005/06 £'000
Sale of land at Bingham	12,750	–

On 11 September 2006 The Crown Estate sold the freehold land at Nottingham Road and Mill Hill, Bingham, Nottinghamshire for £35.5 million, payable over three years, of which £12.75 million will be payable in September 2007 and a further £12.75 million in September 2008.

25. Subsidiary undertakings

Several Crown Estate properties are managed by management companies under the control of The Crown Estate Commissioners. These subsidiary undertakings are not material by value in the context of The Crown Estate financial results and therefore consolidated statements have not been prepared.

The companies concerned, all of which are registered in England, are as follows:

Fitzgeorge and Fitzjames Management Company Ltd

RM Site Management Ltd

Urbanlease Property Management Company Ltd

Bessborough Gardens Estate Management Company Ltd

26. Capital commitments

At 31 March 2007 The Crown Estate had committed to make capital expenditure of £156 million (£104 million at 31 March 2006) and had authorised additional expenditure of £38 million (£16 million at 31 March 2006).

27. Contingent liabilities

At the balance sheet date The Crown Estate had no contingent liabilities.

28. Non adjusting post balance sheet event

In April 2007 The Crown Estate formed a £680 million joint venture partnership with Hercules Unit Trust (HUT). The 50:50 joint venture incorporates three properties – HUT's 550,000 sq ft Fort Kinnaird Shopping Park in Edinburgh, and The Crown Estate's Gallagher Retail Park, Cheltenham (246,000 sq ft), and The Shires Retail Park, Leamington Spa (140,000 sq ft). In addition, The Crown Estate made a cash investment of £45.0 million in order to achieve a 50% interest in the partnership.

On 12 June 2007 the financial statements are approved by the Audit Committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 20 June 2007. On 11 July 2007 the financial statements are laid before Parliament, on this date the financial statements for the year ended 31 March 2007 are deemed to be authorised for issue.

29. Related party transactions

During the year, none of the Board members, members of the key management staff or other related parties have undertaken any material transactions with The Crown Estate with the exception of Philip Everett, the Deputy Ranger at Windsor Great Park who is employed in a personal capacity through Smiths Gore Chartered Surveyors where he is a salaried partner. Smiths Gore are amongst The Crown Estate's managing agents and as such receive fees for their services. Philip Everett had no involvement in determining either the appointment or remuneration of Smiths Gore in this capacity. During the year Smiths Gore were paid a total in fees of £969,282 (£919,118 in 2005/06), for services they provided across the whole of The Crown Estate.

30. Third party deposits

At 31 March 2007 The Crown Estate held on deposit on behalf of third parties £15,520,322 (£14,632,011 at 31 March 2006).

31. Reconciliation of movements in reserves

	2006/07				
	Pension provision £'000	General capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000	Total Crown Estate £'000
Movements in reserves comprise:					
Balance 1 April 2006	(6,352)	1,911,350	4,024,143	7,457	5,936,598
Statutory transfers (note 12)	-	9,539	-	-	9,539
Capital recovery:					
i) Leaseholds	-	6,331	-	-	6,331
ii) New works	-	19,471	-	-	19,471
Other adjustments	-	(2,370)	-	-	(2,370)
Revaluation reserve released on disposal of freehold properties	-	197,498	(197,498)	-	-
Increase in valuation of property portfolio					
i) Investment properties	-	-	1,102,338	-	1,102,338
ii) Owner occupied properties	-	-	16,856	-	16,856
iii) Investment in Limited Liability Partnership	-	-	2,661	-	2,661
Actuarial (loss)	(6)	-	-	-	(6)
Pension reserve adjustment	2,854	-	-	(2,854)	-
Net revenue surplus	-	-	-	200,072	200,072
Consolidated fund payment	-	-	-	(200,000)	(200,000)
Balance at 31 March 2007	(3,504)	2,141,819	4,948,500	4,675	7,091,490

The value of the revaluation reserve released on disposal of freehold properties has been adjusted by £26.6 million in 2005/06. As this is a transfer between reserve accounts there is no overall material effect on the value of the balance sheet.

	2005/06				
	Pension provision £'000	General capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000	Total Crown Estate £'000
Movements in reserves comprise:					
Balance 1 April 2005	(3,635)	1,817,355	3,272,065	4,640	5,090,425
Statutory transfers (note 12)	-	8,863	-	-	8,863
Capital recovery:					
i) Leaseholds	-	6,969	-	-	6,969
ii) New works	-	18,462	-	-	18,462
Adjustments to book value of gilt-edged securities	-	117	-	-	117
Other adjustments	-	(1,725)	-	-	(1,725)
Revaluation reserve released on disposal of freehold properties	-	61,309	(61,309)	-	-
Increase in valuation of property portfolio					
i) Investment properties	-	-	803,533	-	803,533
ii) Owner occupied properties	-	-	9,854	-	9,854
Actuarial (loss)	(2,717)	-	-	-	(2,717)
Net revenue surplus	-	-	-	190,817	190,817
Consolidated fund payment	-	-	-	(188,000)	(188,000)
Balance at 31 March 2006	(6,352)	1,911,350	4,024,143	7,457	5,936,598

Ten year record

Based on the financial statements for the years ended 31 March:

	1997/98 £000	1998/99 £000	1999/00 £000	2000/01 £000	2001/02 £000
Revenue					
Turnover	160,076	173,645	187,202	204,885	223,537
Direct operating costs	(20,732)	(23,064)	(25,130)	(26,661)	(30,176)
Gross surplus	139,344	150,581	162,072	178,224	193,361
Administrative expenses	(9,168)	(9,237)	(10,226)	(10,701)	(10,743)
Indirect operating expenses	–	–	–	–	–
Net revenue surplus	113,209	125,774	132,885	147,740	163,339
Consolidated Fund payment	113,200	126,000	132,900	147,800	163,500
Investment and owner occupied properties	2,899,586	3,131,177	3,433,612	3,870,938	4,032,640
Investment in English Limited Partnership	–	–	–	–	–
Other fixed assets	1,965	2,565	2,741	2,395	2,133
Investments	3,956	3,848	3,856	3,960	3,994
Mortgages and Loans	–	–	–	–	–
Debtors: due +1 year	–	–	–	–	–
Current assets	134,920	188,117	205,450	146,581	167,017
Current liabilities	(20,998)	(21,239)	(19,137)	(20,190)	(25,956)
Capital and reserves	3,019,429	3,304,468	3,626,522	4,003,684	4,179,828
	2002/03* £000	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000
Revenue					
Turnover	230,039	237,779	245,444	252,341	262,160
Direct operating costs	(27,320)	(30,201)	(31,953)	(31,613)	(38,718)
Gross surplus	202,719	207,578	213,491	220,728	223,442
Administrative expenses	(11,347)	(11,031)	(11,746)	(12,321)	(13,271)
Indirect operating expenses	–	(887)	(2,007)	(1,030)	(766)
Net revenue surplus	171,053	176,930	184,811	190,817	200,072
Consolidated Fund payment	170,800	173,000	185,700	188,000	200,000
Investment and owner occupied properties	4,067,438	4,408,872	4,812,024	5,685,395	6,572,448
Investment in English Limited Partnership	–	–	–	–	42,065
Other fixed assets	2,132	2,236	3,209	4,577	5,584
Investments	3,976	4,059	5,042	4,995	4,941
Mortgages and Loans	–	42	64	64	1,064
Debtors: due +1 year	–	–	–	–	12,750
Current assets	185,371	214,134	306,731	287,198	494,591
Current liabilities	(39,817)	(36,120)	(36,645)	(45,631)	(41,953)
Capital and reserves	4,219,100	4,593,223	5,090,425	5,936,598	7,091,490

*The above note to the financial statements has been re-stated to take account of the adoption of FRS 17.

This annual report is available at:
www.thecrownestate.co.uk/annual_report

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Designed and produced by Radley Yeldar (London)
Photography by Marcus Ginns
Additional photography courtesy of:
RSPB, Shark Trust, Lend Lease, King Sturge and Warwick Sweeney

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ID5581973 07/07

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(The Stationery Office)
and available from:

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ISBN 978-0-10-294527-0



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